

REPORT OF THE DIRECTOR OF FINANCE

FINIANCIAL RESULTS 2008/09

Corporate Management Committee 28 May 2009

1. Purpose of Report

- 1.1 To report on actual income and expenditure for the 2008/09 financial year and compare this to the budget for General Fund services, the Housing Revenue Account, and capital accounts; and**
- 1.2 To approve the method of financing the Council's capital expenditure in 2008/09;**
- 1.3 To report on the level of General Fund working balances and other reserves.**

2. Background Information

- 2.1 The Budget for 2008/09 was set at the Special Council Meeting held on 14 February 2008.
- 2.2 All Committees considered revised budgets for 2008/09 in January 2009 as part of the budget setting process for 2009/10. The revised budgets used in this report also incorporate supplementary estimates and budget virements approved since January 2009.
- 2.3 The Statement of Accounts for the year 2008/09 will be presented to the June meeting of this Committee.
- 2.4 The external auditors (KPMG) will be commencing their formal examination of the accounts in July.
- 2.5 Financial Regulations allow for unspent budgets in one year to be brought forward to the next. This is an established part of the Council's financial control procedures and allows more effective use of budgets. Managers can plan to carry the budget forward rather than losing it at the year end, and are not therefore encouraged to 'spend up' their budgets in order to protect their allocation. Further flexibility is available to Budget Managers to allow the virement of budgets. A virement is the transfer of a budget allocation from one service head to another. A summary of virements is also given in the service actuals booklet.
- 2.6 The movement in the Retail Prices Index (RPI) in 2008/09 was minus 0.4%. This was significantly lower than the assumption made for general price increases of 2.5%. The government's other mainstream measure of inflation – the Consumer Price Index - was 2.9% in March 2009. The local pay award in July 2008 of 3.0% was greater than the assumption of 2.5% used in preparing the 2008/09 Budget. Also, some of our contracts use the RPI index at specified dates, and when these fell in July and September 2008 the movement in the RPI was 5%.
- 2.7 Inflation has a cumulative impact, increasing budgetary pressures as years go by. Traditionally, inflationary pressures have been contained through generating efficiencies and productivity (e.g. by using technology better) and reducing costs (e.g. better purchasing). Managing inflation remains a great challenge, especially so given the budgetary constraints on the Council.

3. General Fund Revenue Account – Financial result for 2008/09

- 3.1 The General Fund Summary Revenue Account reproduced in Appendix 'A' gives high-level detail on the service spending for the year. Table 1 shows a net overspend of £99,000

compared to the revised estimate on expenditure on services, after allowing for capital charges:

Table 1 – Summary of spending on services in 2008/09			
	Revised £000	Actual £000	Variation £000
Net expenditure on services	17,162	17,198	36
Reversal of capital charges	(4,349)	(4,286)	63
Net overspend	12,813	12,912	99

- 3.2 A booklet giving service figures for 2008/09 accompanies this agenda, and is also reproduced on the Council's web-site. Members who wish to study budget variations in detail may find this useful. Members are requested to note that a small number of changes have been made to the "General Fund Summary Revenue Account" on page 3 of the booklet, and the revised summary at Appendix "A" shows the latest position
- 3.3 The overspend is relatively small when compared to the total budget. However, there are significant favourable and adverse variations between actual and revised budget at service level. Tables 2 and 3 list the major variations - except those caused by changes in capital charges and accounting changes to other recharges - between the revised budget and the actual for 2008/09.

Favourable variations

- 3.4 The major favourable variations total £624,900. Part of this saving - the planned under-spends of £200,200 set out in Appendix B - will be taken into 2009/10. The major variations are summarised in Table 2.

Table 2 - Major savings on service spending between the Revised Budget and Actual for 2008/09		
Service area	Saving £	Commentary
Housing General Fund Services	101,300	Provision for homelessness not fully used (£28,900) as a result of initiatives such as rent deposits and rent bonds, and availability of reception centres. Grant for Care & Repair service fully accrued (extra £23,000 in 2008/09 only). Provisions for enabling and other items not fully used in 2008/09 (£26,000). Other savings from vacancies and general running costs.
Benefits Service: Administration	101,400	Saving on staff costs of £43,700 arising from vacancies (part used to meet costs elsewhere). Savings of £56,000 on running costs, including a budget carried over from 2007/08 in respect of a grant for implementation of Local Housing Allowance and other changes in the Benefits system (budget of £42,300 again carried forward to 2009/10). However, recovery of overpaid benefit was significantly short of the budget expectation (see Table 3).
Community Services	27,300	An amalgam of savings on running costs at day centres and the Care Line service. This saving would have been greater but for unexpected expenditure on building maintenance of £25,000. (see paragraphs 3.14 and 3.15).

