

## FINANCIAL RESULTS 2010/11

### Corporate Management Committee 26 May 2011

#### 1. Purpose of Report

- 1.1 To report on actual income and expenditure for the 2010/11 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 2010/11;
- 1.3 To report on the level of General Fund working balances and other reserves.

#### 2. Background Information

- 2.1 The Budget for 2010/11 was set at the Special Council Meeting held on 11 February 2010.
- 2.2 All Committees considered revised budgets for 2010/11 in January 2011 as part of the budget setting process for 2011/12. The revised budgets used in this report also incorporate budget virements approved since January 2011.
- 2.3 The audited Statement of Accounts for the year 2010/11 will be presented to the September meeting of this Committee.
- 2.4 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.

#### 3. General Fund Revenue Account – Financial result for 2010/11

- 3.1 The General Fund Summary Revenue Account is reproduced in Appendix 'A'. A service actuals booklet has been distributed with this Agenda to Members of the Committee and is available on the Council's website.

##### Expenditure on services

- 3.3 Table 1 compares the result with the original and revised estimate on expenditure on services, after allowing for capital charges:

<b>Table 1 – Summary of spending on services in 2010/11</b>			
	<b>Estimate £000</b>	<b>Revised £000</b>	<b>Actual £000</b>
Net expenditure on services	14,231	15,116	15,021
Reversal of capital charges	(1,797)	(1,635)	(1,573)
Runnymede Pleasure Grounds adjustment	(53)	-	-
Charge to HRA for cost of capital (paragraph 3.4)	-	(41)	(38)
<b>Net expenditure on services</b>	<b>12,381</b>	<b>13,440</b>	<b>13,410</b>

- 3.4 Therefore, the result for 2010/11 compared to:
- The original estimate: An increase of £1,028,000
  - The revised estimate: An decrease of £30,000
- 3.5 Significant favourable and adverse budget variations against both the original and revised budgets at service level are provided at Appendix "B" (for the comparison with the original budget) and Appendix "C" (comparing the result to the revised budget). To focus on the **real** changes, the variations exclude those caused by changes in depreciation charges and other accounting changes.
- 3.6 There were other services where costs and/or income struggled 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 flexibility in some budgets and the impact of the recession on income.

#### Net General Fund Expenditure and Use of Reserves

- 3.7 Table 2 summarises call on the General Fund working balance:

<b>Table 2 - General Fund Summary Revenue Account 2010/11</b>			
	<b>Original £000</b>	<b>Revised £000</b>	<b>Actual £000</b>
Net expenditure on services (see Table 1)	12,381	13,440	13,410
Transfers to specific reserves	314	314	314
Transfer from the HRA (paragraph 3.11)	-	(3,000)	(3,000)
Government grants (non-service specific)	(74)	(39)	(39)
Investment income (paragraph 3.12)	(360)	(360)	(413)
Net General Fund Expenditure	12,261	10,355	10,272
<b>Use of Working Balance</b>	<b>(2,065)</b>	<b>(159)</b>	<b>(76)</b>
Budget requirement	10,196	10,196	10,196

- 3.8 Therefore, the result for 2010/11 is a draw on the General Fund working balance of £76,000.
- 3.9 The result is encouraging because the redundancy and termination costs necessary to deliver long-term savings have been charged in full to 2010/11. This was not envisaged at the revised estimate stage.
- 3.10 The main reasons for the better than expected result are the savings identified in Appendix C. Some of the savings are a result of temporary delays in projects, deferment of provisions, and grant and other income to be used on projects in 2011/12. These budgets total £291,940 and have been carried over as planned underspends (see Appendix D) and this will increase expenditure in 2011/12 accordingly.

#### Transfers

- 3.11 In October 2010, the Council approved a transfer from the HRA to the General Fund of £2 million. The Financial Forecast approved by the Corporate Management Committee in January 2011 identified the need to make a further transfer of £1 million, making a total of £3 million. Without the transfer, the result

would have been a call on working balances of £3.1 million and this would have left General Fund balances at a dangerously low level.

#### Investment Income

- 3.12 Investment income of £413,027 was greater than the revised estimate of £360,000. A full report on treasury performance in 2010/11 is made to this Committee elsewhere in this Agenda.
- 3.13 The following paragraphs highlight particular areas to draw to Members attention:

#### Income budgets

- 3.14 The impact of the economic recession on income budgets can be significant, especially those that are directly related to the property market. Table 3 sets out our main income budgets and compares these to the results:

