BUDGET MONITORING REPORT - APRIL 2018 TO SEPTEMBER 2018 (CHR)

Synopsis of report:

To report the latest financial projections for the 2018/19 financial year for General Fund, Housing Revenue Account and Capital Programme.

Recommendation(s):

For information

1 Context of report

1.1 The Medium Term Financial Strategy (MTFS), the Capital Programme and the detailed General Fund budgets for 2018/19 were approved by the Corporate Management Committee on 25 January 2018 and subsequently by Full Council on 8 February 2018.

1.2 The detailed HRA budget for 2018/19 was approved by the Housing Committee on 10 January 2018 and subsequently by Full Council in February 2018.

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 2018.

2 General Fund Revenue Budget

2.1 The detailed General Fund budget for 2018/19 was approved in February 2018 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/(income) on Services	(2,482)	1,105	Paragraph 2.3 below
Transfers and accounting adjustments	(2,260)	(2,260)	
Treasury and financing	12,696	12,587	Paragraph 2.7 below
Government grants	(802)	(802)	Paragraph 2.11 below
Business Rates and Council Tax collection	(7,247)	(7,747)	Paragraph 2.12 below
Projected use of balances in 2018/19	**(95)**	2,883	

An updated General Fund Summary (in the Budget Book format) setting out these changes is set out at Annex 1 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 £2.883m taking it from £5,848m at the start of the year to £2.965m at 31 March 2019.

Net Expenditure on Services

2.3 The General Fund Summary set out in Annex 1 sets out the net expenditure for each service area against the forecast outturn as at 30 September 2018. The forecast outturn is made up of the original budget amended for any anticipated changes. A summary of changes at the Net Expenditure on Services level is set out in Annex 2.

2.4 Annex 2 shows that net expenditure/(surplus) on services is forecast to be £1,105, an increase in net expenditure of £3.587m on the original budget as seen at Annex 1. This increase can be broken down as follows:

Table 2 – Analysis of budget increases	
	£’000
Increased Expenditure:	
- Planned underspends carried forward from 2017/18	384
- Approved supplementary estimates	236
- Other cost pressures	5,745
Reduced Expenditure	(1,354)
Increased Income	(2,485)
Reduced Income	1,060

2.5 Of the £5.745m shown under “Other cost pressures” in the above table, £4m relates to costs associated with the Egham Gateway West project that cannot be capitalised until the scheme begins to create or extend the life of an asset. Due to various delays in settling on a suitable scheme to proceed with, construction is now not anticipated to be until 2019/20. This is necessary accounting practice because if for any reason the scheme does not progress, then these costs will stay as a cost to the General Fund. However, this causes a problem for the accounts in that they will now show the General Fund working balance depleted at the end of the year and below the minimum working balance agreed by the Council. The remainder £1.745m relates to other cost pressures from the different committees as indicated in Annex 2., of which £1m represents the Commercial Property - not limited to these cost pressures - NNDR, Business rates on empty properties, service charge on unsold properties and additional staff requirement.

2.6 This problem came to light earlier in the year and in order to mitigate the problem, the Chief Executive Officer and the Corporate Director of Resources set in place a series of measures to bolster the year end General Fund position. These measures included:

- Only seeking to acquire properties in the remaining property acquisitions budget that will generate a ready-made rent income from day one.
- Requesting that Heads of Service look to declare one off savings (including reviewing which planned underspends and other schemes could be halted).
- Seek to delay the appointment of vacant posts where there would not be adverse effects on front line services.
- Slow down the expenditure on agreed Supplementary revenue estimates wherever possible.

Just to be clear, Officers were not being asked to reduce any front line service delivery, just to delay incurring non-essential expenditure until April 2019. This exercise has contributed to the “Reduced Expenditure” figure of £1,354 shown in the above table.