Environmental health services	22,900	Savings on salary and other costs and fees. Carry forward of provisions to 2009/10 of £20,400.
Refuse collection and recycling	72,700	A one-off saving in the recycling contractor budget of £43,900 arising from the reversal of an overprovision of amounts owed in 2007/08. There were savings in staff and vehicle costs, partly offset by lower income.
Planning policy and development control	54,400	Saving in staffing and other costs (e.g. back-scanning records). Total of budgets carried forward to 2009/10 is £11,000.
Land Drainage	58,600	Costs recovered from other parties were £49,500 greater than estimated. There were also net savings in operational and other expenses.
Car parking services	36,000	Net savings in staffing, operational and other expenses of £27,100 and increased overall income of £8,900.
Energy Management	32,700	Budget for energy management initiatives not fully used in 2008/09; planned underspends of £31,500 carried over to 2008/09.
Civic Offices	90,200	Significant savings in the provisions in the budget for rates and insurances (£52,000) arising from the demolition of the old offices and a lower than anticipated charge for the new offices, and building maintenance budget (£32,600). Note that the demolition costs of £86,700 shown in Table 3.
Public Relations and Grant Aid budgets	27,400	Savings in provisions.
Total favourable variations	624,900	

- 3.4 The corporate importance of the current revenue reduction exercise has ensured that Directors, Departmental Management Teams, Budget Managers and staff generally have taken various steps to further maximise income and constrain expenditure.

Adverse variations

- 3.5 There were a number of budgets that were overspent or with a shortfall of income. These are presented in Table 3:

Service area	Overspend	Commentary
	£	
Benefits Service: Benefit granted and government subsidy	152,300	See paragraphs 3.7 and 3.8.
Concessionary Fares	23,700	The amount payable to bus operators has continued to increase compared to the estimate. A full report was presented to the Housing & Community Services Committee in November 2008 on the prospects for this service. However, net expenditure on this service in 2008/09 is still £163,000 lower than in 2007/08.

Egham Leisure Centre	91,200	Overall income was £46,500 less than expected (from £1.050m to £1.004m). Unexpected expenditure on building maintenance was £48,600. (see paragraphs 3.14 and 3.15).
Addlestone Leisure Centre	20,200	Overall income was £19,500 less than expected (from £308,200 to £288,700). Unexpected expenditure on building maintenance added a further £11,600 to costs (see paragraphs 3.14 and 3.15). Savings in running costs offset part of these increases.
Parks and Open Spaces, and Cemeteries service	66,400	Unexpected expenditure on building maintenance of £34,400. Staffing costs were also higher than expected although these were partially offset by savings in other running costs.
Safer Runnymede	44,900	The budget allowed for the normal contribution of £30,000 from Surrey Police towards the operating costs of this service. Regrettably, and despite the Police being a principal user of the service, this contribution has been stopped by the Police. There were additional staffing costs of £38,100 resulting principally from the need to maintain services, and commission new equipment, arising from the Civic Centre move. There were savings in running costs that partly offset the increase.
Street Cleansing	21,500	Additional vehicle running costs and other expenses. This service has close operational links with the refuse/recycling service where net savings were made (see Table 2)
Civic Offices: Demolition costs	86,700	The cost of demolition is a charge to revenue under accounting rules; it cannot be met from capital resources. The demolition has led to savings in the business rates and other costs that would continue to be incurred had the demolition not taken place.
Chertsey Depot	25,600	Unexpected expenditure on building maintenance of £20,100 (see paragraphs 3.14 and 3.15).
Total adverse variations	532,500	

- 3.6 The Leisure and Environment Committee have received regular reports on the trading position at both sports centres and action is being taken to improve the financial performance.
- 3.7 Housing Benefits granted and government subsidy: Government subsidy pays for 100% of the cost of eligible benefit awarded. In circumstances where benefit is overpaid, the government award much smaller subsidy that is dependent on the cause of the incorrect benefit calculation. However, authorities are able to retain overpaid benefit that they are able to recover and this is called the “incentive” area of the subsidy system. Incentive areas include a number of special cases. For instance, where an incorrect overpayment of benefit has been made arising from claimant error (e.g. where a change of circumstances was reported late) and therefore a recovery of the overpaid amount from the claimant is required. The incentive is that councils may keep the government subsidy subsidy, even if the overpaid benefit is fully repaid by the claimant.
- 3.8 In previous years, the Council has been able to take advantage of this incentive and has generated significant net additional subsidy. Indeed, the revised budget assumed net additional subsidy of £110,400. Regrettably, the result for 2008/09 is very different. A significant part of the reason relates to a major fraud investigation conducted jointly with the

Benefits Agency as a result of which benefit paid over several years is now classified as an overpayment. This case alone accounts for about £60,000 of overpaid benefit that is very unlikely to be recoverable.

- 3.9 There were other services where costs and/or income was struggling to stay within budget. This may be expected given the combined impact that previous net revenue reduction exercises have had in terms of removing the previous “slack” in some budgets, cost increases arising from inflation (e.g. fuel), and the impact of the economic recession on income.
- 3.10 When the Yellow Bus service was introduced it was recognised that it would rely on section 106 funding from new developments to meet net running costs. Given the probable reduction in development during the recession, this form of income is particularly vulnerable. Even in better times, it has not always been possible to finance the net cost of the Yellow Bus services from contributions. In 2008/09, section 106 contributions of £161,127 were required to balance this budget (the estimated requirement was £129,000). There were sufficient section 106 contributions to meet this budget, but only because the contribution from the Pretoria Road development was “brought forward” a year. It has long been recognised that relying on this source of finance to meet the cost of the Yellow Bus service is a high risk strategy, and other income sources (e.g. business improvement district rating contributions) had been sought.

