

**THE REPORT OF THE DIRECTOR OF FINANCE  
SERVICE COMMITTEE ACTUALS 2007/08  
Corporate Management Committee 29 May 2008**

**1. Purpose of Report**

- 1.1 To report on actual income and expenditure for the 2007/08 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 2007/08;**
- 1.3 To report on the level of General Fund working balances and other reserves.**

**2. Background Information**

- 2.1 The Budget for 2007/08 was set at the Special Council Meeting held on 15 February 2007.
- 2.2 All Committees considered revised budgets for 2007/08 in January 2008 as part of the budget setting process for 2008/09. The revised budgets used in this report also incorporate supplementary estimates and budget virements approved since January 2008.
- 2.3 The Statement of Accounts for the year 2007/08 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 June.
- 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 in 2007/08 of 3.8% was significantly greater than the assumption made for general price increases of 2.5%. The government's favoured measure of inflation – the Consumer Price Index was 2.5% in March 2008. The local pay award in July 2007 of 2.8% was greater than the assumption of 2.5% used in preparing the 2007/08 Budget.
- 2.7 It has been acknowledged that, historically, local levels of cost inflation are much greater than the national average as a result of cost pressures in this part of south-east England. National inflationary increases are now also significant. Together these factors create upward pressure on the cost of services. 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). However, the more the rate of inflation is over budgetary assumptions, the more difficult this is to achieve. The current relatively high levels of inflation means that managing inflation has become an extra challenge, especially so given the budgetary constraints on the Council. The next review of the Financial Forecast will measure the impact of inflationary pressures on medium-term spending and the associated budgetary implications.

**3 Five-Year Strategic Maintenance Plan**

- 3.1 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.
- 3.2 The programme was constructed following a detailed survey. It includes a substantial element to improve buildings to comply with legislation, particularly the Disability Discrimination Act 1995. The planned cost of the five-year programme was £3.2m and included both demand maintenance work, and planned maintenance and improvement works. Demand 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.
- 3.3 All works falling under the Strategic Maintenance Plan are scheduled in order of priority over a five-year period. This means that there will often be large year on year variances in the bottom line of some services because of the incidence of planned and cyclical works on individual budgets.
- 3.4 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 is illustrated by the significant variances in maintenance budgets between original estimate, revised estimate and actual expenditure on many service areas.
- 3.5 The reason for the lack of good budgetary information is partly because of the legacy left by the previous three contractors on terminating the contract, and partly due to the difficulty in obtaining both reliable valuations and usable management information from the present manual records.
- 3.6 These difficulties have made it necessary for accountancy and building services staff to again make a number of estimates and assumptions about the value of work completed in order to provide figures for the 2007/08 accounts. There are significant 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.
- 4 **Customer services (front of house)**
- 4.1 The costing arrangements for the new service arrangements for reception and front of house have been included in the actuals. We try to avoid changing support service costing methods and allocations in-year in order to aid comparison between estimate and actual. However, the new Customer Services arrangements represent a significant change. Therefore, we have closed our accounts using costing and allocation methods that reflect the new arrangements to give a broadly fair allocation of costs to relevant services. The main changes are:
- Receptionists: These were previously costed to the civic offices budget. They are now included in the new 'customer services' budget.
  - Transferred and additional staff resources are recognised in new 'customer services' budget too.
  - Allocation of costs to services: These are based on estimated usage i.e. the numbers of telephone and personal callers routed through front of house services. These allocations will become more accurate as data of actual usage becomes available.
- 4.2 The budget for front of house services is included with the other control and establishment budgets held by the Corporate Management Committee. The individual allocations to services are identified in service estimates. The cost of the previous reception arrangements was included in the budget for the civic offices (Economic Development Committee).

**5. General Fund Revenue Account - Actual for 2007/08**

5.1 Actual net General Fund expenditure on services was less than the revised projection (including supplementary estimates) for the year. The General Fund Summary Revenue Account reproduced in Appendix 'A' gives high-level detail on the service spending for the year. Table 1 shows that the net betterment compared to the revised estimate on expenditure on services, after allowing for capital charges, results in variation (net under-spending) of £528,000:

<b>Table 1 – Summary of spending on services in 2007/08</b>			
	<b>Revised £000</b>	<b>Actual £000</b>	<b>Variation £000</b>
Net expenditure on services	15,223	14,418	(805)
Reversal of capital charges	(3,552)	(3,275)	277
<b>Net</b>	<b>11,671</b>	<b>11,143</b>	<b>(528)</b>

5.2 A booklet giving service figures for 2007/08 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.

5.3 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 2007/08 total £662,200. Part of this saving represents the planned under-spends of £355,100 (Appendix B) and these budgets will be taken into 2008/09. The major variations are summarised in Table 2.