2.7 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 3 – Performance of key income drivers			
	Original Budget £000	**Profiled Budget £000**	**Actual to Date £000**
Halls income	138	81	69
Cemetery income	218	89	117
Community meals (Day Centre)	168	84	64
Community meals (Meals at Home)	157	80	51
Trade waste income	478	359	369
Green waste recycling	360	352	365
Off street parking P&D income	546	257	296
Yellow bus s106 income	204	152	0
Planning fees	840	420	354
Local land charge search fees	230	117	127
TOTALS	**3,339**	**1,991**	**1,812**

Treasury and Financing

2.8 The 2018/19 Treasury Management Strategy report was presented to this committee at the end of February 2018.

2.9 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 September is set out in para 2.15 below.

2.10 A full report on all treasury activity during the first six months of the year will be reported to this Committee in November. This will include revised predictions for interest (both investment and borrowing) following the recent increase in the base rate.

Government Grants

2.11 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.

Business Rates and Council Tax Collection

2.12 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 June) were as follows:

Table 4 – Collection rates		
	Council Tax £'000	**Business Rates £'000**
Collectable debit for the year	61,314	59,338
Cash received for period	36,029	32,622
% of cash received for the year – Target	98.60%	98.80%
% of cash received for the period – Target	58.00%	56.00%
% of cash received to date – Actual	58.76%	54.98%
% of collectable debit written off	0.00%	0.00%

2.13 Members will recall that when Council approved the 2018/19 budget in February 2018 the "Surrey pilot " had not been approved by Government or the final details of how additional income would be shared between the County Council and the districts and boroughs in Surrey. The underlying principle is that all the districts would be at least £0.5m better off. The budget set by Council included £1.9m of income from business rates. At this stage in the financial year the collection rates and tax base suggest that £2.4m is still a reasonable estimate.

2.14 Next year's business rate pilot has applied for, but even if the our bid is successful the growth the Council will be able to retail will be reduced from 100% to 75%. There is also the government settlement to factor in, where more and more Councils with child and adult social care costs are openly saying that they cannot balance their budget.

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. With interest rates set to rise during the year, the uncertainty surrounding the eventual Brexit deal and it's effects on the markets and the need to bolster the Council's income position to allow for the regeneration of parts of Egham, Members agreed at a Special Council Meeting held on 17 May 2018 to bring forward £100million set aside in 2019/20 to the current financial year to secure the required income generation targets earlier.

2.17 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 January as the purchase date). This table assumes that the full capital allocation for the purchase of property held within the capital programme is spent within the year:

Table 5 – Property investment		
	Original Budget £000	**Revised Budget £000**
Rental income from all commercial property	(20,495)	(22,349)
Borrowing costs (Interest)	11,234	10,281
Minimum Revenue Provision (MRP)	3,304	3,696
Net income	**(5,957)**	**(8,372)**

2.18 Whilst the net income figure above shows a health increase, this does not take account of any ongoing costs of holding void properties such as business rates, utility costs or ongoing service charges.

3 Housing Revenue Account (HRA)

3.1 The detailed HRA budget for 2018/19 was approved in February 2018. Since then various changes have occurred and a summary of the current projected use of balances for the HRA can be seen in table 6 below:

Table 6 – Projected use of HRA balances			
	Original Budget £'000	**Forecast Outturn £'000**	
HRA Working Balance (as per the budget book)	(19,324)	-	
Actual HRA Working Balance @ 1 April 2018	-	(19,151)	
Surplus in year	(4,692)	(3,047)	Paragraph 3.2 below
Capital expenditure - new purchases	910	910	Paragraph 3.3 below
Capital expenditure - new build programme	2,308	2,308	Paragraph 3.3 below
Capital expenditure - further potential	1,824	770	Paragraph 3.3 below
Projected HRA balance at 31 March	**(18,974)**	**(18,210)**	

3.2 An updated HRA summary (in the Budget Book format) setting out these changes is set out at Annex 3. This summary sets out the net expenditure for each service area against the forecast outturn as at 30 September 2018. 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 Surplus in year level is set out in Annex 4.

3.3 The Housing Revenue Account usually funds (70%) of the costs of new housing property acquisitions, and new build costs and these are funded from the HRA working balances. Due to slippage in preparing some potential future schemes, some schemes are not now likely to be approved by the Housing Committee until January 2019 and therefore the projected costs (not yet approved) are likely to be deferred until 2019/20 at the earliest.