Strategic Maintenance Plan

- 3.11 In July 2002 the Corporate Management Committee approved a five-year programme of repairs, planned maintenance and improvement works to the corporate property portfolio. The programme covers all the buildings owned by the Council except for the housing stock. The programme commenced on 1 April 2003.
- 3.12 The programme was constructed following a detailed survey. The planned cost of the five-year programme was £3.2m and included both reactive maintenance work, and planned maintenance and improvement works. Reactive maintenance work is financed from revenue, with improvement works met from capital resources. To provide transparency about the scale of the programme, service budgets include the estimated cost of relevant capital and revenue financed work. A global adjustment is made in the General Fund Summary Revenue Account to account for the proportion financed from capital resources.
- 3.13 However, since 2003, it has been particularly difficult for both service managers and accountancy staff to obtain reliable and robust information about the impact of the programme both on individual service budgets and in total. This difficulty has been increased because the 5-year programme finished in March 2008, and no replacement long-term schedule has been produced. Accountancy staff have tried to construct credible budgets with access only to historical records of doubtful reliability.
- 3.14 In the 2008/09 financial year, there were significant variances in maintenance budgets between original estimate, revised estimate and actual expenditure on many service areas. Table 4 compares the revised estimate for 2008/09 with actual expenditure:

Table 4: Comparison of revised budget to actual expenditure for the strategic maintenance plan			
	Original budget £	Revised budget £	Actual £
Reactive maintenance	78,700	153,000	239,305
Planned maintenance	371,900	357,600	412,169
Total	450,600	510,600	651,474

- 3.15 Table 4 indicates on overspend of £141,000 compared to the revised budget. These costs are identified in the analysis of adverse variances in Table 3 and more detail on the impact on services is available in Appendix C. However, although every care has been taken to capture all costs, there remains a significant difficulty in obtaining both reliable valuations and usable management information from the present records.
- 3.16 Accountancy staff have again had to make a number of estimates and assumptions about the value of work completed in order to provide figures for the 2008/09 accounts. There are still differences in the amounts claimed by the contractors and what building services staff are able to certify, and it is likely to be some time before these differences will be resolved.
- 3.17 A further problem is the ability to finance the cost of planned maintenance work from the capital budget. The revised estimate assumed that most of the planned maintenance programme could be classified as capital expenditure. An examination of actual work completed disclosed that much of the work could not be classified as capital expenditure, but was instead routine and / or cyclical maintenance work (e.g. painting). This means that instead of financing £345,400 from capital resources, only £178,544 can be properly counted as capital expenditure. This means that the difference of £166,856 must be borne by the General Fund.

Income budgets

- 3.18 The initial impact of the economic recession tends to be on income budgets, especially those that are directly related to the property market. Table 5 sets out our main income budgets and compares these to the results:

Table 5: Budgets and results for selected income services in 2008/09			
Service and budget	Original £	Revised £	Actual £
Day Centres: Meals, including meals-on-wheels	279,900	283,000	289,487
Egham Leisure Centre: Gross income	1,113,800	1,050,700	1,004,149
Addlestone Leisure Centre: Gross income	391,700	308,200	288,701
Recycling: Recycling credits and sale of materials	335,700	373,700	339,087
Green Waste Collection: Recycling credits and subscriptions from customers	230,800	216,000	214,119
Refuse Collection: Gross income less the tipping away charge from Surrey CC	401,400	376,400	388,526
Licensing: Alcohol and related licences	65,200	63,700	56,967
Licensing: Taxi and similar licences	88,200	90,400	89,900
Planning application fees	540,000	490,000	488,162
Building Control: Application & inspection fees	340,700	323,700	302,602
Car Parks: Pay & display income	470,300	418,000	413,262
Car parks: Excess charges	52,500	75,300	74,463
Yellow Buses: School contributions	103,000	103,000	94,383
Yellow Buses: Sponsorship and donations	80,000	60,000	62,000
Council Tax Collection: Costs recovered	85,500	101,000	104,916
Local Land Charges: Search fees and other income	378,500	198,500	177,249
Total: Selected income budgets	4,957,200	4,531,600	4,409,225

- 3.19 In some cases it is straightforward to detect a relationship between the economic recession and income budgets. The budget for the Land Charges service is an obvious example. It is possible that the impact of the recession is still to be felt on other services (e.g. planning applications). In other cases there appears to be no significant impact, and/or the variations are part of the normal differences that arise from other factors that impact on year-on-year results (e.g. incidence of the Easter holiday, weather, etc).
- 3.20 Income from fees and charges has long been a major feature of the Council's budgets. The Council raises more income from this source than from its share of the council tax. The risk from relying on income to fund services has been recognised as part of our financial strategy. A close examination of income is made when the Financial Forecast is considered, again at estimate setting time, and also in net revenue reduction exercises. Even a relatively modest percentage reduction in income would have a significant impact on the Council's medium-term financial position. It will be necessary to meet shortfalls, pound for pound, in further revenue reduction exercises just to keep in a financially neutral position in the short-term. However, because real growth in income forms part of our medium-term financial strategy, falls in income have a very unfavourable cumulative impact of the Council's financial position.
- 3.21 Income is closely monitored by Budget Managers as part of their normal managerial responsibilities, and is also reported to service committees each committee cycle. It would be wrong to react rashly to every short-term movement in budgets as this could lead to services being unnecessarily curtailed. However, it is also important to recognise that income reductions must be managed quickly and that this means that strategies such as filling staff vacancies, deferring discretionary service enhancements, and making compensatory savings elsewhere must be positively applied.