<b>Table 2 - Major savings on service spending between the Revised Budget and Actual for 2007/08</b>		
<b>Service area</b>	<b>Saving £</b>	<b>Commentary</b>
Benefits administration	62,500	Unspent part of grants received for implementation of Local Housing Allowance and other changes in the Benefits system (budgets carried forward to 2008/09).
Public Halls	25,600	Savings in staffing and running costs.
Parks and Open Spaces	29,600	Mainly saving in grounds maintenance (£17,000), with various minor savings.
Cemeteries and closed churchyards	40,400	Saving in grounds maintenance (£16,000) and other running costs, and increased income of £19,000.
Environmental health services	53,500	Savings on salary and other costs and fees. Carry forward of provisions to 2008/09 of £19,000.
Refuse collection and recycling	47,500	Savings in staff and vehicle costs, partly offset by lower income.
Street cleansing	26,300	Savings in staffing and other operating costs.
Planning policy and development control	75,000	Saving in staffing and other costs (e.g. back-scanning records). Total of budgets carried forward to 2008/09 is £37,600.

Highways environmental maintenance and other highway works	29,500	Savings in staff costs.
Land Drainage	101,800	Savings in the works budget (£82,000 carry forward to 2008/09) and other expenses and staff costs.
Energy Management	31,700	Grants received in 2007/08 for energy management initiatives (budgets carried forward to 2008/09)
Civic Offices	68,800	Savings in rates (£34,300), services and other running costs of which budgets of £29,200 carried forward to 2008/09.
Corporate Management and democratic representation	25,700	Unspent provisions for compliance and review (budget carried forward to 2008/09) and member IT facilities.
Grant Aid	44,300	Savings in grant provisions and associated administrative support, of which £13,400 was an internal transfer for the Egham Museum at the Literary Institute (now part of the Strodes College agreement).
<b>Total major variations</b>	<b>662,200</b>	

- 5.4 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.
- 5.5 There were a small number of budgets that were overspent or with a shortfall of income. In the main these were offset by savings elsewhere.
- 5.6 Net running costs at the Egham Leisure Centre were £42,500 greater than the revised estimate. Income was £56,500 lower than expected, with this shortfall being partially offset by lower running costs. At Addlestone Leisure Centre there was a trading deficit of £19,500, again with an income shortfall being offset by reduced running costs. 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.
- 5.7 Government subsidy from the "incentive areas" part of the benefits system produces a surplus for the Council. The rules about the incentive areas offer an opportunity to generate additional subsidy. 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" arrangements award differing levels of subsidy depending on the cause of the incorrect benefit calculation. The incentive is that councils may keep this subsidy, even if the overpaid benefit is fully repaid by the claimant. The calculation of the incentive subsidy for 2006/07 proved very problematic and the final audited figure was £76,700 less than expected. The revised budget for 2007/08 was based on this being substantially recovered but, regretfully, this was not possible. Performance in the incentive areas remains good and the forecast surplus for 2008/09 should be achieved.
- 5.8 Investment income of £1,334,325 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 2007/08 is made to this Committee in this Agenda.
- 5.9 In April, the DCLG announced a further distribution of Local Authority Business Growth Incentives Grant (LABGI). The revised budget allowed for a grant of £162,522 in respect of 2006/07 (year 2 of the scheme) as a result of the LABGI methodology being changed to

recognise rating increases on existing properties. The latest announcement further revises the method of distribution to include all categories of assessment that record a potential increase in rateable value. This includes cases where there has been a change in address and a revaluation, properties that have ceased to be exempt from business rates and properties that have been previously domestic but are moving onto the rating list. This change gives us another £181,391 for year 2, plus a new entitlement of £216,879 for year 3 (2007/08). Therefore, the total LABGI recognised for the first time in our accounts in 2007/08 is £560,792 (£399,000 more than the revised budget).

