

7. FINANCIAL RESULTS 2009/10 (DF)

1. Purpose of Report

- 1.1 **To report on actual income and expenditure for the 2009/10 financial year and compare this to the budget for General Fund services, the Housing Revenue Account, and capital accounts;**
- 1.2 **To approve the method of financing the Council's capital expenditure in 2009/10;**
- 1.3 **To report on the level of General Fund working balances and other reserves.**

2. Background Information

- 2.1 The Budget for 2009/10 was set at the Special Council Meeting held on 12 February 2009.
- 2.2 All Committees considered revised budgets for 2009/10 in January 2010 as part of the budget setting process for 2010/11. The revised budgets used in this report also incorporate supplementary estimates and budget virements approved since January 2010.
- 2.3 The Statement of Accounts for the year 2009/10 will be presented to the June 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. A summary of virements is also given in the service actuals booklet.
- 2.5 The movement in the Retail Prices Index (RPI) in 2009/10 was 4.4%. This was higher than the assumption made in the 2009/10 Budget for general price increases of 3.0%. The movement in the other mainstream measure of inflation – the Consumer Price Index - was 3.4%.
- 2.6 The local pay award in July 2009 of 1% was lower than the assumption of 2% used in preparing the 2009/10 Budget. Members will find that the actual cost of salaries and wages shown in the detailed service estimates is often significantly lower than the estimate. This is because the detailed service budgets were based on a July 2009 pay increase of 3%; the reduction to the assumption of 2% used in the 2009/10 Budget was treated as a global adjustment.
- 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 better use of technology) 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 2009/10

- 3.1 The General Fund Summary Revenue Account is reproduced in Appendix 'D'.

Expenditure on services

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

	Estimate £000	Revised £000	Actual £000
Net expenditure on services	14,416	14,904	14,291
Reversal of capital charges	(2,000)	(1,768)	(1,824)
Revenue contribution to capital expenditure	-	-	26

Charge to HRA for cost of capital (paragraph 3.5)	-	-	(37)
Net expenditure on services	12,416	13,136	12,456

3.3 Therefore, the result for 2009/10 compared to:

- The original estimate: An overspend of £40,000
- The revised estimate: A reduction of £680,000

3.4 A booklet giving service figures for 2009/10 entitled Service Committee Actuals 2009/10 has been sent to all Members of the Council 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 'D' shows the latest position.

3.5 At its meeting in April, the Committee resolved that management accounts should no longer include a charge for notional interest to represent the cost of capital, as from the 2009/10 financial results. However, it remains appropriate that the Housing Revenue Account (HRA) should bear a proportion of the cost of capital tied up in assets; principally, the cost of the Runnymede Civic Centre. This cost was previously accounted for within the recharges for 'Office Accommodation'. Therefore, a charge of £36,931 is made from the General Fund to the HRA accordingly.

3.6 This time last year, Members expressed a wish to review budget variations against both the original and revised budgets. There are some significant favourable and adverse variations at service level, and Appendix 'E' (for the comparison with the original budget) and Appendix 'F' (comparing the result to the revised budget) explain these in more detail. To focus on the **real** changes, the variations exclude those caused by changes in capital charges, the global pay award provision in the estimates, and accounting changes to other recharges.

3.7 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 economic recession on income.

Transfers and financing adjustments

3.8 The 'transfers and financing adjustments' part of the General Fund Summary Revenue Account (Appendix 'D') sets out items that are required either by Council policy, Government direction, or accounting standards, before the use of working balances can be calculated.

3.9 In March, the Committee received a report that set out the need to record income and expenditure on Runnymede Pleasure Ground in a separate Trust. Members resolved that a final decision on a supplementary estimate should be taken after discussions with the Charity Commission on whether the objects of the Trust could be broadened to avoid large surpluses building up. However, the accounts have to recognise that this Trust is separate from the Council. Therefore, the results exclude income and expenditure on this Trust. The need to transfer the accumulated surplus for years prior to 2009/10 is recognised in the General Fund Summary (Appendix 'D').

3.10 The final instalment due in respect of the revenue element of performance reward grant is £4,213 lower than expected. This is because Surrey County Council (who led the Local Public Services Agreement 2005/2008) distributed more funds than originally agreed to the voluntary sector partners in respect of one target. Instead of recovering the overpayment, Surrey decided to reduce the proportion paid to the district councils, but not their share of the grant.