<b>Service and budget</b>	<b>Original £000</b>	<b>Revised £000</b>	<b>Actual £000</b>
Day Centres: Meals, including meals-on-wheels	312	296	296
Egham Leisure Centre: Gross income	976	954	987
Addlestone Leisure Centre: Gross income	330	280	296
Public Halls	215	199	185
Cemeteries	155	156	157
Recycling: Recycling credits and sale of materials	388	366	374
Green Waste Collection: Recycling credits and subscriptions from customers	282	270	289
Trade Waste Collection: Gross income	512	488	472
Licensing: Alcohol and related licences	57	62	71
Taxi Licensing	97	89	95
Planning application fees	403	350	360
Building Control: Application & inspection fees	329	328	309
Car Parks: Total income	594	609	634
Yellow Buses: School contributions	123	136	150
Yellow Buses: Sponsorship and donations	50	50	54
Council Tax Collection: Costs recovered	117	118	125
Local Land Charges: Search fees and other income	268	216	244
<b>Total: Selected income budgets</b>	<b>5,208</b>	<b>4,967</b>	<b>5,098</b>

- 3.15 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 change 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.

- 3.16 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 delaying filling staff vacancies, deferring discretionary service enhancements, and making compensatory savings elsewhere must be positively applied.

Inflation

- 3.17 The inflation rates for 2010/11 is 5.3% as measured by the Retail Prices Index and 4% as measured by the Consumer Price Index is 4.0%. Core inflation is measured at 3.0%. The Budget was set assuming a local pay award of 0%, general expenses at 0% and contracted services at 1%. Although the local pay award is in the control of the Council (and was set at 0%), other price changes are not. Budget managers are expected to keep within their cash budgets wherever possible. However, in some cases (e.g. contractual payments, fuel price increases) this is not possible.
- 3.18 Inflation remains a high risk area for the Council and has a cumulative impact, increasing budgetary pressures as years go by. The recent Inflation Report (May) published by the Bank of England revised their inflation forecast for CPI and indicated a peak of 5% this year before falling back to target (2%) in mid-2013. Managing inflation remains a great challenge, especially so given the budgetary constraints on the Council.

**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 2010/11 disclose an in-year surplus of £1,544m. This represents an in year betterment of £1.0m when compared to the revised budget where a surplus of £543,700 was forecast. The summary page for the Housing Revenue Account is produced at Appendix 'E'.
- 4.3 Table 4 identifies the significant variances between the revised budget and the actual:

<b>Table 4 – Summary of HRA variations in 2010/11: Revised estimate to actual</b>	
<b>Housing service area</b>	<b>Variance £000</b>
General Management: This is a mix of savings in operating and support costs, including £14,000 on employee expenses, £15,000 on office & IT expenses, £11,000 on insurance, and £59,000 on support services, offset by an increase of £40,000 in the costs of removal and disturbance expenses related to the re-use of the Parkside flats.	75

Special Services and Supporting People budgets: Savings on premises, forecourt maintenance, equipment and services, and general running costs.	102
Supporting People: Repayment of subsidy over provided in previous years (£73,000), partially compensated by savings in the furniture & equipment budget of £15,000 and other variances.	(49)
Housing Repairs: This considerable under-spend was due largely to slippage in the Major Works & Kitchen/bathroom programmes (£565,000 taken forward to 2011/12). There were savings of £82,000 in respect of the demand and void budgets, and reductions in administration costs of £45,000, coupled with other smaller variances.	795
Rental Income: Additional rental income as a result of efficient rent collection and lower than anticipated sales of dwellings, partially offset by marginally higher void levels (empty property).	56
Other items (net savings)	21
<b>Total HRA betterment – revised budget to actual for 2010/11</b>	<b>1,000</b>

- 4.4 The HRA working balance at 31 March 2011 is £1.588m.
- 4.5 As Table 4 indicates, this betterment is the result of a number of factors, a mixture of operational savings and improved rental income. The largest proportion of the betterment is however in respect of housing repairs, with 70% of the total attributable to slippage in the major works programmes. These programmes, particularly the kitchen programme, are tailored specifically to the needs of the individual residents and take a significant amount of consultation with tenants to establish. Officers also involve tenants in the selection process of contractors, and whilst this results in a better selection process, it does slow the procurement process down. The slippage of £565,000 has been carried forward into 2011/12.
- 4.6 Regulations require that the Major Repairs Allowance element of HRA Subsidy is used only on replacement and improvement works that count as capital expenditure. Normally, this Allowance is fully used in the year. However, in 2010/11, the sum of eligible capital works fell £177,000 short of the Allowance. The regulations require this balance to be held in a Major Repairs Reserve for use in future years.
- 4.7 The first call on the brought forward balance of the Major Repairs Reserve and the increased level of HRA balances in 2011/12 will be the major works and kitchen programmes planned under-spends of £565,000 (Appendix D) carried over from 2010/11.

