8. **BUDGET MONITORING REPORT – APRIL 2017 TO JUNE 2017 (RESOURCES)**

Synopsis of report:

To report the latest financial projections for the 2017/18 financial year for General Fund, Housing Revenue Account and Capital Programme.

Recommendation:

For information

1 **Context of report**

1.1 The Medium Term Financial Strategy (MTFS), the Capital Programme and the detailed General Fund budgets for 2017/18 were approved by the Corporate Management Committee on 27 January 2017 and subsequently by Full Council on 9 February 2017.

1.2 The detailed HRA budget for 2017/18 was approved by the Housing Committee on 11 January 2017 and subsequently by Full Council in February 2017.

1.3 Starting in July, all budget managers are provided with a monthly budgetary control statement showing total budget, profiled budget and spend to date (including commitments). A full salary listing is also provided on an ad-hoc basis to chief officers. Budget managers are expected to work with the accountancy team to report any variations and project likely spend to 31 March.

1.4 Budget managers should constantly monitor their budgets and are accountable for their budget and service performance. The projected outturns shown in this report are manager's best estimates as at 30 June 2017.

2 **General Fund Revenue Budget**

2.1 The detailed General Fund budget for 2017/18 was approved in February 2017 along with the MTFS. Since then various changes have occurred and a summary of the current projected use of balances for the General Fund can be seen in table 1 below:

Table 1 – Projected use of General Fund balances			
	Original Budget £'000	**Forecast Outturn £'000**	
Net Expenditure on Services	3,153	4,946	Paragraph 2.3 below
Transfers and accounting adjustments	(1,871)	(1,871)	
Treasury and financing	8,020	7,989	Paragraph 2.9 below
Government grants	(1,601)	(1,605)	Paragraph 2.13 below
Business rates and Council Tax collection	(6,999)	(6,999)	Paragraph 2.14 below
Projected use of balances in 2016/17	**702**	**2,460**	

An updated General Fund Summary (in the Budget Book format) setting out these changes is set out at Appendix 'B' and is explored in more detail in the following paragraphs.

2.2 Assuming the predictions for the forecast outturn shown in table 1 materialise at the year end, this will reduce the General Fund working balance by £2.460m taking it from £6.536m at the start of the year to £4,076m at 31 March 2018.

Net Expenditure on Services

2.3 The General Fund Summary set out in Appendix 'B' sets out the net expenditure for each service area against the forecast outturn as at 30 June 2017. The forecast outturn is made up of the original budget amended for any anticipated changes. A summary of the more significant changes (over £5,000) at the Net Expenditure on Services level is set out in table 2 below:

Table 2 – Changes in Net Expenditure on Services	
( ) = reduced expend or increased income	**2017/18 £'000**
Original Net Expenditure on Services:	**3,153**
Housing Committee	
• Housing options additional temporary staff, budget no longer required in 2017/18 as provision fully utilised in 2016/17.	(11)
• Housing Advice staff – Additional staff (1.5fte) approved by CMC March 2017. (Net of HRA contribution)	42
• Magna Carta Lettings – P/U Repayment of Bond guarantees not required in 2016/17	24
• Magna Carta Lettings – Enhancement of scheme approved by Housing Committee & CMC in March 2017	32
• Homelessness – Increased demand on Bed & Breakfast accommodation since the spring will result in estimated increased net costs.	100
• Benefits – The annual reduction in the administrative grant was less than estimated in the current budgets	(13)
Community Services Committee	
• Meals on Wheels service – Regrading of staff wages (CMC – June 2017)	14
• Day Centres – Increased Business Rates following Age Concern's vacation of the Orchard Day centre.	6
• Day Centres – New income from letting of premises to SCAS (net of expenses incurred in 2017) – Community Services Committee – June 2017	(24)
• Safer Runnymede – Increase in sickness and overtime provisions	15
• Safer Runnymede – Net loss of income following loss of contracts	103
• Grant Aid – Increase in Community First budget (CMC – Jan 2017)	5
Environment and Sustainability Committee	
• Green waste – P/U – communications and computing	5
• Green waste – increased costs of interface	5
• Trade waste – income lower than anticipated	10
• Refuse – new income from school collections	(8)
• Street cleansing – In cab technology not previously budgeted for	10
• Flood mitigation – P/U - maintenance	5
• Car parks – P/U – Pay & Display machines	5