3.11 Investment income of £592,187 exceeds the revised estimate of £560,000, but is significantly less than the £800,000 anticipated in the original estimate. The main reason for the reduction is lower interest rates. A full report on treasury performance in 2009/10 is made to this Committee elsewhere in this Agenda.

Net General Fund Expenditure and Use of Reserves

- 3.12 Table 2 summarises the major reasons for the variations in spending on services, and the variations in transfers and financing items in 2009/10:

Table 2 - Summary of General Fund variations in 2009/10: Result compared to the original and revised estimates		
	Original £000	Revised £000
<u>Service spending</u>		
Favourable service under-spends (Appendix E & F)	1,166	1,057
Adverse service over-spends (Appendix E & F)	(1,075)	(235)
July 2009 pay award at 1% (estimate 2%)	78	-
Capitalisation of building works (para. 3.25)	(113)	(113)
Other net variances (para. 3.13)	(96)	(29)
Sub total: Net variation in spending on services (para. 3.2)	(40)	680
<u>Transfers and financing</u>		
Runnymede Pleasure Ground accumulated surplus (para. 3.9)	(83)	(83)
Performance Reward Grant (para. 3.10)	92	(4)
Local Authority Business Growth Incentives Grant	46	-
Investment Income (para. 3.11)	(208)	32
Total change in Net General Fund Expenditure	(193)	625

- 3.13 The "other net variances" line in Table 2 is an amalgamation of smaller net savings and cost increases generated by the remaining services not specifically mentioned in Appendices 'E' and 'F'.

- 3.14 Table 3 compares the expected use of the working balance with the result:

Table 3 – Use of reserves in 2009/10: Budget compared to result		
	Original £000	Revised £000
Expected use of working balance	2,069	2,887
Net change in General Fund Expenditure – see Table 2	193	(625)
Actual use of reserves in 2009/10	2,262	2,262

- 3.15 Therefore, the result for 2009/10 is a draw on reserves of £2.262m. Furthermore, £278,200 of budgets (planned underspends set out in Appendix 'G') will be carried over to 2010/11.

- 3.16 The following paragraphs highlight particular areas to draw to Members attention:

Housing Benefit Subsidy

- 3.17 Government subsidy pays for 100% of the cost of eligible benefit awarded. In circumstances where benefit is overpaid, the Government award a 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, as well as the Government subsidy, and this is called the "incentive" area of the subsidy system.

- 3.18 In previous years, the Council has been able to take advantage of this incentive and the revised budget included net additional subsidy of £121,500 accordingly. However, it has again proved difficult to extract conclusive figures of subsidy entitlement from the benefits computer system in time for inclusion in this report. Therefore, the results are based on a best estimate of benefit subsidy due, and this gives a net additional subsidy of £109,100. This figure is subject to change as better information is generated, and is also subject to external audit examination.

Strategic Maintenance Plan

- 3.19 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.
- 3.20 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.

- 3.21 However, since 2003, it has been particularly difficult for 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 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.
- 3.22 Table 4 compares the original and revised estimates for 2009/10 with actual expenditure:

	Original budget £	Revised budget £	Actual £
Reactive maintenance	83,000	135,000	154,895
Planned maintenance	229,800	177,800	148,000
Total	312,800	312,800	302,895

- 3.23 Table 4 discloses that, in overall terms, the total expenditure on maintenance of £302,895 is within the budget of £312,800. Appendices 'H' (for reactive) and 'I' (for planned) show maintenance expenditure on each service. Although 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.
- 3.24 A further concern is the change in the balance of expenditure between the reactive and planned parts of the programme. Reactive maintenance now comprises over 50% of total maintenance spend. An objective of the programme was to plan maintenance so as to reduce expensive reactive maintenance and thereby deliver better value for money combined with scope for improvements to buildings. The current spend pattern indicates that there is a risk that planned maintenance is being deferred and/or neglected and this will inevitably lead to higher costs in the future.
- 3.25 A further problem is the reduced scope to finance the cost of planned maintenance work from the capital budget. The revised estimate assumed that £143,100 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 £143,100 from capital resources, only £30,364 can be properly counted as capital expenditure. This means that the difference of £112,736 must be borne by the General Fund.
- Income budgets

- 3.26 The impact of the economic recession on income budgets can be significant, especially those that are directly related to the property market. Table 5 sets the Council's main income budgets and compares these to the results:

Service and budget	Original £	Revised £	Actual £
Day Centres: Meals, including meals-on-wheels	299,400	303,800	301,532
Egham Leisure Centre: Gross income	1,089,800	963,400	1,025,340
Addlestone Leisure Centre: Gross income	336,500	323,000	332,806
Cemeteries	188,800	162,000	184,470
Recycling: Recycling credits and sale of materials	383,700	349,400	337,079
Green Waste Collection: Recycling credits and subscriptions from customers	237,900	235,700	235,961
Refuse Collection: Gross income less the tipping away charge from Surrey CC	412,400	415,600	416,231
Licensing: Alcohol and related licences	63,700	58,000	62,083

Licensing: Taxi and similar licences	96,100	92,500	92,851
Planning application fees	453,000	353,000	341,961
Building Control: Application & inspection fees	361,700	251,700	244,383
Car Parks: Total income	605,300	604,900	614,171
Yellow Buses: School contributions	103,000	103,000	110,567
Yellow Buses: Sponsorship and donations	60,000	54,500	54,500
Council Tax Collection: Costs recovered	101,000	117,500	124,378
Local Land Charges: Search fees and other income	219,800	241,200	244,548
Total: Selected income budgets	5,012,100	4,629,200	4,722,861

- 3.27 In some cases it is straightforward to detect a relationship between the economic recession and income budgets. The budget for the planning application fees service is an obvious example. The impact of the recession is less obvious on other services (e.g. leisure). 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).
- 3.28 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 the 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 the medium-term financial strategy, falls in income have a very unfavourable cumulative impact on the Council's financial position.
- 3.29 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.

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 the housing stock. This is because the 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 2009/10 disclose an in-year surplus of £133,633. This represents an in year betterment of £496,833 when compared to the revised budget, where a deficit of £363,200 was forecast. 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 2010 is £3.222m. The summary page for the Housing Revenue Account is produced at Appendix 'J'.
- 4.4 Table 6 identifies the significant variances between the revised budget and the actual:

Table 6 – Summary of HRA variations in 2009/10: Revised estimate to actual	
Housing service area	Variance £000
General Management: This is a mix of savings in operating and support costs, including £27,000 on the provision for removal and disturbance, £16,000 on insurance, and £64,000 on support services.	98

Special Services and Supporting People budgets: Savings on forecourt maintenance, equipment and services, and general running costs.	92
Housing Repairs: The overall result is close to this large budget. There are relatively small variances on each element of the programme, and these are disclosed in the Actuals Book.	230
Rental Income: Additional rental income as a result of reduced voids (empty property), lower provision for bad debts and lower than anticipated sales of dwellings.	81
Interest on Balances: The lower interest rates offset the higher than anticipated level of HRA balances.	(15)
Other items (net)	11
Total HRA betterment – revised budget to actual for 2009/10	497

4.5 The first call on the increased level of HRA balances in 2010/11 will be the planned under-spends of £15,100 (Appendix 'G') carried over from 2009/10.

5. Capital Expenditure and Financing

5.1 A schedule of General Fund and Housing capital expenditure in 2009/10 that shows the source of financing is reproduced at Appendix 'K'. The total expenditure on capital items in 2009/10 was £4.367m. This compares to the estimate of £6.520m.

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 2009/10, no grants were made and the budget of £1.224m was unused.
- Some schemes have been put on hold pending further policy consideration (e.g. play equipment renewal).
- 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 2010/11.

5.3 The largest item in the capital programme in 2009/10 is the capital repair and improvement works programme for Council housing stock. This programme is led by the HRA Business Plan which provides for the repair and maintenance plan for the stock over a 30-year timescale. Total expenditure in 2009/10 was £2.934m compared to the estimate of £2.999m. This expenditure is financed from within the HRA.

5.4 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 the 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.

5.5 The capital programme for 2009/10 assumed that certain works would be financed from specific revenue reserves. These are set out below:

Name of reserve	£
Safer Runnymede Equipment reserve	92,687

IT Renewals reserve	61,650
Total	154,337

5.6 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 11).

