

13. **BUDGET MONITORING REPORT - APRIL 2017 TO SEPTEMBER 2017 (RESOURCES)**

Synopsis of report:

To report the latest financial projections for the 2017/18 financial year for General Fund, Housing Revenue Account and Capital Programme.

Recommendation:

For information

1 Context of report

- 1.1 The Medium Term Financial Strategy (MTFS), the Capital Programme and the detailed General Fund budgets for 2017/18 were approved by the Corporate Management Committee on 27 January 2017 and subsequently by Full Council on 9 February 2017.
- 1.2 The detailed HRA budget for 2017/18 was approved by the Housing Committee on 11 January 2017 and subsequently by Full Council in February 2017.
- 1.3 Starting in July, all budget managers are provided with a monthly budgetary control statement showing total budget, profiled budget and spend to date (including commitments). A full salary listing is also provided on an ad-hoc basis to chief officers. Budget managers are expected to work with the accountancy team to report any variations and projected spend to 31 March.
- 1.4 Budget managers should constantly monitor their budgets and are accountable for their budget and service performance. The projected outturns shown in this report are manager's best estimates as at 30 September 2017.

2 General Fund Revenue Budget

- 2.1 The detailed General Fund budget for 2017/18 was approved in February 2017 along with the MTFS. Since then various changes have occurred and a summary of the current projected use of balances for the General Fund can be seen in table 1 below:

Table 1 – Projected use of General Fund balances			
	Original Budget £'000	Forecast Outturn £'000	
Net Expenditure on Services	3,153	5,216	Paragraph 2.3 below
Transfers and accounting adjustments	(1,871)	(1,986)	
Treasury and financing	8,020	7,109	Paragraph 2.10 below
Government grants	(1,601)	(1,605)	Paragraph 2.13 below
Business Rates and Council Tax collection	(6,999)	(6,999)	Paragraph 2.14 below
Projected use of balances in 2017/18	702	1,735	

An updated General Fund Summary (in the Budget Book format) setting out these changes is set out at Appendix 'F' and is explored in more detail in the following paragraphs.

- 2.2 Assuming the predictions for the forecast outturn shown in table 1 materialise at the year end, this will reduce the General Fund working balance by £1.735m taking it from £6.536m at the start of the year to £4.801m at 31 March 2018.

Net Expenditure on Services

- 2.3 The General Fund Summary at Appendix 'F' sets out the net expenditure for each service area against the forecast outturn as at 30 September 2017. The forecast outturn is made up of the original budget amended for any anticipated changes. A summary of the more significant changes (over £5,000) at the Net Expenditure on Services level is set out in Appendix 'G'.
- 2.4 Appendix 'G' shows that net expenditure on services is forecast to be £5.216m, an increase of £2.063m on the original budget as seen at Appendix 'F'. This increase can be broken down as follows:

Table 2 – Analysis of budget increases	
	£'000
Increased Expenditure:	
- Approved supplementary estimates	1,430
- Planned underspends carried forward from 2016/17	465
- Other cost pressures	598
Reduced Expenditure	(690)
Increased Income	(393)
Planned underspends carried forward from 2016/17 (Garden village grant)	(229)
Reduced Income	882

- 2.5 Employee costs are by far the major cost item in the Council's overall budget. This budget is controlled centrally and quarterly salary control reports are distributed to the Corporate Leadership Team for them to monitor their staffing budgets.
- 2.6 The 2017/18 budget included a staff turnover/vacancy savings target of £247,000. The turnover/vacancy savings target was set against the salary budget for all Officers with the exception of some frontline services where filling vacancies with agency or temporary staff is imperative in order to keep the service running (e.g. refuse collection, street cleansing, day centre transport etc.). These targets have been built into the Current Budget column in table 3 below, which monitors the current staffing spend against the expected budget spend for the period to date. This shows that as at the 30 September, the salary budget is now underspent by £7,000.

