

3. **APOLOGIES FOR ABSENCE**

4. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and e-mail it to the Legal Representative or Democratic Services Officer by 5.00 p.m. on the day of the meeting. **Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.**

Members are reminded that a non-pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared. Membership of an outside body in their private capacity as a director, trustee, committee member or in another position of influence thereon **should be regarded as a disclosable pecuniary interest, as should an appointment to an outside body by the Council as a trustee.**

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when obtaining remote access to the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must withdraw from the meeting if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

5. **BUDGET MONITORING UPDATE 2020 (ASSISTANT CHIEF EXECUTIVE – PETER MCKENZIE)**

Synopsis of report:

Forecast of the Council's General Fund revenue income and expenditure for 2020/21.

Recommendation:

The use of the earmarked reserve "Investment property income equalisation reserve" be expanded to be used to fund any commercial income loss.

1. Context of Report

1.1 Finance officers are continuously updating the budget monitoring report following discussions with service managers. This is an update on the budget monitoring report for the end of Quarter One ending June 2020. It focuses on any changes to our overall current financial position and how this may impact on the Council's reserves and balances by March 2021. It provides an update on the budget reports previously circulated to Members as Exempt Appendix '9' to the Covid19 Recovery Plan report considered by this Committee in May 2020, and the Budget Monitoring report considered by this Committee in June 2020.

1.2 Appendix 'B' to this report attached contains the Medium Term Financial Strategy 2020/21 to 2023/24 – General Fund Summary. A Movement in Reserves Estimate is at Appendix 'C' to this report attached. Exempt Appendix '1' shows changes in net expenditure on services at 30 June 2020 and has been sent separately to Members of the Council with this report, as it contains exempt information under paragraph 3 of Schedule 12A to Part I of the Local Government Act 1972. These Appendices show the additional spend and lost income is reducing the General Fund working balance by £6.0 million by March 2021. In February 2020 the budget set by Members approved a surplus of £0.5 million – an adverse swing of £6.5 million at the end of June 2020.

2 Commercial Income

- 2.1 Travelodge have applied successfully to the courts for a Company Voluntary Arrangement or CVA which has reduced income permanently. A CVA is a legally binding agreement with the company's creditors to allow a proportion of the debts to be paid back over time, and some to be written off. A CVA typically lasts between 2 and 5 years with the Travelodge CVA costing £320k between April 2020 and December 2021.
- 2.2 Addlestone One has a number of units remaining vacant. It was assumed in setting the budget that these would be let early in the financial year generating around £1 million in rent. Officers are re-working the strategy around commercial lettings. However, with pop up shops, local retailers, start-ups a more realistic estimate will be tenants in place starting September. For that reason, the income expectation has been reduced to £100k this year rising to £400k in 2021/22; a loss of £600k a year.
- 2.3 The Council's budget assumed that commercial assets to the value of £60m would be acquired by March 2020, with a further £100 million spent in the early part of 2020/21. The income yield was intended to fund the Egham Gateway project and preserve the General Fund working balance.
- 2.4 As at 1 April 2020 around £125m of the fund remains unspent. In preparing the 2020/21 and Medium-Term Financial Plans the assumption was that the £125 million would generate a yield of 5% gross and 3% set aside to pay interest and debt repayment costs. This would leave an income stream of £125m @ £2% in a full year. The Government's consultation paper on the future of Council's use of the PWLB states that it will close access to the Public Works Loan Board (PWLB) to any Council who borrows for commercial purposes. Should this be enacted, the income stream of £2.4m in a full year, and £1.1 m in this financial year will not be generated putting serious pressure on the General Fund over the lifetime of the MTFs approved in February.
- 2.5 The table below shows the arrears in commercial rent figures for the first 6 months of this year – the quarters are normally paid in advance however some tenants are paying monthly and some are not paying at all. Arrears now stand at £2.3 million against a full year projected income of £23.8m. Arrears have increased significantly between the two quarters as has the sums likely to be written off through CVAs etc.