## **5. Capital Expenditure and Financing**

- 5.1 A schedule of General Fund and Housing capital expenditure in 2010/11 that shows the source of financing is reproduced at Appendix 'F'. The total expenditure on capital items in 2010/11 was £3.608m. This compares to the revised estimate of £6.388m
- 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 2010/11, no grants were made as funding was instead attracted from the Homes and Communities agency for schemes and the revised budget of £700,000 (original budget £1.4 million) was unused.

- Expenditure on major repair and improvement programmes for the council housing stock was £593,000 less than estimated. Section 4 of this report provides further information about this variation.
- Vehicles purchases of £250,000 for community services vehicles and £711,000 for refuse and other works vehicles did not take place in 2011/12. These budgets will move to 2011/12.
- 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 2011/12.

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

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

5.4 The capital programme for 2010/11 assumed that certain works would be financed from specific revenue reserves. These are set out below:

<b>Name of reserve</b>	<b>£</b>
Safer Runnymede Equipment reserve	28,738
IT Renewals reserve	64,206
Leisure Centre Equipment Reserve	113,139
<b>Total</b>	<b>206,083</b>

5.5 Financing these works from capital receipts will preserve the level of revenue reserves. To maintain the discipline that these specific reserves employ, a sum equal to the amount that they would have financed is transferred to the General Fund working balance (see Table 8).

## **6. Capital Income – Capital Receipts**

6.1 The table below summarises capital receipts in 2010/11:

	<b>Actual</b>
	£000
<u>Housing assets (net of costs)</u>	
Sale of council houses	333
DIYSO - Gross income from sales and stair-casing	257
Sale of 28 Runnymede Road	398
Other housing sales and receipts	52
<b>Total - Housing capital receipts</b>	<b>1,040</b>
General Fund sales and receipts	57
<b>Total income from capital receipts in 2010/11</b>	<b>1,097</b>

- 6.2 The timing and amount of capital receipts is subject to demand led factors (sale of council houses, DIYSO receipts) and the state of the local property market. Members will recognise that it is not always possible to achieve sales on favourable terms that are exactly in line in projections.
- 6.3 Capital receipts are a key source of funding for the Council's capital expenditure plans. Table 7 shows the use of capital receipts in 2010/11, including the change in financing certain items from capital receipts instead of the specific revenue reserves:

<b>Table 7 – Use of capital receipts in 2010/11</b>	
	£000
Balance at 1 April 2010	5,512
Receipts in 2010/11 – see Table 6	1,097
Payment of housing receipts to the government (paragraph 6.4)	(252)
Used to finance capital expenditure in 2010/11:	
Housing and General Fund capital programme	(756)
Equipment renewals – see Table 5	(206)
<b>Usable capital receipts at 31 March 2011</b>	<b>5,395</b>

- 6.4 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. 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 and regeneration schemes. Clearly, it is beneficial to retain these receipts locally wherever possible.
- 6.5 The balance on the usable capital receipts reserve at 31 March 2011 is £5.395m. However, there are significant spending commitments and provisions in our housing and general fund capital programmes.
- 6.6 In particular, there are significant demands for housing capital projects, and it may not be possible to defer these indefinitely. There is a higher likelihood of a need to use the provision in the housing improvement programme for grants to registered social landlords for new affordable housing schemes because of the reduced grant available from the Homes and Communities Agency. Also, there are demands for funding local schemes such as the improvements to Beomonds, the increasing number of disabled facility grant cases, and providing temporary forms of accommodation. It must also be recognised that the provisions in the capital programme for new affordable housing represent sums that the Council chose to retain rather than pass over to the government pool (paragraph 6.4), and it will not be viable to forever postpone such expenditure.

## **7. Development related contributions and grants**

- 7.1 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 those as deposits that can be used to pay for the agreed project or service when the relevant expenditure is incurred. Appendix "G" presents a schedule of S106 financial contributions and other grants and receipts held and/or used in

2010/11. 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.

- 7.2 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. The reduction in development during the recession makes this form of income is particularly vulnerable. In 2010/11, section 106 contributions of only £56,585 were available for this service and this was £76,000 short of the amount required to balance this budget. Accordingly, the net cost of the Yellow Bus service was £76,000. It has long been recognised that relying on S106 income 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.
- 7.3 Significant sums had been received in 2007 and 2008 in respect of SANGS contributions, and £104,670 of accumulated receipts was available at the start of the year. However, only £35,280 was received in 2010/11. During 2010/11, £63,000 of SANGS contributions were used on projects and expenses (listed at the foot of Appendix G). Although it is helpful to be able to use SANGS money to cover unexpected costs, the contributions can only be used once. A sum of £77,000 of SANGS money remains in hand at 31 March 2011. The 2011/12 budget is based on the use of £45,400 of SANGS moneys and there are other commitments for works at leisure sites. Using the contributions for on-going running costs is not sustainable and it is increasingly important to ensure that their use for works and expenses does not place new or on-going financial commitments on the Council.

