| | |
|---|---|
| **Report title** | **Budget Monitoring Report - April 2023 to June 2023** |
| **Report author** | Paul French – Corporate Head of Finance |
| **Department** | Finance |
| **Exempt?** | No |
| **Exemption type** | Not applicable |
| **Reasons for exemption** | Not applicable |

**Synopsis of report:**

**To report the financial projections for the 2023/24 financial year as at 30 June 2023 for the General Fund, Housing Revenue Account and Capital Programme.**

**Recommendation(s):**

**For information**

## 1 Context and background of report

1.1 The Medium-Term Financial Strategy (MTFS), the Capital Programme and the detailed General Fund budgets for 2023/24 were approved by the Corporate Management Committee on 19 January 2023 and subsequently by Full Council on 09 February 2023.

1.2 The detailed HRA budget for 2023/24 was approved by the Housing Committee on 12 January 2023 and subsequently by Full Council in February 2023.

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). Managers also have access to these reports in real time throughout the year via the Council's Financial Management System. A full salary listing is also provided on an ad-hoc basis to Corporate Heads. 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 2023.

## 2 General Fund Revenue Budget

2.1 The detailed General Fund budget for 2023/24 was approved in February 2023 along with the MTFS. Since then, various changes have occurred and a summary of the current projected use of balances for the General Fund (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 Two changes have been made to the General Fund Summary page set out in Annex 1 to that reported when the original budget was set. In May, Members agreed to transfer the reporting responsibility for Green Spaces (Parks, Allotments and Cemeteries) from the Community Services Committee to the Environmental & Sustainability Committee. This change has been reported in the Cttee Transfers column to ensure the Forecast budget reflects the new responsibilities.

2.3 The second change is to move the Council's Investment Properties – those properties held solely for rental income or capital appreciation - out of the Corporate Management Committee (CMC) line and down to the Financing and Investment section of the summary. This has been done:

1. To make the net costs of the CMC and Investment property income more obvious and easily obtainable
2. To follow the format now being used on most Government data collection forms and in the Statement of Accounts
3. To adhere to the anticipated requirements of Government and CIPFA to make the Investment Property net costs more transparent in our reporting

It should be noted that the staffing and management costs relating to these properties is still shown under the Corporate Management Committee as the team manage all the Council's operational, non-operational and investment properties.

2.4 The General Fund Summary is set out in Annex 1 and shows the net expenditure for each service area against the forecast outturn as at 30 June 2023. The forecast outturn is made up of the original budget amended for any anticipated changes (including the adjustments set out above). A summary of the more significant changes (over £5,000) at the Net Expenditure on Services level is set out in Annex 2.

2.5 Members will be aware from the recent Savings and Efficiencies Process and Service Reviews report that was presented to this committee on 13 July, that the process for Planned Underspends has changed this year. Instead of all approved underspends from last year being added to this year's budgets, Planned Underspends, (totalling approximately £820,000) are now held in a central reserve and are released to services as and when the works begin. This was done to smooth out the variances during the year and to ensure that the underspends were not then vired elsewhere should schemes not progress.

2.6 Annex 2 shows that the adjusted net deficit on services is forecast to be £28.097m, an increase in the deficit of £428,000 on the original budget. This increase can be summarised as follows:

Table 2

| Analysis of budget changes in Net Expenditure on Services | £000 |
|---|---|
| | |
| Increased Expenditure: | |
| - Planned Underspends carried forward from 2022/23 (out of £820,000) | 292 |
| - Approved supplementary estimates | 194 |
| - Other cost pressures | 428 |
| Reduced Expenditure | (516) |
| Increased Income | (60) |
| Reduced Income | 90 |
| | **428** |

2.7 On the assumption that all the Planned Underspend requests approved at the end of the last financial year are utilised during the current year, this will increase the predicted additional net spend on services in the year to £956,000.