• Car parks – P&D income higher than anticipated	(10)
• Car parks – P&D income in Egham reinstated	(23)
Planning Services	
• Planning General - Garden Village Grant (received in 17/18 c/fwd as P/U)	229
• Planning Policy - Local Plan Infrastructure Need Assessments (CMC 30/3/17)	20
• Planning Policy - Playing Pitch Strategy (SO42 31/3/17)	15
• Planning Policy – P/U Local Plan	50
• Adas Farm – Potential costs recognised to date	25
Corporate Management Committee - Corporate Management	
• Corporate - P/U – Economic Development Strategy	9
• Corporate – P/U - Runnymede Pleasure Ground	5
• Public Accountability – P/U - Enterprise Zone	19
Corporate Management Committee - Other	
• Elections – extension of temporary staffing (CMC March 2017)	27
• Civic Centre – increased Business Rates	103
• Depot – P/U – strategic maintenance and fuel pump renewal	8
• Depot – building maintenance provision required	12
• Salaries – Apprenticeship costs (CMC June 2017)	49
• Financial services - P/U - VAT review delayed due to staff vacancies	16
• Runnymede web – computer maintenance support not previously budgeted for in current year	6
• Customer services – reorganisational restructure	276
• Customer services – additional provisions required (CMC July 2017)	33
• Law & governance – additional staffing (SO42 Dec 2016)	46
Sub Total – General Fund net growth (Excluding Commercial Property)	**1,240**
Corporate Management Committee – Commercial Property related	
• Commercial Services staffing savings (CMC Dec 2016) over estimated	107
• Property Development – P/U – from schemes carried forward	254
• Property Development – 168 High Street costs to be capitalised	(100)
• Property Development – TVHA costs capitalised in previous year	15
• Property Holdings - staffing temporary valuers extended a further year (CMC Feb 2017)	153
• Rental income – Floor repairs	43
• Rental income – MSCP income over estimated	40
• Rental income – Rent reduction as part of development	41
Sub Total – Commercial Property	**553**
Forecast Net Expenditure on Services	**4,946**

Note: P/U = 2016/17 Planned Underspend. Budget carried forward to be spent in the current year (with corresponding saving shown in the 2016/17 financial year).

2.4 Table 2 above shows that net expenditure on services is forecast to be £4.946m, an increase of £1.793m on the original budget as seen at Appendix ‘B’. This increase can be broken down as follows:

Table 3 – Analysis of budget increases	
	£’000
Planned underspends carried forward from 2016/17	465
Planned underspends carried forward from 2016/17 (Garden village grant)	229
Approved supplementary estimates	467
Other growth pressures	632

2.5 Employee costs are by far the major cost item in the Council’s overall budget. This budget is controlled centrally and quarterly Salary Control reports are distributed to the Corporate Leadership Team for them to monitor their staffing budgets.

2.6 The 2017/18 budget included a staff turnover/vacancy savings target of £247,000. The turnover/vacancy savings target was set against the salary budget for all officers with the exception of some frontline services where filling vacancies with agency or temporary staff is imperative in order to keep the service running (e.g. refuse collection, street cleansing, day centre transport etc.). These targets have been built into the Current Budget column in table 4 below, which monitors the current staffing spend against the expected budget spend for the period to date. This shows that as at the 30 June, the salary budget is overspent by £59,000.

Table 4– Current salary budget performance				
	Current Budget £000	**Profiled Budget £000**	**Actual to Date £000**	**Variation to date £’000**
Corporate Services	921	218	238	20
Law & Governance	743	184	178	(6)
Resources – Customer Services	312	66	141	75
Resources - Other	2,091	538	529	(9)
Planning	1,523	358	354	(4)
Environmental Services	1,483	366	361	(5)
Housing	1,368	331	329	(2)
Community Development	1,738	430	420	(10)
Total	**10,179**	**2,491**	**2,550**	**59**

2.7 A majority of this overspend comes from the non-achievement of the in-built savings target for Customer Services. It is now anticipated that, for a host of reasons, the anticipated outturn will now be £276,000 greater than anticipated (mainly through the transfer of staff to the back office areas rather than making savings). This figure has been included in table 2 above.