3.4 In addition to the HRA working balances (shown above) it is currently estimated that there will be around £3.4m of balances in the Housing Major Repairs Reserve at 31 March 2019

4 Capital Expenditure and Receipts

Capital expenditure

4.1 The detailed Capital budget for 2018/19 was approved in February 2018. 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 (Confidential) Annex 5 summarises the current capital programme to the end of September 2018 updated for predicted movements in payment profiles and forecast under/overspends on the schemes as a whole. Of the £209m increase in the programme shown in the Annex, £101m relates to budgets that have been carried forward from 2017/18 where schemes and or payments were delayed and £100m results from the decision by Full Council in May 2018 to bring forward the final year's property investment provision from 2019/20 to 2018/19.

4.3 This Committee approved two purchases as part of the property acquisitions strategy, Axis One and Pine Trees. In preparing the financial implications the final cost of Stamp Duty paid to government was incorrect. The table below shows the final sums paid on the acquisition

	Original report	Final Invoice	Increase
Axis One			
	£	£	£
Purchase price	19,330,000	19,330,000	
SDLT	773,200	956,000	182,800
Legal fees etc.	155,750	155,750	
	20,258,950	20,441,750	182,800
Rent income	(1,165,952)	-1,165,952	
Yeild - committee report	6.0%	6.0%	
yeild after tax etc	**5.76%**	**5.70%**	
Pine trees			
			£
Purchase price	80,700,000	80,700,000	
SDLT	3,228,000	4,024,500	796,500
Valuation , surveys etc	50,000	50,000	
	83,978,000	84,774,500	796,500
Rent income	(5,206,942)	(5,206,942)	
Yeild - committee report	6.45%	6.45%	
Yeild after tax etc	**6.20%**	**6.14%**	

The error on the Commercial Services template was not picked up in Finance before Members made the acquisition decision. While the difference on the yield percentage is marginal, additional checks on property acquisitions have been put in place.

Capital receipts

4.4 The Council started the year with £5.783m in available capital receipts which can be used to fund future acquisition of assets. However, all of these remaining 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

4.5 Table 7 sets out the anticipated capital receipts position as at the 31 March 2019 based on the current forecast outturn in capital spend and receipts as set out in Annex 5:

Table 7 – Capital receipts				
	Debt Repayment £'000	**Housing replacement £'000**	**General use £'000**	**Total Receipts £'000**
Total Capital Receipts at 1 April 2018	**2,473**	**3,310**	**0**	**5,783**
Capital Receipts generated in the Year	320	984	20,508	**21,812**
Use of Receipts in year	0	(1,221)	(20,508)	**(21,729)**
Projected Receipts at 31 March 2019	**2,793**	**3,073**	**0**	**5,866**

4.6 The original estimate for the generation of Capital Receipts in the year included £13m from the sale of properties in the Addlestone One development. As at 30 September £340,000 from sales had been received with £400,000 worth of sales under negotiation. With the delay in the handover of some of the flats and the sales market slowing down, it is highly unlikely that this figure will be achieved; therefore a more prudent estimate of £3.5m (assuming 10 sales at £350,000) has now been forecast.

4.7 If this revised forecast for sales is not achieved, it will be necessary to delay some capital schemes and/or temporarily borrow more money to fund other schemes. This will be the case for the 2018/19 Capital Programme and future years should the delays persist.

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 a contribution to working balances of £0.095m to a use of balances of £2,883m based on information at 30 September 2018. This includes £384,000 of unused budgets carried forward from 2017/18 where a corresponding saving was registered in the accounts last year.

6.2 The Council currently has a short term problem of charging expenditure to revenue, when it was planned it would be funded from capital. That can be addressed, but not until 2019/20. In the meantime the officers are working on how to reduce expenditure temporarily to increase balances in the short term.

6.3 The Capital Programme is reliant on generating capital receipts from the sale of residential properties within the Addlestone One development. Property sales are a lot slower than originally anticipated, in part due to the delay in hand over of some of the properties and in part due to a slowdown in the market. Officers are keeping a close eye on the situation and will seek alternative funding options when the Capital Strategy is updated later this year.