2.8 Included in the above figures are £194,000 of additional supplementary estimates approved by members by the end of June. These approvals, along with some of the other variances highlighted in Annex 2 also have a knock on effect on future years expenditure. In total, an additional £312,000 will be needed in a full year to offset these additional costs, placing an addition burden on the Council's bottom line and increasing the already difficult to achieve savings & efficiencies target. Of this, £229,000 have been approved through supplementary estimates as follows:

Table 3

| | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | |
|---|---|---|---|---|
| **Approved Supplementary Estimates** | | | | |
| Meals at Home - Vehicle procurement additional lease costs | 16 | 16 | 16 | (CMC - 23 Mar 2023) |
| Internal Audit - increase in charges | 10 | 10 | 10 | (CMC - 23 Mar 2023) |
| Law & Governance - Additional staff agency costs | 37 | - | - | (CMC - 20 Apr 2023) |
| Increase in Insurance costs (following tendering exercise) | 144 | 144 | 144 | (CMC - 25 May 2023) |
| Less rechargeable to third parties | (54) | (54) | (54) | |
| Regrade of Corporate Head of HR&OD post | 7 | 15 | 15 | (SO42 No.1022 - 22 May 23) & (CMC - 23 June 2023) |
| Reopening Addlestone Day Centre | 28 | 28 | 28 | (CSC - 15 June 2023) & (CMC - 23 June 2023) |
| Developing Capacity in Open Space Development | (3) | (4) | 5 | (CSC - 15 June 2023) & (CMC - 23 June 2023) |
| Student FM Services contract (following tendering exercise) | (65) | 59 | 59 | (CMC - 23 June 2023) |
| Occupational Health contract (anticipated tendering increase) | - | 6 | 6 | (CMC - 23 June 2023) |
| | | | | |
| **Total of approved budgetary changes** | **120** | **220** | **229** | |

<u>Accounting & Other Adjustments</u>

2.9 The changes in this area relate to virements of budgets to fund capital expenditure. Members will be aware that you are not allowed to use capital income to finance revenue, but you can finance capital expenditure from revenue reserves. So far, the following changes have been approved:

Table 4

| | £'000 | |
|---|---|---|
| Tennis Court refurbishment | 47 | CMC - March 23 |
| Tennis Court refurbishment | 2 | CMC - Virement from Community Services |
| EV Charging points for Meals at Home | 15 | CMC - March 23 |
| Grounds Maintenance Vehicles | 33 | CMC - May 23 |
| | **97** | |

The corresponding increase in the Capital budgets can be seen in the appropriate Capital Expenditure lines in Annex 6.

Financing and investment income

2.10 By far the biggest income generator for the Council is our rental income from Investment property. In the 2023/24 financial year the Council anticipates receiving rent (net of voids and bad debts) of £25.5m from various businesses across its portfolio. To aid transparency, Investment property changes have been stripped out of the Corporate Management Committee line of Annex 2 and now form Annex 3.

2.11 Although there is very little predicted change to this year's budgeted figures, there is still a need to be wary in regard to:

- the ability to relet properties at current rental levels
- the on-going cost-of-living crisis caused by high inflation and energy costs
- potential costs coming out of the Asset Management Plan surveys
- sustainability issues ensuring that the portfolio is compliant with energy regulations
- potential measures coming out of the Levelling up and Regeneration Bill once enacted
- any actions arising from the Building Safety Act 2022

2.12 To mitigate these issues, the Council continues to build up earmarked reserves to maintain properties to ensure they remain in a lettable standard and also to cover for loss of rent and rent-free periods.

2.13 As at the end of June, officers were not anticipating any significant changes in the Council's treasury income and expenditure. A report on the first quarters treasury management operations, including the Investment property metrics, as set out elsewhere on this agenda.

General Fund balance

2.14 Members will be well aware that the last set of the Council's Statement of Accounts to have been signed off by the external auditors are for 2018/19, meaning that the Council's reserve balances as reported in the budget and MTFS could be subject to change should the auditors find any issues. With that caveat in place, the unaudited accounts for 2022/23 indicate that the General Fund balance at the start of April this year was £20.2m.