6. Capital Income – Capital Receipts

6.1 The table below summarises capital receipts in 2009/10:

Table 8 - Capital Receipts in 2009/10	
	Actual
	£000
<u>Housing assets (net of costs)</u>	
Sale of Council Houses	278
Mortgage & advances - redemptions and repayments	113
DIYSO - Gross income from sales and stair-casing	288
Sale of Pinefields	1,848
Other housing sales and receipts	28
Total - Housing capital receipts	2,555
<u>General Fund assets</u>	
43 Guildford Street	205
Repayment of other loans and advances	5
Total income from capital receipts in 2009/10	2,765

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. 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 Capital receipts are the main source of funding for the Council's capital expenditure plans. Table 9 shows the use of capital receipts in 2009/10, including the change in financing certain items from capital receipts instead of the specific revenue reserves:

Table 9 – Use of capital receipts in 2009/10		
	£000	£000
Balance at 1 April 2009		6,976
Receipts in 2009/10 – see Table 8		2,765
Payment of housing receipts to the government (para 6.4)		(217)
Lease of Civic Centre to Surrey Police (para. 6.5)		(3,120)
Used to finance capital expenditure in 2009/10:		
Housing and General Fund capital programme	(612)	
Equipment renewals – see Table 5	(154)	(766)
Usable capital receipts at 31 March 2010		5,638

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 Accounting entries to recognise the value of the lease of part of the Runnymede Civic Centre to the Surrey Police Authority were made in the 2008/09 statement of accounts. The value of the lease was assessed as £3.12m. The accounting entries, using this valuation, included recognising a capital receipt in respect of the lease. Since 8 August 2009, the Council has been in a position to exercise the right to call for the transfer of the old police station site to Council ownership. Accordingly, the Council now holds the beneficial interest in the former police station site. The holding of a beneficial interest is sufficient to recognise, in accounting terms, that the Council now holds the old police station site as an asset. In effect, the lease payment due from Surrey Police has been met by way of the

transfer of the land, i.e. a barter transaction. Therefore, the £3.12m previously recognised as a capital receipt is extinguished.

- 6.6 The balance on the usable capital receipts reserve at 31 March 2010 is £5.638m. There are significant spending commitments and provisions in the 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. Aside from a commitment of £500,000 for an open market Homebuy scheme (in partnership with Catalyst Housing Group), 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 provisions in the capital programme for new affordable housing estimate 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.
- 6.7 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 leading to cash savings).

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 2009/10 reflects the success in attracting Government and other third party support. The table below lists the grants and contributions so used in 2009/10:

Table 10 - Capital grants and contributions used in 2009/10		
Scheme	£	Details
House Renovation Grants	270,000	Government subsidy towards disabled facilities grants.
Chertsey Bridge Wharf CCTV scheme	32,640	Section 106 contributions for CCTV coverage at Chertsey Bridge Wharf
Swimming Grants	24,600	Central Government Swimming grant - paid over to neighbouring authorities
Street Cleansing replacement van	18,287	Allocation of capital element of Performance Reward Grant (Total £209,095)
56-56a Station Road, Addlestone	150,800	
Broadway, New Haw Improvement works	40,007	
Safer Runnymede Safer Stronger Communities	22,878	Allocation of Safer Stronger Communities Funding through the LAA
Frank Muir Memorial Field Skate Park	68,500	Play Builder funding (£48,750), Thorpe Ward Residents Association (£19,000), other (£750)
Hythe Park	2,739	Grants from the National Heritage Big Lottery Fund
Playscheme (ROAR) van	5,116	
Payment Card security compliance	5,300	Government grant for introduction of "efficiency statements" on council tax bills.
Total	640,867	

Revenue Grants and Contributions

- 7.2 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. Appendix 'L' lists the significant contributions in the 2009/10 accounts.
- 7.3 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.

- 7.4 A great deal of Officer time can also be spent on generating third party funding. Government funding can involve 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.