Transfers and Financing

- 3.22 The transfers and financing part of the General Fund Summary Revenue Account (Appendix A) sets out items that are required either by Council policy, government direction, or accounting standards, before the use of working balances can be calculated.
- 3.23 New items this year include:
- A new charge for the value of staff leave (including flexi-leave) that has been accrued but not taken at 31 March 2009. Members were alerted to this new item in the report on International Financial Reporting Standards presented to this Committee in March. The sum charged to the General Fund of £251,000 is significant (a further £28,000 is charged to the HRA), but is broadly in line with what was expected. The main reason for the scale of the accrual is that more annual leave will be taken during the summer and, therefore, the relatively high amount of accrued leave at this time is not surprising. Managers readily provided the information required to calculate the value of accrued leave, except in one instance. For this manager's Section, the average accrual for the rest of the staff was used as a proxy in our calculation. This is a one-off adjustment; in future years it would be reasonable to assume that the value of staff leave accrued at 31 March will remain relatively constant.
 - A sum of £563,175 in respect of refunds of VAT and associated "statutory interest" following claims made to the HMRC by the Director of Finance in March 2009. HMRC have agreed and paid the claims. The refund comprises three elements. The first element is £284,901 for VAT paid over to HMRC during the period 1990 to 1994 in respect of "leisure activities". The basis of this claim for leisure activities is under Article 13A(1)(m) of the EC 6th Directive which exempts the supply of sports activities by non-profit making organisations. This article was binding on member states since 1st January 1990 but not implemented into UK law until 1st April 1994 under the VAT (Sport, Physical Education and Fund raising Events) Order 1994. Prior to the implementation of this order on 1 April 1994, taxpayers are entitled to rely on the direct exemption under European law which does not specifically exclude local authorities. Secondly, a refund of £24,391 for VAT paid over to HMRC during the period 1985 to 1991 in respect of car park excess charges. Thirdly, statutory interest of £254,693 has also been refunded by

HMRC, this representing the interest cost to the Council (as calculated under VAT rules) of these sums. These claims has been allowed only recently because VAT registered businesses have, for a short period of time, been allowed to back date claims for VAT in respect of tax periods over 3 years old. This is a one-off receipt, although there is a possibility that HMRC may pay further interest on the refund.

- A debit of £14,660 in respect of performance reward grant. This Committee received a report in April on the expected amount of performance reward grant. The report explained the complications that the new capital / revenue split introduced, and the confusion arising from the previous Audit Commission insistence that an element of performance reward grant entitlement be recognised in our accounts during 2006/07 and 2007/08. Frustratingly, the advice has now been reversed and authorities are instructed only to recognise performance reward grant in respect of verified and audited claims. In summary, this means that less performance reward grant will be recognised in our 2008/09 accounts, but it will be recognised instead in 2009/10. The reason for the debit in 2008/09 is the need to adjust the amount charged to revenue to allocate the appropriate element to capital reserves in accordance with the terms of the grant.

- 3.24 On 23 February 2009, the DCLG announced a further distribution of Local Authority Business Growth Incentives Grant (LABGI). The sums allocated to councils use the same methodology employed for the payments made last year, i.e. based on the increase in rateable value of non-domestic properties between 2005-06 and 2006-07 in each local authority's area, drawing on particular rating codes. The award for Runnymede was £88,040, and there is also a £270 residual sum in respect of the year before. Notification of this award was not made in time for inclusion in the revised budget.
- 3.25 Investment income of £1,338,762 is broadly in line with the revised estimate of £1,300,000, albeit the constituent parts of achieving this outturn are very different from what was envisaged in the original estimate. A full report on treasury performance in 2008/09 is made to this Committee elsewhere in this Agenda.

Net General Fund Expenditure and Use of Reserves

- 3.26 The original estimate for 2008/09 was based on the use of £1.285m of working balances. The revised estimate was based on the use of £2.287m of working balances. The additional call on reserves was recognised in the Forecast and at probable estimate stage.
- 3.27 Net General Fund expenditure is £325,700 less than the revised estimate. Table 6 summarises the major reasons for the variations:

Table 6 - Summary of General Fund variations in 2008/09: Revised estimate to actual	
	£000
<u>Service spending</u>	
Major favourable service budget under-spends (Table 2)	625
Major adverse service budget over-spends (Table 3)	(533)
Capitalisation of building works (see paragraph 3.17)	(167)
Other net variances (see paragraph 3.27)	(24)
Sub total: Net additional spending on services (as Table 1)	(99)
<u>Other changes</u>	
Net accounting and other adjustments (paragraph 3.23)	298
Local Authority Business Growth Incentives Grant (paragraph 3.24)	88
Investment Income (paragraph 3.25)	39
Total betterment in Net General Fund Expenditure (revised to actual)	326

- 3.28 The “other net variances” line in Table 6 is an amalgamation of smaller net savings and cost increases generated by the remaining services not specifically mentioned in Tables 2 and 3.
- 3.29 The net result for the General Fund in 2008/09 is that the call on the working balance is reduced by £325,700 compared to the revised estimate. However, £1.962m is still required from reserves to support spending in 2008/09. Furthermore, £200,200 of budgets (planned underspends set out in Appendix B) will be carried over to 2009/10.
- 3.30 The budget for 2009/10 is based on the use of £2.069m of reserves. The Council has long recognised that the current level of spending, and subsequent call on reserves, can not be sustained. The economic recession means that there is now a significant risk that new and/or continuing adverse variances will increase the call of reserves.
- 3.31 The need to continue to identify and generate sustainable savings in the medium-term has always been a priority. It will be important to identify where these savings will be targeted at as early a stage as possible. This will enable the changes to services to be implemented in a planned way that minimises the cost of changes and mitigate, as far as possible, the negative impact on our residents and users of our services. However, even to achieve this difficult to achieve and unappealing reduction in services, action must be taken before our reserves run out.

