

ITEM 5

5. **BUDGET MONITORING 2020/21 AND THE IMPACT ON THE COUNCIL'S FORWARD PLANS**

**Synopsis of report:**

The coronavirus has had a severe impact on the Council's finances turning a £0.5 million surplus into a £7m deficit in 2020/21 alone. The Council's General Fund balances are now estimated to be under £1million at 31 March 2024 a drop of £15million from the figure estimated in February 2020.

This report seeks Member approval to commence plans to significantly reduce the Council's expenditure through efficiency savings and to review expenditure on the services provided.

**Recommendation(s):**

- 1 To note and support the Implementation of a service review and efficiency programme which has been instituted by the Chief Executive;
- 2 To authorise the Chief Executive to continue a recruitment freeze and to freeze non-essential expenditure;
- 3 To approve the redefinition of the budget and MTFS to produce a reduction in the base budget of £2 million by April 2022;and
- 4 Authority be given to Officers to remove uncommitted growth from the existing budget.

1. **Context of report**

- 1.1 Every budget management report to Members since May 2020 has shown a worsening of the Council's financial position. To avoid the Council's financial reserves falling below the minimum acceptable action needs to be taken to reduce both revenue and capital spending in the very near future.

2. **Report**

- 2.1 In February 2020 the Council set a surplus budget of £0.5 million which seven months later has swung to a deficit budget of £7 million as shown in Appendix 1. The original budget assumed a new investment strategy of £100 million to fund both the remainder of the regeneration strategy in Egham and future regeneration plans in the Borough. This £100 million together with the remaining £25 million from the previous strategy funded the Council's regeneration plans, its base budget and set aside earmarked reserves as part of the Council's strategy of:

- Moving to funding all its short life assets from revenue rather than capital receipts.
- Maintaining earmarked reserves to mitigate financial risks mainly on Business Rates retained and the commercial property portfolio.

2.2 The loss of the net income from the outstanding £125 million amounts to £1.5m a year. That is £1.5million that the Council will not receive each and every year over the life of the Medium Term Financial Strategy leaving an immediate £6 million hole to fill.

2.3 In February 2020 the table below shows the forecast of the Council's balances in the approved MTFS.

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

2.4 As at the end of August the revised position is shown below. In 18 months time the General Fund working balance will be below the minimum set by Council (£3million). This includes reducing every risk management reserve to almost zero.

ESTIMATE Sept 2020	31 March 2020	Movement in 2020/21	31 March 2021	Movement in 2021/22	31 March 2022	Movement in 2022/23	31 March 2023	Movement in 2023/24	31 March 2024
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Working Balance</b>	12,368	-6,900	5,468	-7,957	-2,489	-3,569	-6,058	-2,220	-8,278
Business Rates (NNDR) equalisation reserve	2,880	1,000	3,880	-3,880	0	0	0	0	0
Equipment repairs and renewals reserve	1,201	-1,213	-12	74	62	22	83	316	399
Investment Property income equalisation reserve	3,750	750	4,500	753	5,253	839	6,092	903	6,995
Property repairs and renewals reserve	2,750	-945	1,805	-942	863	339	1,202	403	1,605
<b>Total</b>	<b>22,949</b>	<b>-7,308</b>	<b>15,641</b>	<b>-11,952</b>	<b>3,689</b>	<b>-2,369</b>	<b>1,320</b>	<b>-599</b>	<b>721</b>

2.5 Since Members approved the budget in February 2020 the circumstances have changed, especially due to the Covid pandemic. The table below is a summary of the Council's approved budget.

	2020/21 Budget	Note
	£'000	
<b>Net expenditure on services</b>	<b>(5,899)</b>	
Estimates to be agreed pending income	1,278	1
Efficiencies or new commercial income	(1,200)	1
Reverse out depreciation	(2,640)	2
Investment income	(373)	3
Interest on loans to RBC companies	(1,571)	
	(10,405)	
Capital financing costs	14,423	
MRP	4,097	
	8,115	
Council tax income	(5,783)	4
Business rates retained	(3,700)	4
new homes bonus	(1,658)	5
	(3,026)	
Set aside for future asset replacement	1,000	2
Set aside for commercial income	1,500	6
Increase in GF working balance	(526)	

**Note 1** It was assumed that the £100m of new commercial investment would generate £1.2m in this year to fund the growth Members wished to see. The Covid pandemic and lately the Government's refusal to allow borrowing for commercial assets means that income, which increases to £2million in a full year, will not be available.

Some of the growth has already been committed, uncommitted growth will be removed as a commitment for future years and will be re-submitted for Members consideration at some future date.

**Note 2** Depreciation is a measure of resources which should be set aside to replace short life assets from revenue rather than use capital receipts – later in the report it is highlighted the Council is reliant on capital receipts to fund most capital expenditure. However, the revenue budget will not be able to fund all the planned capital strategy

**Note 3** The bank base rate is at 0.1% - investment income will reduce as interest rates are likely to remain low and the cash reserves of the Council also fall.

**Note 4** At the year-end we anticipate the collection fund to have arrears of around £5.5 m. At the moment it is extremely difficult to predict when those arrears can be collected.

Business rates across the County is also struggling. In April the Council had a collection target of £60m which has reduced to £43 million following the additional Covid rate relief. Rate collection has not dropped significantly, but the rate reliefs are not likely to continue in 2021/22. Collecting £63m plus may be challenging and could impact on future General Fund rates retained

**Note 5** Pending the outcome of the Government's spending review the Council has planned on New Homes Bonus steadily declining. However, a reduction to zero could be brought forward as Government attempt to make savings in public sector spending.