Commercial tenants income 2020/21				
	Quarter commencing March 2020	Quarter commencing June 2020	Half year total	Reduction Q2 to q2
	£	£	£	£
Invoiced	6,569,700	6,569,700	13,139,400	
Paid	5,440,100	4,715,700	10,155,800	(724,400)
Outstanding	779,800	1,504,200	2,284,000	
Potential Write off	349,800	349,800	699,600	
	6,569,700	6,569,700	13,139,400	

- 2.6 The Council has set up an earmarked reserve called the Investment property income equalisation reserve. When a lease is re-gearred for a longer period at a higher rent it has been common practice for tenants to seek a rent-free period to cover any modernisation costs. The specific purpose of this reserve was to cover any rent-free period rent loss – particularly in 2027 when approximately £7.0m was anticipated to be needed. In the current circumstances Members are requested to

consider using that reserve to cover any permanent rent loss in this financial year to afford some protection to the General Fund working balance.

3. Taxation and Council Tax support

3.1 In the labour market it is estimated 8.7 m people are furloughed and classed as economically inactive. It is uncertain how the long-term effects on unemployment rates will work through the economy. However, the Bank of England expects unemployment to double by the end of June to 9% which is backed up by recent employer surveys indicating that a third of employers are contemplating redundancies this year. The table below shows that the Council Tax Support caseload for working age has stabilised at a 7% increase.

Council tax support caseload				
	Pension age	Working age	Total	Annual spend £'000
Mar-20	1,565	1,565	3,130	3,777
Apr-20	1,543	1,624	3,167	3,921
May-20	1,545	1,703	3,248	3,954
Jun-20	1,539	1,682	3,221	3,982
Increase number	(26)	117	91	205
%	-2%	7%	3%	5%

3.2 The latter figure may increase if the payments from Government are reduced from 80% to 70% in September 2020 and reduced to 60% in October. The scheme closed to all new entrants from 10 June. The organisation for Economic Co-operation and Development estimates 75% of the UK's GDP is made up of industries in the financial services, hospitality and tourism sectors. A second peak in Covid-19 would affect them greatly.

3.3 Any increase in unemployment and / or furloughing of employees will affect the sums we need to pay in Council Tax support, the amount we actually collect in Council Tax and may have a potential knock on effect to the business rates base and income from all sources – car parking, planning as well as commercial rents.

3.4 The Council's income targets for Council Tax and Business Rates do not assume a 100% collection rate; we do however assume a certain level of arrears and maintain a provision for bad debts. As officers have three months of data to work with it is difficult to estimate if these provisions will be able to contain any difficulties in non-collection which will further deplete the General Fund working balances. At this stage in the UK recovery officers have NOT increased any of the provisions for bad debts. Clearly this is intuitively unrealistic but there is no real data available to provide reliable estimates.

3.5 Cash collection rates for business rates are holding firm, most of the larger ratepayers in the borough have stayed open – supermarkets, government departments etc. Cash collection is just under 3% of what the Council would normally collect.

3.6 Regarding Council tax collection rates, the sum due after applying council tax support is holding up well. Compared to the previous year we are less than 1% below target.

4. Capital Plans

- 4.1 Capital receipts are likely to be zero by March 2021 as it is unlikely any receipts from, mainly, Addlestone One residential property sale will match the £9 million planned. It is very likely the Council will need to reduce the size of its capital programme by October 2020 beyond the several schemes already deferred due to resource and/or procurement issues. For the same reason it is likely the repairs and renewals fund will be fully committed in this financial year.
- 4.2 The Chancellor's removal of "stamp duty" may improve the sales position and officers are re-examining a "key worker" strategy and comparing current sale prices in the market. Future reports from the Commercial Services section will seek Member approval to any revised strategy.
- 4.3 The Council had planned to invest a further £100m in commercial developments to fund both its existing regeneration strategy and maintain service delivery. However, Covid-19 and the stance of central government of local authority borrowing has effectively ruled out this strategy.
- 4.4 The budget for this year, and future years, was based on the premise that the remaining £60m from the original asset acquisition budget would be spent, plus £100m new acquisitions from 1 April 2020. The Council has acquired Honeywell House in March 2020. However, around £125m remains unspent and is now unlikely to be used. This is due to the uncertainty around commercial assets valuations, security of tenants, long term yield etc. plus Government is also about to close the door by tightening up borrowing rules that essentially forbid commercial property acquisitions. HM Treasury have announced that if a Council borrows for a commercial purpose then it is likely that access to the PWLB will be closed to them.
- 4.5 Using the budgetary assumption of a gross yield of 5% and borrowing and MRP set aside of around 3% the net benefit to the General Fund in a full year is £125m at 2%. An income stream of £2.4 million (after bad debt provisions) is lost for 2021/22 and all future years. For the avoidance of doubt, that is a £2.4m hit to the General Fund every year going forward. This money was partially planned to fund £1.2m of growth and future regeneration schemes and clearly it is now unlikely any service enhancements can happen, and the Council is now looking at reductions in its base budget by October 2020.

