

BUDGET MONITORING REPORT - APRIL 2018 TO JUNE 2018 (CHR)

Synopsis of report:

To report the latest financial projections for the 2018/19 financial year for General Fund, Housing Revenue Account and Capital Programme.

Recommendation(s):

For information

1 Context of report

- 1.1 The Medium Term Financial Strategy (MTFS), the Capital Programme and the detailed General Fund budgets for 2018/19 were approved by the Corporate Management Committee on 25 January 2018 and subsequently by Full Council on 8 February 2018.
- 1.2 The detailed HRA budget for 2018/19 was approved by the Housing Committee on 10 January 2018 and subsequently by Full Council in February 2018.
- 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 projected 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 2018.

2 General Fund Revenue Budget

- 2.1 The detailed General Fund budget for 2018/19 was approved in February 2018 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/(income) on Services	(2,482)	(1,193)	Paragraph 2.3 below
Transfers and accounting adjustments	(2,260)	(2,260)	
Treasury and financing	12,696	14,408	Paragraph 2.7 below
Government grants	(802)	(802)	Paragraph 2.10 below
Business Rates and Council Tax collection	(7,247)	(7,747)	Paragraph 2.12 below
Projected use of balances in 2018/19	95	2,406	

An updated General Fund Summary (in the Budget Book format) setting out these changes is set out at Annex 1 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 £2.406m taking it from £5,848m at the start of the year to £3.442m at 31 March 2019.

Net Expenditure on Services

- 2.3 The General Fund Summary set out in Annex 1 sets out the net expenditure for each service area against the forecast outturn as at 30 June 2018. 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 Annex 2.
- 2.4 Annex 2 shows that net expenditure/(surplus) on services is forecast to be (£1,193m), an increase in net expenditure of £1.289m on the original budget as seen at Annex 1. This increase can be broken down as follows:

Table 2 – Analysis of budget increases	
	£'000
Increased Expenditure:	
- Planned underspends carried forward from 2017/18	576
- Approved supplementary estimates	199
- Other cost pressures	2,425
Reduced Expenditure	(399)
Increased Income	(2,155)
Reduced Income	643

- 2.5 Of the £2.425m shown under Other cost pressures in the above table, £2m relates to costs associated with the Egham Gateway West project that cannot be capitalised until the scheme begins to create or extend the life of an asset which is now not anticipated to be until 2019/20. Should the scheme not progress then these costs will stay as a cost to the General Fund revenue account.
- 2.6 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. The ones causing some concern are Halls and Section 106 yellow bus income.

Table 3 – Performance of key income drivers			
	Original Budget £000	Profiled Budget £000	Actual to Date £000
Halls income	138	44	29
Cemetery income	218	39	54
Community meals (Day Centre)	168	39	33
Community meals (Meals at Home)	157	40	41
Trade waste income	478	301	300
Off street parking P&D income	546	120	153
Yellow bus s106 income	204	150	0
Planning fees	840	210	187
Local land charge search fees	230	58	58
TOTALS	2,979	988	855

Treasury and Financing

- 2.7 The 2018/19 Treasury Management Strategy report was presented to this committee at the end of February 2018.
- 2.8 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 para 2.15 below.

- 2.9 A full report on all treasury activity during the first six months of the year will be reported to this Committee in October. This will include revised predictions for interest (both investment and borrowing) following the recent increase in the base rate.

Government Grants

- 2.10 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.

Business Rates and Council Tax Collection

- 2.11 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 4 – Collection rates		
	Council Tax £'000	Business Rates £'000
Collectable debit for the year	61,347	59,754
Cash received for period	19,001	18,547
% of cash received for the year – Target	98.60%	98.80%
% of cash received for the period – Target	31.00%	29.00%
% of cash received to date – Actual	30.97%	31.04%
% of collectable debit written off	0.00%	0.00%

- 2.12 Members will recall that when Council approved the 2018/19 budget in February 2018 the “Surrey pilot “ had not been approved by Government or the final details of how additional income would be shared between the County Council and the districts and boroughs in Surrey. The underlying principle is that all the districts would be at least £0.5m better off. The budget set by Council included £1.9m of income from business rates. At this stage in the financial year the collection rates and tax base suggest that £2.4m is still a reasonable estimate.