2.7

Table 3 – Current salary budget performance				
	Current Budget £000	Profiled Budget £000	Actual to Date £000	Variation to date £'000
Corporate Services	910	450	475	25
Law & Governance	743	370	365	(5)
Resources – Customer Services	530	256	281	25
Resources – Other	2,092	1,062	1,025	(37)
Planning	1,523	746	747	1
Environmental Services	1,483	741	715	(26)
Housing	1,368	678	671	(7)

Community Development	1,688	842	859	17
Total	10,387	5,145	5,138	(7)

- 2.8 The table set out below shows the performance of the Council's key income drivers (excluding property). Where these are anticipated to vary significantly from the budget, an estimate of the year end effect has been included in table 2 above accordingly.

Table 4 – Performance of key income drivers 2017/18			
	Original Budget £000	Profiled Budget £000	Actual to Date £000
Halls income	145	86	77
Cemetery income	209	86	116
Community meals (Day Centre)	169	86	72
Community meals (Meals at Home)	157	75	87
Trade waste income	480	374	365
Off street parking P&D income	485	237	255
Yellow bus s106 income	267	133	0
Planning fees	700	350	372
Local land charge search fees	235	120	110
TOTALS	2,847	1,547	1,454

- 2.9 The school yellow bus service is predominantly funded by section 106 developer contributions. The current year assumes that £267,000 of new section106 money will be received in the current year to fund the service. As at 30 September, no new money had been received. However, £203,000 is still expected in 2017/18, leaving a shortfall of £65,000 which has been included in the figures in Table 2 above.

Treasury and Financing

- 2.10 The 2017/18 Treasury Management Strategy report was presented to this Committee at the end of February 2017.
- 2.11 One major factor affecting the treasury operations of the Council is the need to borrow to fund property acquisitions and development schemes. Borrowing is undertaken at the most opportune time where it can be planned in advance, however to a certain extent the Council is constrained by the timing of when suitable properties come to the market. As an example, a £20m property purchase at the start of the year will ensure more rental income for the current year but will also vary the borrowing costs based on the timing of the transaction and the interest rates applicable at that time. A summary of the effects of this based on information at the end of June is set out in paragraph 2.15 below.
- 2.12 A full report on all treasury activity during the first six months of the year is reported on this agenda.

Government Grants

- 2.13 Government Grants encompass the Revenue Support Grant, New Homes Bonus Grant and any other non-service specific grants that the government release during the year. At the current time there is no change to the original estimate for these grants other than a small increase in the New Homes Bonus in the current year for unused grant recycled to authorities.

Business Rates and Council Tax Collection

- 2.14 A significant income stream for the Council is the income from taxation. Collection rates for both business rates and Council Tax are monitored on a weekly basis by the Corporate Director of Resources. Collection rates for the period (as at 30 September) were as follows:

Table 5 – Collection rates		
	Council Tax £'000	Business Rates £'000
Collectable debit for the year	57,421	53,415
Cash received for period	33,889	31,104
% of cash received to date – Target	58.83%	56.13%
% of cash received to date – Actual	59.02%	58.23%
% of cash received for the year – Target	99.00%	99.00%
% of collectable debit written off	0.00%	0.00%

Property Investment Strategy

- 2.15 One of the biggest areas of the Council's income and expenditure relates to investments in property and regeneration schemes. The budgets for the Property Investment Strategy were set at the start of the calendar year based on new investments being purchased half way through the year which generate a gross yield of 5% at an average borrowing rate of 3% (2% net yield). Property purchased purely for strategic purposes could be purchased at a lower yield.
- 2.16 Property investment is highly reliant on suitable properties coming onto the market and the timing differences can skew the Council's bottom line figures quite significantly, as can the interest rates applicable at the time of purchase. The following table sets out the original property related budgets against the revised figures based on purchases to date and assumed future purchases (using 1 October as the purchase date):

Table 6 – Property investment 2017/18		
	Original Budget £000	Revised Budget £000
Rental income from all commercial property	(12,201)	(11,768)
Borrowing costs (Interest)	6,577	5,668
Minimum Revenue Provision (MRP)	1,916	2,018
Net income	(3,708)	(4,082)

- 2.17 The original rental income figure included a £5m income target from new investments in 2017/18. It is assumed in the above figures that sufficient properties will be purchased to cover this figure. The drop in rental income highlighted in table 6 above stems principally from some of the lost income from the properties highlighted at the bottom of the table in Appendix 'G'.