Spend £125 million in 2020/21 on commercial assets	2020/21	Full year
	£	£
Income at a gross yeild of 5%	3,125,000	6,250,000
Less void and repairs provision @2.5% of income	(78,125)	(156,250)
	3,046,875	6,093,750
Expenditure - loan interest and MRP @3%	(1,875,000)	(3,750,000)
	1,171,875	2,343,750

5. Income from fees and charges

- 5.1 The Government has recently announced that it will reimburse local authorities for 75% of any lost income, after the Council funds the first 5% loss. Excluding commercial income, the Council generates £5.7m from car parks, planning fees etc. which will now not all be received
- 5.2 Once the Government scheme to compensate Councils for lost sales fees and charges income is finalised, this will be included in future reports to Members together with projections of income loss as the UK moves further into the recovery period. At the current time it is assumed that the Council will receive £500k through this scheme. However, as always, the devil will be in the detail.

6. Medium Term outlook

- 6.1 In the Budget approved by Council in February 2020 it was accepted that retained business rates income would be reduced for all district Councils as Government priority spending was focused on adult social care. In the week commencing 8 June 2020 a senior civil servant from the Ministry of Housing, Communities and Local Government (MHCLG) confirmed that “negative Revenue Support Grant” was still an option for the Government to consider in the autumn of 2020. For that reason, the financial strategy approved by Council in February 2020 which shows significant reductions in retained business rates, and new Homes Bonus, still is seen as a prudent forecast as recent announcements on Government priority spending appear to be adult social care, children’s services, mental health services and the NHS. There has been no mention of services provided by districts and boroughs.
- 6.2 A £5 a year council tax increase will generate an additional £170,000 which does not cover the Council’s basic inflationary cost pressures. Again, this may force the Council to reduce its base budget spending.
- 6.3 During the last decade, or the “austerity years”, this Council has not reduced service provision. In fact, it has continued to invest in services, something which has been extremely rare in the sector. Covid-19 has changed that position drastically. The remainder of this report provides the detail behind the conclusion that the Council, for the first time in a decade, is now facing considerable reductions in its spending power.
- 6.4 The Council is committed to a spend of over £81m on the Egham Gateway project over the next two financial years. The Council’s finances rely on:
1. Commercial units being let including a cinema as an anchor tenant plus food and beverage units – all at the rent levels assumed in 2019 which is now seen as a commercial risk
 2. Student accommodation being fully let
 3. Affordable homes being sold at the agreed price assumed in the business case
 4. The remaining homes being sold to owner occupiers in line with the financial appraisals

7. Cash Management

- 7.1 At the end of June 2020, the Council had cash investments of around £73m and reducing as the Egham Gateway project progresses and previously deferred payments to central Government are recouped. While the Council can fund service provision in the short term without borrowing for revenue purposes (which is not legal), the use of MRP, HRA cash etc will need to be repaid in the medium term. As the prospects for generating additional income is limited, and with most efficiency savings having been eked out in recent reorganisations, this will rely heavily on savings to balance the Council’s budget through:
- Extending existing shared service arrangements and new shared services with other Councils
 - Further limited efficiency savings
 - Some reductions in service delivery
- 7.2 These are the only options available to provide revenue resources to balance the budget in the medium term. Relying on capital receipts to fund short life asset replacement is not viable in the short or medium term. The basic fact is that all capital spending will shortly need to be funded from revenue income streams.