4. Housing Revenue Account (HRA)

- 4.1 The budgets for the HRA are based on the long-term projections for stock management and maintenance set out in the HRA Business Plan. The Plan includes significant year-on-year variations in the profile of expenditure on the repair, maintenance and improvement of our housing stock. This is because our Plan focuses on the long-term maintenance needs of the housing stock, and the incidence of major programmed works is factored into the Business Plan accordingly.
- 4.2 The results for the HRA for 2008/09 disclose an in-year deficit of £1,831,811. This compares to the revised budget where a deficit of £2,169,000 was forecast. This represents an in year betterment of £337,000. This result is better than envisaged in the HRA Business Plan and allows modest welcome flexibility over the coming years.
- 4.3 The HRA working balance at 31 March 2009 is £3.088m. The summary page for the Housing Revenue Account is produced at Appendix ‘D’.
- 4.4 Table 7 identifies the significant variances between the revised budget and the actual:

Table 7 – Summary of HRA variations in 2008/09: Revised estimate to actual	
Housing service area	Variance £000
General Management: This is a mix of savings in operating and support costs, including £25,000 on the provision for removal and disturbance.	42
Special Services and Supporting People budgets: Savings on forecourt maintenance, equipment and services, and general running costs.	73
Housing Repairs: The overall result is very close to the budget. There are relatively small variances on each element of the programme, and these are disclosed in the Actuals Book.	83
Rental Income: Additional rental income as a result of slightly higher average rent levels and lower than anticipated sales of dwellings.	90
Interest on Balances: The higher than anticipated level of HRA balances results in additional interest earnings	49
Other items (net): The HRA share of the cost of accrued leave of £28,000 is offset by miscellaneous other savings and credits	0

4.5 The first call on the increased level of HRA balances in 2009/10 will be the planned under-spends of £35,000 (Appendix B) carried over from 2008/09.

4.6 The programme of major works to our housing stock counts as capital expenditure under government regulations. The 2008/09 results show that major works of £2.132m are to be financed from capital receipts. This action finally “reimburses” the HRA for the transfer of £3m of HRA balances to the General Fund that was made in the 2006/07 financial year.

5. Capital Expenditure and Financing

5.1 A schedule of General Fund and Housing capital expenditure in 2008/09 that shows the source of financing is reproduced at Appendix ‘E’. The total expenditure on capital items in 2008/09 was £7.676m. This compares to an overall estimate of £10.564m

5.2 Variances between the estimate and actual arise from:

- Provisions not being fully taken up. The largest provision is for grants to registered social landlords to help finance schemes for new affordable housing. In 2008/09 only one grant was made, for the Roakes Avenue scheme in the sum of £370,000. A grant of £700,000 made for the St Annes School site in Virginia Water was returned to the Council as the registered social landlord was able to obtain the funding from the Homes and Communities Agency. Grants to registered social landlords were £1.251m lower than the provision in total. This is favourable as it allows the Council to retain local funding for future projects. There are a number of other provisions in the capital programme (e.g. grants to voluntary organisations and IT hardware and software) that were not fully taken up. This is not a failure of planning but simply the continuation of the well established policy of only spending where a verified need has been identified.
- Some schemes have been put on hold as there was no need to start the work. An example of this is the car parking and “Avenue” element of the Civic Offices project where £484,000 of the estimate remains unspent as yet.
- Timing differences (e.g. slippage in implementation or project re-phasing) account for many other variances. In the main, these capital budgets have been carried forward into 2009/10.

5.3 The largest item in the capital programme in 2008/09 is the capital repair and improvement works programme for our housing stock. This programme is governed by the HRA Business Plan which provides for the repair and maintenance plan for our stock over a 30-year timescale. Total expenditure in 2008/09 was £4.309m compared to the estimate of £4.431m. This expenditure is financed from within the HRA, the use of capital receipts being made only to reimburse the HRA for the transfer to the General Fund made in 2006.

5.4 The new civic offices project was completed in 2008. There are residual spending commitments left; mainly the car parking and “Avenue” element of the project. The report to the Civic Office Sub Committee in March 2009 dealt with the finances of this project in some detail.

5.5 The approach taken to finance capital expenditure is as follows:

- If available, grants and contributions are used to finance the cost of relevant schemes.
- Then, specific reserves for projects are utilised.
- Capital receipts are used to finance the remainder of the programme.
- Capital repair and improvement works on our existing housing stock is first funded from the Major Repairs Reserve

- 5.6 The capital programme for 2008/09 assumed that certain works would be financed from specific revenue reserves. These are set out below:

Table 8 – Capital expenditure met from specific revenue reserves	
Name of reserve	£
Safer Runnymede Equipment reserve	42,375
IT Renewals reserve	255,401
Total	297,776

- 5.7 Financing these works from capital receipts will preserve the level of revenue reserves. To maintain the discipline that these specific reserves employ, it is proposed that sums equal to the amount that they would have financed be transferred to the General Fund working balance (see Table 14).