- 5.10 The net General Fund expenditure is £962,000 less than the revised estimate. Table 3 summarises the major reasons for the variations:

<b>Table 3 - Summary of General Fund variations in 2007/08: Revised estimate to actual</b>	
	<b>£000</b>
Major service budget under-spends (paragraph 5.3)	662
Egham and Addlestone Leisure Centres (paragraph 5.6)	(62)
Benefits subsidy over estimated for 2006/07 (paragraph 5.7)	(74)
Other variances (net)	2
Sub total: Net spending on services (as Table 1)	528
Investment Income (paragraph 5.8)	35
Local Authority Business Growth Incentives Grant (paragraph 5.9)	399
<b>Total betterment: Revised estimate to actual</b>	<b>962</b>

- 5.11 The other variances in Table 3 above are an amalgamation of smaller savings and cost increases generated by the remaining services not specifically mentioned in Table 2.

- 5.12 The savings can be analysed into the following categories:

1. Planned under-spends (Appendix B): These are not savings, but deferrals of expenditure to 2008/09. Planned under-spends are a useful tool in allowing managers to use public money wisely without the constraint of meeting in year budgetary “targets”.
2. Unused provisions: These include policy led provisions (e.g. grant aid budget), and established provisions for demand led items (e.g. homelessness). Establishing reasonable provisions in the budget is normal budgetary practice and their non-use represents a state of fact rather than a quality led judgement on policy or management.
3. Increased income: A great deal of the Council’s income derives from demand led services (e.g. planning applications, car parks) where relatively small fluctuations in usage can change the sum of income generated. Other income increases are one-off items generated from policy or management actions (e.g. cost recoveries), or simply fortuitous (e.g. Local Authority Business Growth Incentives Grant).
4. Savings in other running costs: The culture of the Council has been to encourage Budget Managers to minimise costs where consistent with the delivery of good services. In pursuit of this objective, the previous Leader of the Council wrote to all staff (on 16<sup>th</sup> November 2005) outlining the financial challenges facing the authority, urging co-operation and courting suggestions for efficiency and other measures. An example of such service efficiencies were the further savings achieved from bringing the community transport service in-house. These savings are often modest at individual service level but, as can be seen, combine into a significant sum overall.

- 5.13 The savings in 2007/08 represents a further opportunity to identify budgets that can be reduced having regard to spending profiles over recent years. Some of the savings made in 2007/08 have already been factored into the 2008/09 budgets as part of the net revenue reductions programme. They were not factored into the 2007/08 revised Budget to avoid any

potential disruption to the spending plans for that year and to give time to budget managers to plan for the required savings, whilst minimising the impact on service delivery. The betterment will be reviewed in consultation with Budget Managers to establish if this could form the basis of further budget reductions in 2008/09 and future years.

- 5.14 It should be recognised that some significant income budgets are especially dependent on economic activity in the Borough (e.g. land charges, car parks, planning and building control fees). The base budget for these income items is set at current levels of activity. However, there is a risk that there may be a budgetary shortfall if there is a decrease in local economic activity. There are also other risks that the Council has limited control over (e.g. limitations on developments arising from designation of local Special Protection Areas) that may also impact on the ability to maintain strong income flows. The Council recognised this risk of potential shortfall in income when re-setting the minimum level of reserves to £1.5 million in October 2006.
- 5.15 The net result for the General Fund in 2007/08 is a significantly reduced call on the working balance with merely £207,632 being required. This result is clearly much better than the original estimate that was based on the use of £1.169.4m of working balances. The difference of £962,000 is analysed in Table 3. However, some of the factors that brought about the savings achieved in the year have already been included in the latest Financial Forecast. Others are short-term in nature. Therefore, the need to continue to identify and generate sustainable savings in the medium-term remains a priority.