2.8 The table set out below shows the performance of the Council’s key income drivers (excluding property). Where these are anticipated to vary significantly from the budget, an estimate of the year end effect has been included in table 2 above accordingly.

Table 5 - Performance of key income drivers 2017/18			
	Original Budget £000	**Profiled Budget £000**	**Actual to Date £000**
Halls income	145	46	45
Cemetery income	209	37	52

Community meals (Day Centre)	169	40	36
Community meals (Meals at Home)	157	27	41
Trade waste income	480	326	304
Off street parking P&D income	485	111	121
Planning fees	700	175	133
Local land charge search fees	235	60	61
TOTALS	**2,580**	**822**	**793**

Treasury and Financing

2.9 The 2017/18 Treasury Management Strategy report was presented to this Committee at the end of February 2017.

2.10 During 2016/17 Officers managed to delay much of the planned external borrowing by utilising positive cashflows (creditors, receipts in advance etc) and borrowing internally (collection fund balances etc). This has meant that the level of money available for future investment has reduced significantly as surplus cash has been used to finance capital projects in the short term. However, whilst this will further reduce the level of investment income to the Council, this should be offset by lower borrowing costs.

2.11 One major factor affecting the treasury operations of the Council is the need to borrow to fund property acquisitions and development schemes. Borrowing is undertaken at the most opportune time where it can be planned in advance, however to a certain extent the Council is constrained by the timing of when suitable properties come to the market. As an example, a £20m property purchase at the start of the year will ensure more rental income for the current year but will also vary the borrowing costs based on the timing of the transaction and the interest rates applicable at that time. A summary of the effects of this based on information at the end of June is set out in paragraphs 2.15 to 2.17 below.

2.12 A full report on all treasury activity during the first six months of the year will be reported to this Committee in October.

Government Grants

2.13 Government Grants encompass the Revenue Support Grant, New Homes Bonus Grant and any other non-service specific grants that the government release during the year. At the current time there is no change to the original estimate for these grants other than a small increase in the New Homes Bonus in the current year for unused grant recycled to authorities.

Business Rates and Council Tax Collection

2.14 A significant income stream for the Council is the income from taxation. Collection rates for both business rates and council tax are monitored on a weekly basis by the Corporate Director of Resources. Collection rates for the period (as at 30 June) were as follows:

Table 6 – Collection rates		
	Council Tax £'000	**Business Rates £'000**
Collectable debit for the year	57,219	54,317
Cash received for period	17,995	17,317
% of cash received to date – Target	31.45%	31.31%
% of cash received to date – Actual	31.45%	31.31%
% of cash received for the year – Target	99.00%	99.00%

% of collectable debit written off	0.00%	0.00%

Property Investment Strategy

2.15 One of the biggest areas of the Council's income and expenditure relates to investments in property and regeneration schemes. The budgets for the Property Investment Strategy were set at the start of the calendar year based on new investments being purchased half way through the year which generate a gross yield of 5% at an average borrowing rate of 3% (2% net yield). Property purchased purely for strategic purposes could be purchased at a lower yield.

2.16 Property investment is highly reliant on suitable properties coming onto the market and the timing differences can skew the Council's bottom line figures quite significantly, as can the interest rates applicable at the time of purchase. The following table sets out the original property related budgets against the revised figures based on purchases to date and assumed future purchases (using 1 October as the purchase date):

Table 7 – Property investment 2017/18		
	Original Budget £000	**Revised Budget £000**
Rental income from all commercial property	(12,201)	(12,108)
Borrowing costs (Interest)	6,577	6,577
Minimum Revenue Provision (MRP)	1,916	1,916
Net income	**(3,708)**	**(3,615)**

2.17 The original rental income figure included a £5m income target from new investments in 2017/18. It is assumed in the above figures that sufficient properties will be purchased to cover this figure. The drop in rental income highlighted in table 7 above stems principally from some of the lost income from the properties highlighted at the bottom of table 2 above.