- 7.3 The Government provides a grant to Surrey County Council and Runnymede to cover the rates lost through various Government schemes including “retail relief”. Using the Government valuation office coding the grant claimed by Runnymede was £6m. Since the scheme has been expanded the loss has grown to £14m, mainly as warehouses have been able to prove they have a retail element to their premises. It has been assumed to date that MHCLG would adjust the grant payment to reflect reality. Over the last six weeks no real progress has been made with the civil service. Government have recently announced that they are considering allowing collection authorities to recover any deficit over 3 years rather than one. This would advantage the County Council and Government with an adverse impact on the Council. The table below shows the likely cash flow forecast on the business rates account.

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash paid out	2,093	2,093	2,093	4,785	4,253	4,253	5,599	5,599	5,599	5,599	5,599	5,599	53,164
Cash received	(5,789)	(3,427)	(5,349)	(4,559)	(3,927)	(3,927)	(3,927)	(3,927)	(3,769)	(3,769)	(3,769)	(3,769)	(49,910)
cash flows	(3,696)	(1,334)	(3,256)	226	326	326	1,672	1,672	1,830	1,830	1,830	1,830	3,255
Cumulative cash flow	(3,696)	(5,030)	(8,286)	(8,060)	(7,734)	(7,408)	(5,737)	(4,065)	(2,235)	(405)	1,425	3,255	

- 7.4 While the Council expected to retain about £3.7m from the rates it collects this year, if the Government do not adjust the grant figure, we will pay out £3.2m more than we collect.

8. Reserves

- 8.1 Using the best estimates officers can produce of likely income and expenditure projected to March 2021, Appendix ‘B’ and Exempt Appendix ‘1’ show the likely projected outturn position and the major variances. A forward projection of the reserves is shown at Appendix ‘C’ attached.
- 8.2 If Members approve the use of property reserves to fund any permanent income loss, then overall the reserves are depleted and renewing short life assets from capital receipts may not be possible.
- 8.3 Members wished to see the Investment property income equalisation reserve increased to around £7m by 2025/26 as a number of significant leases may be re-geared. Until recently that process has meant some rent free or reduced rents are negotiated. The reserve cannot be used to offset losses now and be used to fund future rent free periods.

9. Conclusion

- 9.1 When the original budget was being drafted, Members were given the option of generating savings or purchasing more property in order to balance the budget and Members chose the latter option. With the purchase of property effectively being ruled out by Central Government, the Council was left with an immediate £1.2 million hole to plug in this year’s budget and £2.3m in 2021/22 and future years.
- 9.2 As the Council is using up most of its reserves that were earmarked for spending on other known commitments, there is a need to replenish these in future years in time for when they are needed. As well as the measures being implemented by the Chief Executive as set out in the June report to the Committee, Members are likely to have to make several unpalatable decisions over the next 18 months to address this situation.

(To resolve)