## 6. Housing Revenue Account (HRA)

- 6.1 The results for the HRA for 2007/08 disclose a surplus of £895,747. This compares to the revised budget where a deficit of £933,100 was forecast. This represents an in year betterment of £1.829m
- 6.2 The HRA working balance at 31 March 2008 is £2.787m. The summary page for the Housing Revenue Account is produced at Appendix 'C'.
- 6.3 Table 4 identifies the significant variances between the revised budget and the actual:

<b>Table 4 – Summary of HRA variations in 2007/08: 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 £21,000 on the provision for removal and disturbance.	52
Special Services and Supporting People budgets: Savings on forecourt maintenance, equipment and services, and tenant based budgets.	91
Heathervale Mobile Home Site: Savings in cost of maintenance (£26,000). The budget for the provision of new mobile homes of £83,800 will be carried forward to 2008/09 to match expenditure on the reconfiguration of the site.	116
Housing Repairs: This includes savings on planned and cyclical maintenance (£110,000) and special works of £450,000 now carried into 2008/09. The reduced spend of the kitchen and bathroom programme (£780,000) will be made good in future years. Other savings make up the net under-spend of £1.392m.	1,392
Rental Income: Additional rental incomes (£83,000) as a result of slightly higher average rent levels and lower than anticipated tenancy voids, and a reduction in the provision for uncollectible rent (£42,000) reflecting good arrears performance.	125
Other items (net)	53

<b>Total HRA betterment – revised budget to actual for 2007/08</b>	<b>1,829</b>
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- 6.4 The first call on the increased level of HRA balances in 2008/09 will be the planned under-spends of £622,300 (Appendix B) carried over from 2007/08.
- 6.5 The HRA balance of £2.787m is significantly greater than expected. The reason for this is principally the delay in the major works and improvements programmes. Otherwise, the financial performance of the HRA is generally consistent with assumptions made in the HRA Business Plan.
- 6.6 It is proposed to undertake a full review and update of the HRA Business Plan, including the financial model that forms the basis of assessing the affordability of the housing stock, in the summer. The review will be reported to the Housing and Community Services Committee in September.

## **7. Capital Expenditure and Financing**

- 7.1 A schedule of General Fund and Housing capital expenditure in 2007/08 that shows the source of financing is reproduced at Appendix 'D'.
- 7.2 Many of the variances shown in the schedules are a result of timing differences (e.g. slippage in implementation or project re-phasing) and these capital budgets have been carried forward into 2008/09.
- 7.3 The largest item in the capital programme is the new civic offices project. The expenditure in the year of £9.5 million was less than the estimate of £11.1 million. This is of course a timing difference, caused in part by the construction and commissioning works falling behind schedule.
- 7.4 The next largest item is the capital repair and improvement works to the housing stock. The total expenditure in 2007/08 of £2.289m includes £570,000 on the new kitchen replacement programme. The other significant projects in the year were the repurchase of properties and other payments required to facilitate the Wapshott estate redevelopment (£820,000), investment in new IT system and equipment (£549,000), grants to registered social landlords for affordable housing schemes (£864,000), and private sector property improvement grants (£263,000).
- 7.5 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.
- 7.6 Capital repair and improvement works on our existing housing stock is first funded from the Major Repairs Reserve. The balance, financed in previous years by the HRA, is now financed from capital receipts. This treatment is part of the accounting entries necessary to ensure that the transfer of revenue reserves from the HRA to the General Fund does not have an adverse impact of the HRA Business Plan.
- 7.7 The capital programme for 2007/08 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	430,381
IT Renewals reserve	468,367
DSO reserves	6,000

<b>Total</b>	<b>904,748</b>
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7.8 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 10).

**8. Capital Income – Capital Receipts**

8.1 The table below summarises capital receipts in 2007/08:

<b>Table 6 - Capital Receipts (net of costs) in 2007/08</b>	
	<b>Actual</b>
	£000
<b>Housing</b>	
Sale of land at Roakes Avenue	9,712
Sale of Council Houses (before pooling)	281
Mortgage & advances - redemptions and repayments	30
DIYSO - Gross income from sales and stair-casing	678
Other housing sales and receipts	168
<b>Total - Housing capital receipts</b>	<b>10,869</b>
<b>General Fund</b>	
Blays Lane	3,509
Other General Fund sales and receipts	5
<b>Total income from capital receipts in 2007/08</b>	<b>14,383</b>

8.2 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.

8.3 In 2007/08 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 in this agenda.

8.4 Large sums of capital receipts are now expected in 2008/09 and 2009/10, including the sale of the old Civic Offices and Pinefields 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.

8.5 Capital receipts are the main source of funding for the Council's capital expenditure plans. Table 7 shows the use of capital receipts in 2007/08, including the change in financing certain items from capital receipts instead of the specific revenue reserves as set out in Table 5.