3. Housing Revenue Account (HRA)

3.1 The detailed Housing Revenue Account budget for 2017/18 approved in January 2017 predicted a surplus for the year of £4.358m. The projected year-end surplus for the HRA is now expected to be £4.324m, a reduction of £34,000. The more significant variances are listed in table 8 below:

Table 8 – Predicted HRA surplus for 2017/18	
	2017/18 £'000
Original (Surplus) / Deficit in the year:	**(4,358)**
General Management	
• Planned underspends brought forward from 2016/17	23
• Additional Housing Options staff -20% (Hsg Ctte 3/17)	10
• New Estate caretakers van, annual Capital charge (Hsg Ctte 3/17)	1
Projected (surplus) / Deficit in the year:	**(4,324)**

3.2 Taking into account the better than expected increase in working balances during 2016/17 of £1.155m, and large reductions in the Housing Capital programme (slippage and developing plans) during 2017/18 it is estimated assuming the predictions for the projected outturn shown in table 8 materialise at the year end, this will result in a probable increase in the HRA revenue balances from the original estimate of £15.77m at 31 March 2018 to £20.70m. However it should be noted that the likely costs in 2018/19 will increase by around £2.0m as a consequence of the deferral of the provision of new houses.

4. Capital Expenditure and Receipts

Capital expenditure

4.1 The detailed Capital budget for 2017/18 was approved in February 2017. It is important to remember that the timing of capital expenditure can sometimes be difficult to predict and can be spread over several financial years.

4.2 Exempt Appendix ‘1’ (exempt under paragraph 3 of Schedule 12A to Part I of the Local Government Act 1972) summarises the current capital programme to the end of June 2017 updated for predicted movements in payment profiles and forecast under/overspends on the schemes as a whole. Of the £11.5m increase in the programme shown in Exempt Appendix ‘1’, £9m relates to budgets that have been carried forward from 2017/18 where schemes and or payments were delayed.

Capital receipts

4.3 The Council started the year with £14.281m in available capital receipts which can be used to fund future acquisition of assets. However, some of these receipts have been generated from the sale of dwellings under right-to-buy legislation or sales of land and legislation requires this is set aside for specific purposes. In Runnymede’s case this is principally:

- Future funding of new affordable housing
- Repayment of housing debt over the next 30 years

4.4 Table 9 sets out the anticipated capital receipts position as at the 31 March 2018 based on the current forecast outturn in capital spend and receipts as set out in Exempt Appendix ‘1’:

Table 9 – Capital receipts

	Debt Repayment £’000	Housing Replacement £’000	General Use £’000	Total Receipts £’000
Total Capital Receipts at 1 April 2017	**2,142**	**3,178**	**8,961**	**14,281**
Capital Receipts generated in the Year	394	910	48,840	**50,144**
Use of Receipts in year	0	(390)	(48,169)	**(48,559)**
Projected Receipts at 31 March 2018	**2,536**	**3,698**	**9,632**	**15,866**

5. Legal Implications

5.1 Section 28 of the Local Government Act 2003 requires authorities to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take such action as they consider necessary. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or the authority might decide to take no action but to finance the shortfall from reserves.

6. Conclusion

6.1 The projected use of General Fund balances shown in Table 1 of the report shows an increase of £1.758m to over £2.460m based on information at 30 June 2017. This includes £694,000 of unused budgets carried forward from 2016/17 where a corresponding saving was registered in the accounts. This leaves £1.099m of additional cost pressures that have been identified since the budget was approved in January 2017.

6.2 The Chief Executive and Corporate Director of Resources have a number of concerns leading up to Members considering the Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21 in the autumn. These include:

a) A number of the cost pressures identified for 2017/18 will carry on into 2018/19 and beyond.

b) Surrey County Council are instigating a number of initiatives to reduce their budget. One of these is to reduce refuse disposal costs by £4million over the next three years. This will increase costs to the Surrey Districts and Boroughs.

c) The MTFS does not anticipate any further reductions to Government funding other than those already announced. However the long term funding provided by Business Rates retention and New Homes Bonus is far from certain.

d) The MTFS currently relies on new additional income of £10million by 2021. To generate this income the Council has earmarked over £500million to be spent on regeneration and place shaping schemes within the Borough over the life of the Capital Programme. This strategy relies both on the Council identifying suitable assets that meet its stringent criteria and also no future Government intervention in such schemes.

6.3 The above risks will be quantified as far as possible for Members' consideration in November when the draft MTFS is to be considered by this Committee.

(For information)

Background Papers

None stated