3 Housing Revenue Account (HRA)

- 3.1 The detailed Housing Revenue Account budget for 2017/18 approved in January 2017 predicted a surplus for the year of £4.358m. The projected year-end surplus for the HRA is now expected to be £5.018m, an increase of £660,000. The more significant variances are listed in table 7 on the next page:

Table 7 – Predicted HRA surplus for 2017/18	
	2017/18

	£'000
Original estimated (Surplus) / Deficit in the year:	(4,358)
General Management	
• Planned underspends brought forward from 2016/17	23
• Additional Housing Options staff -20% (Hsg Ctte 3/17)	10
Major Repairs Reserve	
• Slippage in Farm Close re-provision will reduce expenditure during 2017/18	(367)
• Increased opening balance at 1/4/17 means full cost of works can be funded from MRR, thereby reducing cost on HRA balances	(326)
Projected (surplus) / Deficit in the year:	(5,018)

- 3.2 Taking into account the better than expected increase in working balances during 2016/17 of £1.155m, and large reductions in the Housing Capital programme (slippage and developing plans) during 2017/18 it is estimated assuming the predictions for the projected outturn shown in table 7 materialise at the year end. This will result in a probable increase in the HRA revenue balances from the original estimate of £15.77m at 31 March 2018 to £19.1m. However it should be noted that the likely costs in 2018/19 will increase by around £2.2m as a consequence of the deferral of the provision of new houses.

4 Capital Expenditure and Receipts

Capital expenditure

- 4.1 The detailed Capital budget for 2017/18 was approved in February 2017. It is important to remember that the timing of capital expenditure can sometimes be difficult to predict and can be spread over several financial years.
- 4.2 Appendix 'H' summarises the current capital programme to the end of September 2017 updated for predicted movements in payment profiles and forecast under/overspends on the schemes as a whole. Of the £11.5m increase in the programme shown in the Appendix, £9m relates to budgets that have been carried forward from 2017/18 where schemes and or payments were delayed.

Capital receipts

- 4.3 The Council started the year with £14.281m in available capital receipts which can be used to fund future acquisition of assets. However, some of these receipts have been generated from the sale of dwellings under right-to-buy legislation or sales of land and legislation requires this is set aside for specific purposes. In Runnymede's case this is principally:
- Future funding of new affordable housing
 - Repayment of housing debt over the next 30 years
- 4.4 Table 8 sets out the anticipated capital receipts position as at the 31 March 2018 based on the current forecast outturn in capital spend and receipts as set out in Appendix 'H':

Table 8 – Capital receipts				
	Debt	Housing	General	Total

	Repayment £'000	replacement £'000	use £'000	Receipts £'000
Total Capital Receipts at 1 April 2017	2,142	3,178	8,961	14,281
Capital Receipts generated in the Year	394	910	48,840	50,144
Use of Receipts in year	0	(1,368)	(48,284)	(49,652)
Projected Receipts at 31 March 2018	2,536	2,720	9,517	14,773

- 4.5 The original estimate for the generation of Capital Receipts in the year included £15m from the sale of properties in the Addlestone One development. As at 30 September no income from sales had been received however just under £2m worth of sales had been negotiated. Should a substantial increase in sales activity not be forthcoming over the next few months, it will be necessary to delay some capital schemes and/or temporarily borrow more money to fund the Addlestone development.

5. Legal Implications

- 5.1 Section 28 of the Local Government Act 2003 requires authorities to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take such action as they consider necessary. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or the authority might decide to take no action but to finance the shortfall from reserves.

6. Conclusion

- 6.1 The projected use of General Fund balances shown in Table 1 of the report shows an increase from £0.702m to £1.735m based on information at 30 September 2017. This includes £465,000 of unused budgets carried forward from 2016/17 where a corresponding saving was registered in the accounts. This leaves £568m of additional cost pressures that have been identified since the budget was approved in January 2017.
- 6.2 The Chief Executive and Corporate Director of Resources have a number of concerns leading up to Members considering the Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21 in the autumn. The table below shows the changes in actual spending since the Council approved the budget in February 2017:

	Original Budget	June 2017 forecast	Sept. 2017 forecast	Change Sept to original	Change sept to june	
	£'000	£'000	£'000	£'000	£'000	
Net expenditure on Services	3,153	4,946	5,216	2,063	270	
Transfers and Accounting adjustments	(1,871)	(1,871)	(1,986)	(115)	(115)	Note 1
Treasury and financing	8,020	7,989	7,109	(911)	(880)	
Government grants	(1,601)	(1,605)	(1,605)	(4)	0	
Business rates and Council tax collection	(6,999)	(6,999)	(6,999)	0	0	
Projected use of balances	702	2,460	1,735	1,033	(725)	
Note 1						
Transfer from earmarked reserves - all weather pitch funded from previous years set aside of funds						

The expenditure on service delivery has increased from £3.1m to £5.2 m over the last six months.