<b>Table 7 – Use of capital receipts in 2007/08</b>		
	£000	£000
Balance at 1 April 2007		6,266
Receipts in 2007/08 – see Table 6		14,383

Payment of housing receipts to the government (para 8.6)		(150)
Used to finance capital expenditure in 2007/08		
Housing and General Fund capital programme	(11,638)	
Equipment renewals – see Table 5	(905)	(12,543)
<b>Usable capital receipts at 31 March 2008</b>		<b>7,956</b>

- 8.6 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, with this being phased in over 3 years (the “transitional offset” arrangement). 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 the housing capital programme. The total amount payable to the government pool for 2007/08 is £150,000.
- 8.7 The balance on the usable capital receipts reserve at 31 March 2008 is £7.956m. The rate of spend on the new civic offices project is reducing this balance, and there are significant spending commitments, especially on the housing improvement programme and on grants to registered social landlords for new affordable housing schemes. Therefore, it is very important that the sale of the old civic office site is not delayed.

## 9. Contributions and Grants

### Capital Grants and Contributions

- 9.1 Grants or contributions received from third parties form an important part in funding new capital initiatives and the scale of receipts in 2007/08 reflects the success in attracting government and other third party support. The table below lists the grants and contributions so used in 2007/08:

<b>Scheme</b>	<b>£</b>	<b>Details</b>
House Renovation Grants	142,000	Government subsidy towards disabled facilities grants made.
Refuse collection	133,754	Insurance contribution towards replacement of a refuse vehicle (£96,915) and Waste Performance Reward Grant (via the LAA) for a new computer system (£36,839 used out of a total grant of £39,000)
Play areas and open spaces	96,079	Developer contributions via Section 106 agreements and grants through AIR
Safer Runnymede – new control room	59,808	Contributions from crime and disorder partnership and Safer Stronger Communities grant
Benefits service – new module for Northgate computer system	20,000	Government grant for introduction of the Local Housing Allowance.
<b>Total</b>	<b>451,641</b>	

### Revenue Grants and Contributions

- 9.2 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 2007/08 accounts.

<b>Table 9: One-off and short term revenue grants and contributions in 2007/08</b>		
<b>Scheme</b>	<b>£</b>	<b>Details</b>
Home improvement service	67,512	Supporting People funding (£30,970) and contributions from Surrey CC for new service developments (£36,542).
Housing advice (resettlement officer post)	7,665	Contribution from West Surrey Mental Health Service.
Homelessness service	45,812	Use of specific government grant in 2007/08
Housing Benefits administration	94,612	Government grants towards implementation of Local Housing Allowance (£64,151), Employment Support Allowance (£17,332), and information returns (£13,129).
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	10,000	Sponsorship - Proctor and Gamble
Chertsey Museum	84,800	Contribution from the Olive Matthews Trust of £73,500 and £11,300 from other sources.
Register of electors	5,129	Home office funding for checking of personal identifiers.
Safer Runnymede	65,452	Home Office funding (see footnote).
• Safer & Stronger Communities	42,600	Tripartite funding from Surrey CC and Surrey Police
• Crime and Disorder	52,694	Contributions towards the Basic Command Unit (£33,500) and general operation costs (£19,194).
• Surrey Police funding		
Planning Services	365,266	Planning Delivery Grant
Travel Initiative: Yellow Bus Scheme	200,206	Use of Section 106 contributions (£140,706) and sponsorship (£59,500)
Runnymede Business Partnership	15,000	Sponsorship (in kind) from various sources towards this initiative.
<b>Total</b>	<b>1,177,845</b>	

The Home Office contributions for the Safer Runnymede scheme formally comes to the tripartite partnership (Runnymede, Surrey CC, and Surrey Police) for which Runnymede acts as the lead partner.

- 9.3 The use of S106 powers to require developers to make financial contributions and/or asset transfers have been an important feature of financing services in recent years. 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 "E" provides a schedule of S106 financial contributions and other grants and receipts held and/or used in 2007/08. 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.
- 9.4 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.

- 9.5 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.