**Note 6** For some time now the Council has been setting aside some commercial income into an earmarked reserve as part of its approach to risk management. For example, any re-gear of a lease may require some rent free period to be funded from the earmarked reserve. If these earmarked reserves are depleted to bolster Ggeneral Fund spending, they cannot be used again. It is difficult to read how the property market will develop, but if a tenant signs a longer lease and has a major internal refurbishment cost, the trade off is normally a rent free or reduced rent period.

2.6 The latest forecast shows that the surplus above is now a £7 million deficit, which assumes no second local lockdown and does not take account of a "circuit break" or restrictions on the hospitality industry in Runnymede.

2.7 The business rates retained shown above of £3.7million is mainly due to the provision for appeals being released in the pilot year – the rewards shared between Surrey CC and this Council. Future budgets will include base income of around £1.7million.

### **3 Capital Plans**

3.1 The Council's policy is to borrow only for income generating assets which includes its commercial portfolio and its two regeneration projects in Addlestone and Egham. The purchase of all short life assets is part funded from the repairs and renewals reserve and capital expenditure on all other assets is funded from capital receipts.

3.2 Freely usable Capital receipts at the start of the year amounted to £2.2million. The approved Capital Strategy assumed new receipts of £7.5million in the year. Both were needed to fund the estimated Capital Programme expenditure in 2020/21 which was relying on £9 million of receipts to fund it.

- 3.3 The table below shows that the capital strategy is vulnerable to any fall in capital receipts from Addlestone and Egham apartments.

	2020/21		2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Capital receipts	Probable	Budget	Budget	Budget	Budget
Addlestone One , Marshal place	911	7,201	5,550		
Ashdene			1,000	4,000	2,700
Egham Gateway					
Apartments sold to RBCI			14,431		
Private sale, Social landlords				9,540	3,772
	911	7,201	20,981	13,540	6,472
Misc. capital receipts		309	309	314	312
<b>TOTAL NEEDED TO FUND THE PLANS</b>		<b>7,510</b>	<b>21,290</b>	<b>13,854</b>	<b>6,784</b>

- 3.4 Over the next month Officers and Members will need to re-prioritise the capital plans to match the receipts received.

#### **4 Conclusions**

- 4.1 Over October and November Officers and Members will need to re-define priorities for revenue and capital planning, taking £2 million out of the base budget by 2022.
- 4.2 The balances can be used in the short term to produce a balanced budget for 2021/22.
- 4.3 The budget monitoring data produced is likely to be optimistic – future effects of Covid and now Brexit may affect the Runnymede economy.
- 4.4 We started this year with a minimum income gap of £1.5 million following the inability to purchase further commercial property.
- 4.5 Highly unlikely Government support will continue into 2021/22 and some funding may be cut – New Homes Bonus.
- 4.6 Council Tax increases do not cover basic inflation assuming referendum limits are in place.
- 4.7 Commercial income may reduce further in 2021/22.
- 4.8 Deferring projects, recruitment and non-essential maintenance etc. creates a temporary buffer. A long-term strategy is needed to reduce spending.
- 4.9 Some efficiency plans may incur redundancy costs which are not included

**(To resolve)**

#### **Background papers**

MTFS working files in Resources section

## 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		9,418	5,112	692	(1,611)
<b>Adjusted base budget A</b>	<b>(5,822)</b>	<b>3,596</b>	<b>(710)</b>	<b>(5,130)</b>	<b>(7,433)</b>
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:					
- Insurance reserve	0	0	0	0	0
- 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	753	839	903
- Investment Property income equalisation reserve	750	750	753	839	903
- Surrey Infrastructure Feasibility Fund	0	0	0	0	0
Treasury and Financing					
- Investment & Dividend Income	(373)	(87)	(75)	(74)	(170)
- Interest on loans to RBC companies	(1,571)	(1,489)	(1,806)	(2,374)	(2,374)
- Capital Financing	14,466	12,758	14,942	15,595	15,689
- Minimum Revenue Provision (MRP)	4,097	3,820	3,973	4,132	4,297
- Voluntary Revenue Provision (VRP)	0	0	0	0	0
Government Grants (Non-Service Specific)					
- New Homes Bonus	(1,657)	(1,657)	(780)	(748)	(184)
- Other grants - Covid19	0	(1,045)	0	0	0
- Other grants - Covid19 - new burdens (Business Grants)	0	(130)	0	0	0
- Other grants - Covid19 (sales, fees & charges)	0	(400)	0	0	0
<b>Budget requirement B</b>	<b>8,957</b>	<b>16,383</b>	<b>11,237</b>	<b>11,147</b>	<b>9,698</b>
Funded by:					
- Business rates retention scheme	(3,700)	(3,700)	(1,700)	(1,400)	(1,100)
- Share of Council Tax (surplus)/deficit for prior years	0	0	400	0	0
- Share of Business Rates (surplus)/deficit for prior years	0	0	4,000	0	0
<b>Sub total of government funding C</b>	<b>(3,700)</b>	<b>(3,700)</b>	<b>2,700</b>	<b>(1,400)</b>	<b>(1,100)</b>
<b>Net demand ( B less C )</b>	<b>5,257</b>	<b>12,683</b>	<b>13,937</b>	<b>9,747</b>	<b>8,598</b>
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
<b>Council tax income D</b>	<b>(5,783)</b>	<b>(5,783)</b>	<b>(5,980)</b>	<b>(6,178)</b>	<b>(6,377)</b>
<b>Use of / (contribution to) Working Balance</b>	<b>(526)</b>	<b>6,900</b>	<b>7,957</b>	<b>3,569</b>	<b>2,220</b>
<b>General Fund Balance</b>	<b>(6,103)</b>	<b>(5,468)</b>	<b>2,489</b>	<b>6,058</b>	<b>8,278</b>
Over / (Under) minimum balance level of £2.969m	3,134	2,499	(5,458)	(9,027)	(11,247)