## **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).
- 8.2 It is particularly important that an adequate minimum level of reserves (set by the Council at £1.5 million) 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 2011.
- 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 level of unallocated General Fund reserves that it needs to hold. This is reviewed each year when the Council considers its medium term forecast.
- 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. Expenditure financed from this reserve in 2010/11 was £64,000. The balance in this reserve at 31 March 2011 is £464,000.
- 8.7 The **Safer Runnymede Equipment Reserve** was established in 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.

Expenditure financed from this reserve in 2010/11 was £29,000. The balance in this reserve at 31 March 2011 is £300,000.

- 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. A capital budget of £42,000 was approved in March for replacement equipment in 2011/12.
- 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. Expenditure financed from this reserve was £113,000 in 2010/11. The combined balance in these reserves at 31 March 2011 is £333,000.
- 8.10 Table 8 shows the movements in revenue reserves in 2010/11 based on acceptance of the proposals set out in this report:

<b>Reserve</b>	<b>Balance 31 March 2010</b>	<b>In-year Deficit (App. A)</b>	<b>Capital spend (Table 6)</b>	<b>Transfers</b>	<b>Balance 31 March 2011</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Working Balance	<b>3,928</b>	(76)	206	0	<b>4,058</b>
IT Renewals Reserve	<b>443</b>	0	(64)	85	<b>464</b>
Safer Runnymede Reserve	<b>200</b>	0	(29)	129	<b>300</b>
Car Park Machines Replacement	<b>92</b>	0	0	0	<b>92</b>
Egham Leisure Centre Equipment	<b>151</b>	0	(113)	40	<b>78</b>
Egham Leisure Centre Pitches	<b>90</b>	0	0	30	<b>120</b>
Addlestone Leisure Centre	<b>105</b>	0	0	30	<b>135</b>
Museum Purchases Fund	<b>33</b>	2	0	0	<b>35</b>
Maintenance of Graves	<b>2</b>	0	0	0	<b>2</b>
<b>Total</b>	<b>5,044</b>	<b>(78)</b>	<b>0</b>	<b>314</b>	<b>5,284</b>

- 8.11 At 31 March 2011, the Council has total revenue General Fund balances of £5.284m. The statement on forecast reserves and balances presented with the Budget for 2011/12 estimated that total General Fund revenue balances would be £5.285m at 31 March 2011. However, the results for 2010/11 include paying the lump sum termination and pension costs of the redundancies and flexible retirements that took place on 31 March 2011 (it was envisaged that these would be spread over 2011/12 to 2013/14). Without this charge, the working balances would have been £892,000 higher. The main reasons for the improvement are the savings set out in Appendix C.
- 8.12 At 31 March 2011, the working balance and contingency is £4,058m. The approved General Fund budget for 2011/12 estimated that £2.104m of these balances would be used to support service spending. Budgets brought forward from 2010/11 (Appendix D) will consume £291,940 of these balances. However, the on-going savings arising from the redundancies and flexible retirements will now be enjoyed from 2011/12 and this will reduce net General Fund expenditure by £444,000. Using these figures, the estimated General Fund working balance at 31 March 2012 will be £2.107m.

## **9. Conclusion**

- 9.1 The bad news for the 2010/11 financial year was substantially built into the revised estimate. These were reported to the Council in the Budget report for 2011/12.
- 9.2 The position since the revised estimate is more encouraging. This report identifies a financial result that requires a lower withdrawal from reserves compared to the projections made at the time the revised estimates were set. This was despite recognising the full cost of redundancy and termination costs in 2010/11. The result means that £76,000 of the General Fund working balance was used. Total revenue reserves – including earmarked reserves – at 31 March 2011 now stands at £5.284m.
- 9.3 However, it is only the transfer of £3m from HRA working balances that has allowed the Council to maintain General Fund reserves at an acceptable level.
- 9.4 The steps taken in 2010/11 to develop on-going savings (Leisure Trust, review of senior management resources, refuse & recycling review) will enable significant savings to be enjoyed from 2011/12 onwards.
- 9.5 There are still further significant savings to be delivered in 2011/12 and future years. Officers will be preparing a fresh medium term Financial Forecast over the summer months. This will identify the risks and demands facing the Council and update progress on the net revenue reductions exercise. It is possible that there will be a need to identify and generate further sustainable savings in the medium-term. Identifying, at as early a stage as possible, where savings will be targeted will enable the cost of changes and the negative impact on our residents and users of services to be minimised. In particular, Officer will work to avoid a scenario where revenue reserves 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.

**OFFICERS' RECOMMENDATION that -**

- i) the methods of financing capital expenditure in 2010/11 be as set out in Appendix G to this report;**

**(TO RECOMMEND)**

Background Papers