## **10. General Fund Reserves**

- 10.1 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.
- 10.2 It is particularly important that an adequate minimum level of reserves is maintained based to provide for the risks and uncertainties that might arise during a year.
- 10.3 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.
- 10.4 The following paragraphs set out the purpose of each major reserve, and proposals for setting the balances of each reserve at 31 March 2008.
- 10.5 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.
- 10.6 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. Replacements have been put on hold over the previous two years in preparation for the move to the new civic offices. The significant upgrade programme in conjunction with the new civic offices project commenced in 2007/08 and expenditure financed from this reserve was £468,367. Further expenditure is programmed in 2008/09 and, after allowing for the annual contribution of £85,000, the balance in this reserve at 31 March 2009 is estimated to be close to the medium-term target balance of £250,000 that is appropriate for this reserve.
- 10.7 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 is being re-equipped and expenditure financed from this reserve was £430,381. This work will be completed in 2008/09.
- 10.8 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 2008/09 and contributions to this reserve will then need to be reinstated.

- 10.9 The accrued surpluses generated by the **Direct Service Organisations** (DSOs) are maintained in this reserve. The last remaining trading service was the Street Lighting DSO and this was wound up in 2007/08. The opening balance on this reserve was £137,866. There was a small operating surplus of £7,111 for the remaining few months of the contract. A sum of £6,000 was used to finance the purchase of street cleansing equipment. The balance on this reserve (of £138,977) has been transferred to the General Fund in accordance with the decision of this Committee when it considered the Financial Forecast on 1 November 2007.
- 10.10 Reserves for the replacement of equipment at **Egham and Addlestone Leisure Centres** have recently been established. There were no schemes in 2007/08 requiring finance from these reserves.
- 10.11 Based on acceptance of the proposals set out above, table 10 shows the movements in revenue reserves in 2007/08:

<b>Table 10 - General Fund Revenue Reserves in 2007/08</b>					
<b>Reserve</b>	<b>Balance 31 March 2007</b>	<b>In-year surplus (deficit)</b>	<b>Capital spend (table 5)</b>	<b>Transfers</b>	<b>Balance 31 March 2008</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Working Balance	<b>7,023</b>	(207)	905	0	<b>7,721</b>
IT Renewals Reserve	<b>973</b>	0	(468)	85	<b>590</b>
Direct Service Organisations	<b>137</b>	7	(6)	(138)	<b>0</b>
Safer Runnymede Reserve	<b>379</b>	0	(431)	129	<b>77</b>
Car Park Machines Replacement	<b>92</b>	0	0	0	<b>92</b>
Egham Leisure Centre Equipment	<b>31</b>	0	0	40	<b>71</b>
Egham Leisure Centre Pitches	<b>0</b>	0	0	30	<b>30</b>
Addlestone Leisure Centre	<b>15</b>	0	0	30	<b>45</b>
Museum Purchases Fund	<b>27</b>	2	0	0	<b>29</b>
Maintenance of Graves	<b>2</b>	0	0	0	<b>2</b>
<b>Total</b>	<b>8,679</b>	<b>(198)</b>	<b>0</b>	<b>176</b>	<b>8,657</b>

- 10.12 The statement on forecast reserves and balances presented with the Budget for 2008/09 estimated that total General Fund revenue balances would be £7.686m at 31 March 2008. The increased level of balances is primarily the result of the savings and planned under-spends explained earlier in this report. The additional flexibility that this increase affords the Council is very welcome given the challenges to be faced over the next few years.
- 10.13 The Council currently has what appears to be substantial revenue balances, including £7.721m as a working balance and contingency. However, the approved General Fund budget for 2008/09 alone estimates the use of £1.284m of these balances to support service spending. Furthermore, budgets brought forward from 2007/08 (Appendix B) will consume another £355,100 of these balances.

## **11. Conclusion**

- 11.1 The Council's medium term financial strategy is based on revenue reserves being used to finance service spending whilst net revenue reductions are phased in to bring income and expenditure into balance. The savings identified in this report will be examined to ascertain whether they can form the basis for further revenue reductions towards the overall savings target.

- 11.2 The Council has a 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.
- 11.3 The strategy to meet these challenges will be formally considered later this year when the Council considers the next financial forecast. The strategy will reflect the progress made and further developments necessary to implement the Council's financial and operational strategy over the coming years.

**OFFICERS' RECOMMENDATION that -**

- i) the methods of financing capital expenditure in 2007/08 be as set out in Appendix D 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