6. Capital Income – Capital Receipts

- 6.1 The table below summarises capital receipts in 2008/09:

Table 9 - Capital Receipts in 2008/09	
	Actual
	£000
<u>Housing assets (net of costs)</u>	
Sale of Council Houses	219
Mortgage & advances - redemptions and repayments	15
DIYSO - Gross income from sales and stair-casing	100
Other housing sales and receipts	183
Total - Housing capital receipts	517
<u>General Fund assets</u>	
Repayment of capital loans	80
Other General Fund sales and receipts	46
Total income from capital receipts in 2008/09	643

- 6.2 The timing and amount of capital receipts is difficult to forecast. This is the case for both demand led receipts (sale of Council houses, DIYSO receipts) and general property sales. The Economic Development Committee receives regular reports on schemes and Members will recognise that it is not always possible to achieve sales on favourable terms that are exactly in line in projections. In some cases better terms can be agreed by deferring receipts.
- 6.3 In 2008/09 there were significant delays in asset disposals. The impact on cash flow and investment income of the delays are referred to in the report on treasury management elsewhere in this agenda.
- 6.4 Large sums of capital receipts are now expected in 2009/10 and 2010/11, including the sale of Pinefields and the old Civic Offices and police station sites. These sales are dependent on favourable market conditions and satisfaction of planning and other matters. Recent experience has shown that slippage in receiving these sums can occur and there is also a risk that the disposal proceeds may be lower than expected.
- 6.5 Capital receipts are the main source of funding for the Council's capital expenditure plans. Table 10 shows the use of capital receipts in 2008/09, including the change in financing certain items from capital receipts instead of the specific revenue reserves:

Table 10 – Use of capital receipts in 2008/09		
	£000	£000
Balance at 1 April 2008		7,956
Receipts in 2008/09 – see Table 6		643
Payment of housing receipts to the government (para 7.6)		0
Used to finance capital expenditure in 2008/09		
Housing and General Fund capital programme	(4,445)	
Equipment renewals – see Table 5	(298)	(4,743)
Usable capital receipts at 31 March 2009		3,856

- 6.6 Pooling of housing capital receipts was introduced on 1 April 2004. The rules require the Council to pay (in cash) a proportion of housing capital receipts over to the Government. The Council must pay over 75% of the receipts from sales of dwellings under the Right-to-Buy arrangements, reduced only by specified sums set out in regulations. In 2008/09 the opportunity was taken by using a regulation that allows certain costs relating to acquisition of dwellings in the previous year (2007/08) to offset the poolable amount. A number of dwellings were repurchased in 2007/08 to facilitate the Wapshott Road scheme. The “offsets” that these purchases generated were sufficient to completely extinguish the poolable amount in 2008/09. Therefore, there was no requirement to pay over any of our capital receipts to the government pool for 2008/09. Regrettably, there will be no opportunity to exercise this concession in 2009/10. For other housing capital receipts, the Council has the choice of paying a proportion over to the Government pool, or retaining the receipt to use on housing schemes. Clearly, it is beneficial to retain these receipts locally to finance housing and regeneration schemes.
- 6.7 The balance on the usable capital receipts reserve at 31 March 2009 is £3.856m. There are significant spending commitments and provisions in our housing and general fund capital programmes. The largest provision is in the housing improvement programme for grants to registered social landlords for new affordable housing schemes. There are no immediate schemes that require use of this provision, and this will assist in preserving capital receipts in the short-term. However, the new affordable housing estimate principally represents sums that the Council chose to retain rather than pass over to the government pool (paragraph 6.6), and it will not be viable to forever postpone such expenditure. Therefore, unless planned capital receipts are forthcoming, the Council could be forced to borrow to finance its capital programme after 2009/10.
- 6.8 Should capital receipts become exhausted, it will be necessary to borrow to fund the capital programme. This could only be justified as prudent if the capital expenditure was revenue generating (i.e. a net income earner, or leads to cash savings). This is because there is no scope within the General Fund to finance any borrowing.

7. Contributions and Grants

Capital Grants and Contributions

- 7.1 Grants or contributions received from third parties form an important part in funding new capital initiatives and the scale of receipts in 2008/09 reflects the success in attracting government and other third party support. The table below lists the grants and contributions so used in 2008/09:

Table 11 - Capital grants and contributions used in 2008/09		
Scheme	£	Details

House Renovation Grants	270,000	Government subsidy towards disabled facilities grants made.
Grants to RSL	121,000	Use of S106 funds from the Pretoria Road development.
Hythe Park	169,810	Grants from the Big Lottery Fund (£106,107) and landfill site operators (via AIR) (£53,938).
Public Halls: Replacement chairs	9,740	Grant from landfill site operators (via AIR).
Refuse collection	50,063	Waste Performance Reward Grant (via the LAA) for a new computer system (£2,900) and general performance reward grant of £47,163.
New Runnymede Civic Centre	58,198	Use of Planning Delivery Grant (capital element).
Council Tax software	5,300	Government grant for introduction of "efficiency statements" on council tax bills.
Total	684,111	

- 7.2 An increasing number of government grants are being made on the condition that part of the grant is used for "capital" projects. Table 12 lists those grants where this condition is being made:

Grant name	Revenue £	Capital £	Total £
Planning Delivery Grant	120,872	58,198	179,070
Performance Reward Grant (see footnote)	(14,660)	165,410	150,750
Council Tax "efficiency statement" grant	4,282	5,300	9,582
Total	110,494	228,908	339,402

- 7.3 The increasing use of the capital / revenue split is not welcome. It adds unnecessary complication in accounting for the grants, and confusion in terms of the amount and need to use the grant. Although all of the above grants carry no requirement to spend money directly on the services concerned, there is inevitably a pressure from officers and Members alike to use the grant for their services. Given the financial pressures on the Council, it is important that the usual Council strategy of spending only where there is clear identifiable need is adopted. The grants can then be used to bolster capital and revenue balances to provide further time to allow the revenue reductions needed by the Council to be implemented in a controlled way. This requirement is of course a feature of all grants, and not just those that have a capital / revenue split.