Development related contributions

- 7.5 The use of S106 powers to require developers to make financial contributions and/or asset transfers has 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. A schedule of S106 financial contributions and other grants and receipts held and/or used in 2009/10 is presented at Appendix 'M'. 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.
- 7.6 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 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 2009/10, section 106 contributions of only £48,867 were available for this service (all brought forward from 2008/09) and this was £100,528 short of the amount required to balance this budget. Accordingly, the net cost of the Yellow Bus service was £100,528 (budget £nil). Further Section 106 contributions will be required to achieve the target of £171,200 needed to finance the Yellow Bus service in 2010/11. 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) have been sought.
- 7.7 Members still have the option of using the remaining part (£100,000) of the Aviator Park S106 receipt for the Yellow Bus service and this is considered in a report elsewhere on this Agenda.
- 7.8 Significant sums have been received in 2007 and 2008 in respect of SANGS contributions, and £323,080 of accumulated receipts was available at the start of the year. However, this source of income dried up in 2009/10 with only £16,720 being received. During 2009/10, £235,130 of SANGS contributions were used on projects and expenses (listed at the foot of Appendix 'M'). Although it is comforting to be able to use SANGS money to cover unexpected costs, the contributions can only be used once. Using the contributions for on-going running costs is not sustainable. A sum of £104,670 of SANGS money remains in hand at 31 March 2010. The 2010/11 budget is based on the use of £49,700 of SANGS moneys and there are other commitments for works at leisure sites. It is increasingly important to ensure that the use of SANGS 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 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 the 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 2010.
- 8.5 The non-specific General Fund reserves comprise 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. Expenditure financed from this reserve in 2009/10 was £61,650. The balance in this reserve at 31 March 2010 is £444,000.
- 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. Expenditure financed from this reserve was £92,687 in 2009/10. The balance in this reserve at 31 March 2010 is £200,000.
- 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. The capital programme is based on the machines being replaced in the 2011/12 financial year.
- 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 2009/10 requiring finance from these reserves.
- 8.10 Table 11 shows the movements in revenue reserves in 2009/10 based on acceptance of the proposals set out in this report:

Reserve	Balance 31 March 2009	In-year Deficit (App. A)	Capital spend (table 6)	Transfers	Balance 31 March 2010
	£000s	£000s	£000s	£000s	£000s
Working Balance	6,036	(2,262)	154	0	3,928
IT Renewals Reserve	420	0	(61)	85	444
Safer Runnymede Reserve	164	0	(93)	129	200
Car Park Machines Replacement	92	0	0	0	92
Egham Leisure Centre Equipment	111	0	0	40	151
Egham Leisure Centre Pitches	60	0	0	30	90
Addlestone Leisure Centre	75	0	0	30	105
Museum Purchases Fund	31	2	0	0	33
Maintenance of Graves	2	0	0	0	2
Total	6,991	(2,262)	0	314	5,045

- 8.11 The statement on forecast reserves and balances presented with the Budget for 2010/11 estimated that total General Fund revenue balances would be £4.475m at 31 March 2010. The main reason for the improvement is the reduced actual net General Fund expenditure compared to the revised estimate.
- 8.12 The Council currently has what appears to be substantial revenue balances, including £3.928m as a working balance and contingency. However, the approved General Fund budget for 2010/11 alone estimates the use of £2.065m of these balances to support service spending. Furthermore, budgets brought forward from 2009/10 (Appendix 'G') will consume another £278,200 of these balances.

9. Conclusion

- 9.1 This report identifies a financial result that is better than predicted at the time the revised estimates were set. However, the result still means that £2.262m of reserves were used. This was £193,000 more than envisaged at the time the original estimate was set. Total revenue reserves – including earmarked reserves – have reduced from £6.991m to £5.045m.
- 9.2 The relatively comfortable position enjoyed before the recession is now over. The cumulative impact of previous net revenue reduction exercises has removed the flexibility 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.

- 9.3 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 mitigates, as far as possible, the negative impact on residents and users of the Council's services. However, to achieve this difficult and unappealing reduction in services, action must be taken before the reserves run out.
- 9.4 The Council still has the option of using the remaining £100,000 of the S106 receipt from the Aviator Park development to mitigate losses in the Yellow Bus service. This will reduce the revenue deficit and increase reserves accordingly. This is considered in a report elsewhere on this Agenda.
- 9.5 The UK economy appears to be heading slowly out of recession. However, the impact of the recession is likely to remain with the Council for some time. This includes service based factors, such as the speed of recovery in terms of activity in the local property market and the impact on housing services of homelessness.
- 9.6 A further significant risk will be the need to repair national public finances. For Runnymede Borough Council, it seems probable that the main financial impact of this need will be reduced or constrained Government grants combined with low or no Council Tax increases. The financial position of Runnymede – with a low level of Council Tax that it cannot increase significantly – means that it is in an even worse position than other districts.
- 9.7 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.
- 9.8 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.

OFFICERS' RECOMMENDATION that -

the methods of financing capital expenditure in 2009/10 be as set out in Appendix 'K'.

(TO RECOMMEND)

Background Papers

None stated