2.15 The MTFS, as updated and reported alongside the budget report for 2023/24, showed a potential budget shortfall by the close of 2025/26 of £5.2m. Taking all the changes set out in Annex's 1-3, the effect on the General Fund Working Balance over the next 3 years is now anticipated to be as follows:

Table 5

| | Current Yr 2023/24 £'000 | MTFS 2024/25 £'000 | MTFS 2025/26 £'000 | MTFS 2026/27 £'000 |
|---|---|---|---|---|
| **General Fund Working Balance:** | | | | |
| Assumed GF Working Balance at 1 April | 18,673 | 15,546 | 13,547 | 7,997 |
| In year movement | (3,930) | (1,696) | (5,238) | (5,238) |
| Increased Balance at start of the year | 1,611 | | | |
| Changes as at 30 June 2023 | (280) | (303) | (312) | (312) |
| Additional planned underspends yet to be utilised | (528) | | | |
| **Assumed GF Working Balance at 31 March** | **15,546** | **13,547** | **7,997** | **2,447** |
| **Note: Minimum Working Balance £5m** | | | | |

2.16 This sees the Council with balances **below the £5m Minimum level** set at full Council in February 2023 and with an ongoing annual budget deficit of circa £5.5m. This deficit does not account for any future growth which will inevitably come further down the line though legislative or other requirements.

2.17 Whilst the Council currently has sufficient balances to maintain a balanced budget over the medium term it clearly cannot continue to rely on these reserves into the future without taking corrective action. For this reason it is imperative that the issues surrounding the proposed Savings and Efficiencies Process and Service Reviews reported to this committee on 13 July are resolved as soon as possible.

## 3 Housing Revenue Account (HRA)

3.1 The detailed HRA budget for 2023/24 was approved in February 2023. Since then, various changes have occurred and an updated HRA summary (in the Budget Book format) setting out these changes is set out at Annex 4. This summary sets out the net expenditure for each service area against the forecast outturn as at 30 June 2023. 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 5.

3.2 There are very few changes to the HRA budget during the first quarter of the year. The surplus for the year shown in Annex 4 is expected to increase by £58,000 from £1.005m to £1.063m, however adjustments to the timing of proposed maintenance works, some of which will have been delayed from last year, were still to be analysed as at 30 June. These will be developed over the summer and any adjustments will be reported in the second quarterly report to be submitted to members later in the year.

3.3 Delays in the maintenance and capital programme schemes funded by the HRA working balance has meant that, like the General Fund, the HRA started the year with increased balances. The HRA working balance at the start of the year stood at £36.7m, however this will reduce significantly over the next few years as we catch up with the deferred works programme and the capital schemes begin in earnest.

**4 Capital Expenditure and Receipts**

Capital receipts and expenditure

4.1 The Capital Strategy and detailed Capital budget for 2023/24 was approved in February 2023. 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. Annex 6 summarises the capital spend on **the approved** schemes in the programme for the current year to the end of June 2023 and the capital receipts against the programme for the same period.

4.2 Annex 6 focuses on approved to proceed schemes only. The approved Capital Programme also includes a selection of provisional schemes that are subject to future committee reports and approval. These have been left out of this report to provide a clearer focus on those schemes currently with the finances and authority to progress. Should Members wish to see the full Capital Programme, this can be found in the Budget Book on the Council's website.

4.3 The Council started the year with £12.9m in capital receipts which can be used to fund future acquisition of assets. However, £4.3m 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 The financing of the Capital Programme remains heavily reliant on income from the sale of development properties. The Capital Programme assumes that we will generate £13.9m of capital receipts during the year. As at 30 June we had only amassed £0.9m. Should sales activity not be forthcoming over the next year, it will be necessary to further delay some capital schemes or find alternative methods of funding for them.

**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 Monitoring the first quarter's net expenditure position is always difficult as adjustments are still being made for transactions received in the current year relating to the prior year, and officers in general are more optimistic about the level of income they will receive and assume that they will complete all planned work within the timescales set. Prior year history tells us this is not always the case.

6.2 The Council's General Fund started the year a lot healthier than originally predicted. However, the underlying deficit at the start of the year of £5.2 by 2025/26 has now grown to £5.5m due to additional unforeseen growth approvals. Likewise, whilst the HRA started with much healther balances this year, once the delayed works have caught up, the HRA will be back to the average closing balance of £3m by 2026/27 as set out in the HRA Business Plan presented to the Housing Committee in March.

6.3 It is now more important than ever to progress the Savings and Efficiencies Process and Service Reviews to start making inroads into these falling balances as soon as possible. Whatever the outcome of these reviews, the programme will take time to deliver and will mean that the Council may have to make some tough decisions in the short-term to bring the Council's balances back into order.