Revenue Grants and Contributions

- 7.4 The amount of one-off or short-term government grants and other third party support for revenue expenditure is also a feature of the Council's operations. The table below lists the significant contributions in the 2008/09 accounts.

Service	£	Details
Home improvement service	109,676	Supporting People funding (£30,590) and contributions from Surrey CC for new service developments (£78,086).
Housing advice (resettlement officer post)	7,895	Contribution from Surrey CC Mental Health & Disability Services team.
Homelessness service	55,000	Specific government grant.

Community Services: Day centres and meals on wheels service	63,167	Surrey CC contribution of £10,580 per day centre towards care service, and £10,267 for the community meals service.
Community Services: Dial-a-Ride	57,930	Surrey CC Transport Unit contribution of £31,930, and Social Services contribution of £26,000.
Play and youth activities	38,969	Grants, donations and sponsorship, and £16,000 from Surrey CC SACERS resources grant.
Chertsey Museum	86,361	Contribution from the Olive Matthews Trust of £70,990 and £15,371 from other sources.
Public Conveniences	2,000	Grants from Commonwealth War Graves Commission
Safer Runnymede	97,093	Home Office funding (see footnote).
• Building Safer Communities	53,600	Tripartite funding from Surrey CC and Surrey Police
• Crime and Disorder partnership		
Planning Services: General	120,872	Planning and Housing Delivery Grant (revenue element)
Planning Policy	39,871	Use of developers contributions (SANGS) to finance additional staffing and other costs
Travel Initiative: Yellow Bus Scheme	223,127	Use of Section 106 contributions (£161,127) and sponsorship (£62,000)
Register of electors	5,251	Home office funding – data standards
Total	960,812	

Development related contributions

- 7.5 The use of S106 powers to require developers to make financial contributions and/or asset transfers have become an important feature of financing services. The accounting treatment for these contributions is to recognise them only when received, and then to treat them as deposits that can be used to pay for the agreed project or service when the relevant expenditure is incurred. Appendix "F" is a schedule of S106 financial contributions and other grants and receipts held and/or used in 2008/09. The Appendix shows the purpose and date of the receipt, the actual or proposed usage of the receipt, and sums in hand that are still available for use. Interest earned on these receipts (whilst they await application on the associated project) accrues to the General Fund.
- 7.6 Surrey County Council has started to take a more active involvement in the application of planning contributions and this has resulted in a number of old contributions being paid over to the County Council this year.
- 7.7 The role of Section 106 contributions will be further developed should the government introduce the proposed Community Infrastructure Levy.
- 7.8 Appendix F also discloses the significant sums received and applied towards the Yellow Bus service. There is a balance of £48,867 of contributions available to meet the cost of this service in 2009/10. Further Section 106 contributions will be required to achieve the target of £168,800 needed to finance the Yellow Bus service in 2009/10.
- 7.9 Significant sums have also been received in the past 2 years in respect of SANGS contributions. A sum of £366,331 remains available at 31 March 2009. It will be important to use these contributions carefully in accordance with relevant planning law and to ensure that their use does not place further on-going financial commitments on the Council.
- 7.10 Grants and contributions are welcome in that they ease the burden on the Council and ultimately the local taxpayer of paying for services. However, there are some policy issues

about the dependency on this sort of income that need to be recognised. The Council may be influenced towards providing services because of the availability of grant income rather than explicit local need or policy direction. Furthermore, grant income can be insecure and providers may taper out grants (either deliberately or through less than inflation increases) or stop providing grant support altogether. This leaves the Council with the ultimate service and financial risks. These important risks need to be carefully considered given the financial challenges the Council faces over the following years.

- 7.11 A great deal of Officer time can also be spent on generating third party funding. Government funding often involves making bids in competition or in partnership with other public sector organisations. Unsuccessful bids can be especially frustrating given the resources used in compiling applications.