Property Investment Strategy

- 2.13 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.
- 2.14 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. With interest rates set to rise during the year, the uncertainty surrounding the eventual Brexit deal and it's effects on the markets and the need to bolster the Council's income position to allow for the regeneration of parts of Egham, Members agreed at a Special Council Meeting held on 17 May 2018 to bring forward £100million set aside in 2019/20 to the current financial year to secure the required income generation targets earlier.

- 2.15 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 5 – Property investment		
	Original Budget £000	Revised Budget £000
Rental income from all commercial property	(20,495)	(22,547)
Borrowing costs (Interest)	11,234	11,652
Minimum Revenue Provision (MRP)	3,304	4,077
Net income	(5,957)	(6,818)

- 2.16 It is assumed in the above figures that the full capital allocation for the purchase of property held within the capital programme is spent within the year.

3 Housing Revenue Account (HRA)

- 3.1 The detailed HRA budget for 2018/19 was approved in February 2018. Since then various changes have occurred and a summary of the current projected use of balances for the HRA can be seen in table 6 below:

Table 6 – Projected use of HRA balances			
	Original Budget £'000	Forecast Outturn £'000	
HRA Working Balance (as per the budget book)	(19,324)	-	
Actual HRA Working Balance @ 1 April 2018	-	(19,151)	
Surplus in year	(4,692)	(2,782)	Paragraph 3.2 below
Capital expenditure - new purchases	910	910	Paragraph 3.3 below
Capital expenditure - new build programme	2,308	2,308	Paragraph 3.3 below
Capital expenditure - further potential	1,824	770	Paragraph 3.3 below
Projected HRA balance at 31 March	(18,974)	(17,945)	

- 3.2 An updated HRA summary (in the Budget Book format) setting out these changes is set out at Annex 3. This summary sets out the net expenditure for each service area against the forecast outturn as at 30 June 2018. 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 Surplus in year level is set out in Annex 4.
- 3.3 The Housing Revenue Account usually funds (70%) of the costs of new housing property acquisitions, and new build costs and these are funded from the HRA working balances. Due to slippage in preparing some potential future schemes, some schemes are not now likely to be approved by the Housing Committee until January 2019 and therefore the projected costs (not yet approved) are likely to be deferred until 2019/20 at the earliest.
- 3.4 In addition to the HRA working balances (shown above) it is currently estimated that there will be around £3.65m of balances in the Housing Major Repairs Reserve at 31 March 2019

4 Capital Expenditure and Receipts

Capital expenditure

- 4.1 The detailed Capital budget for 2018/19 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 (Confidential) Annex 5 summarises the current capital programme to the end of June 2018 updated for predicted movements in payment profiles and forecast under/overspends on the schemes as a whole. Of the £117.7m increase in the programme shown in the Annex, £106m 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 £5.783m in available capital receipts which can be used to fund future acquisition of assets. However, all of these remaining 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 7 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 Annex 5:

Table 7 – Capital receipts				
	Debt Repayment £'000	Housing replacement £'000	General use £'000	Total Receipts £'000
Total Capital Receipts at 1 April 2018	2,473	3,310	0	5,783
Capital Receipts generated in the Year	320	984	38,367	39,671
Use of Receipts in year	0	(1,221)	(25,948)	(27,169)
Projected Receipts at 31 March 2019	2,793	3,073	12,419	18,285

- 4.5 The original estimate for the generation of Capital Receipts in the year included £13m from the sale of properties in the Addlestone One development. As at 30 June £340,000 from sales had been received with £400,000 worth of sales under negotiation. Should a substantial increase in sales activity not be forthcoming over the next few months, it will be necessary to delay some capital schemes and/or temporarily borrow more money to fund the Addlestone development.

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 from a contribution to working balances of £0.095m to a use of balances of £2,406m based on information at 30 June 2018. This includes £576,000 of unused budgets carried forward from 2017/18 where a corresponding saving was registered in the accounts last year.