Background papers

Budget monitoring files – held in Finance

Medium Term Financial Strategy 2020/21 to 2023/24 - General Fund Summary

	Estimate 2020/21 £'000	Probable 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Base Budget 2020/21 agreed by Council Feb 2019	(5,822)	(5,822)	(5,822)	(5,822)	(5,822)
Budget Adjustments		8,917	4,510	1,933	791
Adjusted base budget A	(5,822)	3,095	(1,312)	(3,889)	(5,031)
Accounting adjustments:					
- Reversal of depreciation charges	(2,640)	(2,640)	(2,640)	(2,640)	(2,640)
- Capital charge to HRA	(43)	(43)	(43)	(43)	(43)
Transfers to/from reserves:					
- Business Rates Equalisation reserve	0	1,000	(3,880)	0	0
- Equipment repairs and renewals reserve	1,000	1,200	750	750	750
- Property repairs and renewals reserve	750	750	0	0	0
- Investment Property income equalisation reserve	750	750	0	0	0
Treasury and Financing					
- Investment Income	(371)	(78)	(70)	(74)	(172)
- Interest on loans to RBC companies	(1,571)	(1,532)	(1,820)	(2,374)	(2,374)
- Dividend income	(2)	(2)	(2)	(2)	(2)
- Capital Financing	14,466	12,233	13,332	13,334	13,334
- Minimum Revenue Provision (MRP)	4,097	3,820	3,973	4,132	4,297
Government Grants (Non-Service Specific)					
- New Homes Bonus	(1,657)	(1,657)	(780)	(748)	(184)
- Other grants - Covid19	0	(912)	0	0	0
- Other grants - Covid19 (sales, fees & charges)	0	(500)	0	0	0
Budget requirement B	8,957	15,484	7,508	8,446	7,935
Funded by:					
- Revenue support grant	0	0	0	0	0
- Business rates retention scheme	(3,700)	(3,700)	(1,700)	(1,400)	(1,100)
- Share of Council Tax surplus for prior years	0	0	400	0	0
- Share of Business Rates surplus for prior years	0	0	4,000	0	0
Sub total of government funding C	(3,700)	(3,700)	2,700	(1,400)	(1,100)
Net demand (B less C)	5,257	11,784	10,208	7,046	6,835
Tax base - Band D equivalent numbers	34,099	34,099	34,249	34,399	34,549
Band D tax per year	169.59	169.59	174.59	179.59	184.59
Council tax income D	(5,783)	(5,783)	(5,980)	(6,178)	(6,377)
Use of / (contribution to) Working Balance	(526)	6,001	4,228	868	458
General Fund Balance	(6,103)	(6,367)	(2,139)	(1,271)	(813)
Over / (Under) minimum balance level of £2.969m	3,134	3,398	(830)	(1,698)	(2,156)

Movement in Reserves

ESTIMATE Feb 2021

	Balance at 1 April 2019	Movement in 2019/20	Balance at 31 March 2020	Movement in 2020/21	Balance at 31 March 2021	Movement in 2021/22	Balance at 31 March 2022	Movement in 2022/23	Balance at 31 March 2023	Movement in 2023/24	Balance at 31 March 2024
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Working Balance	3,878	1,640	5,518	585	6,103	-1,933	4,170	90	4,260	316	4,576
Business Rates (NNDR) equalisation reserve	2,880		2,880		2,880		2,880		2,880		2,880
Equipment repairs and renewals reserve	1,000	-1,000	0	116	116	274	390	-14	376	280	656
Investment Property income equalisation reserve	2,000	1,750	3,750	750	4,500	500	5,000	500	5,500	500	6,000
Property repairs and renewals reserve	1,000	1,750	2,750	-1,000	1,750	24	1,774		1,774	0	1,774
Total	10,758	4,140	14,898	451	15,349	-1,135	14,214	576	14,790	1,096	15,886

ESTIMATE July 2021

	Balance at 1 April 2019	Movement in 2019/20	Balance at 31 March 2020	Movement in 2020/21	Balance at 31 March 2021	Movement in 2021/22	Balance at 31 March 2022	Movement in 2022/23	Balance at 31 March 2023	Movement in 2023/24	Balance at 31 March 2024
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
General Fund Working Balance	3,878	8,490	12,368	-6,001	6,367	-4,228	2,139	-868	1,271	-458	813
Business Rates (NNDR) equalisation reserve	2,880		2,880	1,000	3,880	-3,880	0	0	0	0	0
Equipment repairs and renewals reserve	1,000	201	1,201	-1,213	-12	74	62	22	83	316	399
Investment Property income equalisation reserve	2,000	1,750	3,750	750	4,500	0	4,500	0	4,500	0	4,500
Property repairs and renewals reserve	1,000	1,750	2,750	759	3,509	-1,695	1,814	-500	1,314	-500	814
Total	10,758	12,191	22,949	-4,705	18,244	-9,730	8,514	-1,347	7,167	-642	6,525