8. General Fund Reserves

- 8.1 General Fund reserves provide the financial flexibility to enable necessary budgetary measures to be introduced to protect spending levels over a period of time (thereby helping to mitigate adverse impact on services) and the low tax policy of the Council.
- 8.2 It is particularly important that an adequate minimum level of reserves is maintained in order to provide for the risks and uncertainties that might arise during a year.
- 8.3 Establishing a sound basis for balances and reserves is an important part of good financial management. This is not an exact science, but a continuous process of evaluation in light of current and forecast circumstances.
- 8.4 The following paragraphs set out the purpose of each major reserve, and proposals for setting the balances of each reserve at 31 March 2009.
- 8.5 The non-specific General Fund reserves comprises two elements: the **Working Balance** and an amount held as a **Contingency** for unforeseen requirements. A minimum **Working Balance** is required so that the Council has sufficient funds available to meet its cash flow requirements. The Council has decided that £1.5 million is the minimum recommended level of unallocated General Fund reserves that it needs to hold. This is reviewed each year when the Council considers its medium term forecast. No change is proposed to this limit.
- 8.6 The **IT Renewals Reserve** was established in 1994/95 to provide a source of funding for future IT replacements. The annual contribution (£85,000) to this reserve provides for future hardware replacements. The significant upgrade programme in conjunction with the new civic offices project was completed in 2008/09 and expenditure financed from this reserve was £255,401. The balance in this reserve at 31 March 2009 is £420,000. This reflects the fact that much of the IT equipment is relatively new and there will be heavier dependence on the reserve in future years.
- 8.7 The **Safer Runnymede Equipment Reserve** was established during 2000/01 with the intention of providing a source of funds when existing equipment needs replacing. An annual contribution from revenue of £129,000 has been provided for this purpose. The new monitoring centre in the new civic offices was re-equipped and expenditure financed from this reserve in 2008/09 was £42,375 (£430,381 was spent in 2007/08). The balance in this reserve at 31 March 2009 is £164,000.
- 8.8 The purpose of the **Car Park Machines Replacement Reserve** is to spread the cost of replacing car park machines by making an annual contribution from the revenue account each year. Contributions to this reserve were suspended because the balance was sufficient to pay for future replacements. However, proposals to replace the machines will be taken to the Economic Development Committee in 2009/10 and contributions to this reserve will then need to be reinstated.

- 8.9 Reserves for the replacement of equipment at **Egham and Addlestone Leisure Centres** provide for the periodic replacement of fitness equipment and the renewal of the all-weather pitches. There were no schemes in 2008/09 requiring finance from these reserves.
- 8.10 Table 14 shows the movements in revenue reserves in 2008/09 based on acceptance of the proposals set out in this report:

Table 14 - General Fund Revenue Reserves in 2008/09					
Reserve	Balance 31 March 2008	In-year surplus (deficit)	Capital spend (table 8)	Transfers	Balance 31 March 2009
	£000s	£000s	£000s	£000s	£000s
Working Balance	7,701	(1,962)	297	0	6,036
IT Renewals Reserve	590	0	(255)	85	420
Safer Runnymede Reserve	77	0	(42)	129	164
Car Park Machines Replacement	92	0	0	0	92
Egham Leisure Centre Equipment	71	0	0	40	111
Egham Leisure Centre Pitches	30	0	0	30	60
Addlestone Leisure Centre	45	0	0	30	75
Museum Purchases Fund	29	2	0	0	31
Maintenance of Graves	2	0	0	0	2
Total	8,637	(1,964)	0	314	6,991

- 8.11 The statement on forecast reserves and balances presented with the Budget for 2009/10 estimated that total General Fund revenue balances would be £6.619m at 31 March 2009.
- 8.12 The Council currently has what appears to be substantial revenue balances, including £6.036m as a working balance and contingency. However, the approved General Fund budget for 2009/10 alone estimates the use of £2.069m of these balances to support service spending. Furthermore, budgets brought forward from 2008/09 (Appendix B) will consume another £200,200 of these balances.

9. Conclusion

- 9.1 This report identifies a financial result that is unusual for Runnymede Borough Council. The Council will have been used to receiving reports at this time of year that show significant savings against budgets. These savings have resulted in balances being bolstered or, at least, the call on balances being significantly reduced. The result at an operational level this year - on 'net expenditure on services' level' (see Table 1) - is a relatively small net overspend of £99,000.
- 9.2 This relatively comfortable position enjoyed in past years is now over. The cumulative impact of previous net revenue reduction exercises has removed much of the "slack" that was available within budgets. Also, certain trends are worrying (e.g. income budgets). There are still significant in-year savings on some services, but there are also significant adverse variations on other budgets. This result is also concerning given that this appears to be still the early stage in an economic recession. The risk is that adverse variances will become increasingly frequent and favourable variances less common. In summary, the financial climate has changed from the relaxed times of the past years.
- 9.3 The accounting and other changes set out in paragraphs 3.23 and 3.24 provide a once-off net £386,000 betterment, and this means that the call on the working balance was less than at revised budget stage. The net call on General Fund reserves is a withdrawal of £1.962m, and to this result can be added the £200,200 of budgets carried forward into 2009/10. The

original budget was based on a use of reserves of £1.284m and £2.288m in the revised budget.

- 9.4 Members will be aware that the Council is locked into a low level of council tax that is significantly short of the level needed to finance spending even in more stable economic times. The impact of the low tax will amplify the need to make significant on-going savings, before reserves run out.
- 9.5 The Council's medium term financial strategy is based on net revenue reductions being phased in to bring income and expenditure into balance. The time available to carry this out is running short. There is now an increased risk that revenue reserves will fall to the minimum level before sufficient sustainable savings are made. This would be a desperate position, leaving the Council little option but to stop spending on all but the most critical services.
- 9.6 A further paper will be presented to this Committee on financial prospects. Inevitably, there will be a need for further revenue reductions to be identified.
- 9.7 The Council has a proud record of maintaining strict financial control whilst developing and improving services. The approved financial forecast recognises that there are a number of important challenges that the Council faces in continuing this success.

OFFICERS' RECOMMENDATION that -

- i) the methods of financing capital expenditure in 2008/09 be as set out in Appendix F to this report;**
- ii) the additional revenue savings identified in this report be investigated to ascertain whether they can form the basis for further revenue reductions towards the overall savings target.**

(TO RECOMMEND)

Background Papers