- 1 It is clear that in some areas the number of supplementary estimate requests of over £1.4 m, a number of which have been submitted before the financial year began, together with general overspends is putting pressure on the Council's General Fund working balance. It shows there is still work to be done with senior Officers in preparing realistic Business Plans and forward looking financial plans for both capital and revenue.
- 2 In the first week of November 2017, Officers have submitted new capital programme bids, mainly for heavy plant and equipment relating to refuse collection and street cleaning of over £2.5m. As Council policy assumes these will be funded from either revenue or capital receipts, this is likely to increase revenue costs in the medium term. The Corporate Director has assumed the capital receipts from the Addlestone One development will be used to reduce borrowing costs. This may not be possible in 2018/19.
- 3 The table above shows significant savings in our Treasury management function, a mix of reduced spending, borrowing when interest rates are low and better than expected returns on our investments. However there are risks in 2018/19 as the Bank of England assumes that base rate will increase to 1% by 2020. Most economists assume the loan rate on PWLB long term loans will be over 3.5% by 2020.
- 4 A significant part of the Council's regeneration programme is to be delivered in between late 2018 to 2020, at a time when the historical low interest period is likely to end. This is likely to put further pressure on the General Fund.
- 5 There is much speculation on what Councils will be able to borrow from Government and under what terms. At this stage it is assumed they will not impact on the Council's regeneration plans.
- 6 2019/20 is the final year of the spending review and the Government's "Certainty Settlement" this Council achieved by submitting its detailed financial plans for Government approval. The Corporate Director of Resources assumes that funding will not improve, or materially worsen for negative Revenue Support Grant.
- 7 If the Surrey Business Rates pilot is approved by Government then the Council may benefit from an additional one off sum of £0.5m to improve the General Fund situation, however:
- 8 The Government intends to reduce the New Homes Bonus total grant significantly next year from £1.3 million in 2017/18 to £0.938m in 2018/19. The reduction of £313,900 is a 25% reduction. The Tax base for Runnymede has increased from 33,327 band D equivalents to 33,490, an increase of 0.5%. As the Government assume 0.4% increase would occur without Council involvement, the Corporate Director of Resources is not anticipating any additional income in 2018/19.
- 9 Paragraph 2.9 of this report shows £203,000 of section 106 funding earmarked for the yellow bus initiative has not been received. Clearly this may be a further call on the General Fund working balance.
- 10 The Chief Executive and Director of Commercial Services and the Property and Acquisitions Member Working Group are meeting soon to re-visit commercial acquisitions. However it is clear that, especially in Surrey, the number of private sector investors wishing to purchase good quality assets is driving up prices, and yields of 5% or more are difficult to find. The MTFs currently relies on new additional income of £10million by 2021. To generate this income the Council has earmarked over £500million to be spent on regeneration and place shaping schemes within the Borough over the life of the Capital Programme. This strategy relies both on the Council identifying suitable assets that meet its stringent criteria and also no future Government intervention in such schemes.
- 11 Surrey County Council are instigating a number of initiatives to reduce their budget. One of these is to reduce refuse disposal costs by £4million over the next three years. This will increase costs to the Surrey Districts and Boroughs.

- 12 Finance officers are examining each of the cost pressures identified in Appendix 'G'. Initially the Corporate Director of Resources anticipates around £900,000 of increased expenditure, or reduced income, will continue into 2018/19.
- 6.3 The above risks will be quantified as far as possible for Members consideration in December and January following detailed announcements following the Autumn Statement when the draft MTFS is to be considered by this Committee. However, at this stage Members should be concerned about the call on the General Fund working balance.

(For information)

Background Papers

None stated