

Report title	Budget Monitoring Report - April 2023 to September 2023
Report author	Paul French - Corporate Head of Finance
Department	Financial Services
Exempt?	No
Exemption type	not applicable
Reasons for exemption	not applicable

Purpose of report:

For information

Synopsis of report:

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

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 September 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 September 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 years budgets, Planned Underspends, (totalling £819,000) 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 utilised for other, unapproved uses, should schemes not progress.

2.6 Annex 2 shows that the adjusted net deficit on services is forecast to be £27.449m, a reduction in the deficit of £220,000 on the original budget. Annex 3 shows that the adjusted net surplus on investment properties is forecast to be £25.532m, an increase in the surplus of £45,000 on the original budget. The variations in these figures can be summarised as follows:

Table 1

Analysis of budget changes in Net Expenditure			
	General Budgets	Investment Properties	Total
	£000	£000	£000
Increased Expenditure:			
- Planned Underspends carried forward from 2022/23	619	34	653
- Approved supplementary estimates	187	(65)	122
- Approved supplementary estimates - via SO42	12	0	12
- Other cost pressures	428	213	641
Reduced Expenditure	(1,510)	(75)	(1,585)
Increased Income	(366)	(211)	(577)
Reduced Income	410	59	469
	(220)	(45)	(265)

2.7 These figures include a predicted reduction in staffing costs of £1.2m due to ongoing staff vacancies. This figure is based on savings to the end of September and is an area that is to be looked at as part of a full establishment review to including looking at the Council’s current pay and grading structure.

- 2.8 Whilst the anticipated reduction in salary costs for the year would seem a good thing, it means there are not enough members of staff in post to carry out the ambitious plans of the Council, which in turn leads to additional pressure being placed on those staff actually in post. It also masks a worrying trend of increased costs both through additional supplementary estimates and other cost pressures (e.g. continued high inflation, increased levels of maintenance and costs of new contracts).

Accounting & Other Adjustments

- 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 2

	£'000				
Tennis Court refurbishment	49	CMC - March 23 plus £2k Virement			
EV Charging points for Meals at Home	15	CMC - March 23			
Grounds Maintenance Vehicles	33	CMC - May 2023			
Parks Play equipment replacement	60	CMC - Sept 2023			
	157				

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 and now form Annex 3.
- 2.11 The changes to this years figures are summarised in Table 2 above. Although there is very little predicted change to this years net budget, 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
- 2.12 To mitigate these issues, the Council continues to build up earmarked resources 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 September, officers were not anticipating any significant changes in the Council's treasury income and expenditure. Based on increased interest rates, a £300,000 increase in treasury income is now anticipated along with a saving in borrowing costs of approximately £150,000 from not taking out replacement borrowing as existing loans mature. A full report on the second quarters treasury management operations, including the Investment property metrics, is 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 3

	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	17,103	14,860	9,196
Assumed In year movement at 1 April	(3,930)	(1,696)	(5,238)	(5,238)
Increased Balance at start of the year	1,611			
Changes as at 30 September 2023	915	(547)	(426)	(426)
Additional planned underspends yet to be utilised	(166)			
Assumed GF Working Balance at 31 March	17,103	14,860	9,196	3,532
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. Whilst this includes a relatively pessimistic view of future Government funding, this only accounts for about half of the predicted deficit so the need to identify future savings and efficiencies is essential.
- 2.17 It should be noted that this deficit does not account for any future growth which will inevitably come further down the line though legislative or other requirements, nor does it take into account any future increases in inflation over and above the level included in the MTFS approved in February. Inflation remains stubbornly high, both in the UK and elsewhere, and assumptions as to the effects of inflation on the existing MTFS are currently being assessed and will be built into the next version of the MTFS to be presented to members in the near future.
- 2.18 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 September 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 £108,000 from £1.005m to £1.113m, however

adjustments to the timing of proposed maintenance works, some of which will have been delayed from last year, will have a knock on effect on future years budgets.

- 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. (Confidential) Annex 6 summarises the capital spend on **the approved** schemes in the programme for the current year to the end of September 2023 and the capital receipts against the programme for the same period.
- 4.2 Confidential Annex 6 focuses on those schemes approved to proceed 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 September we had only amassed £2.7m with a further 2 flats in the Magna Square development going under offer. 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 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 £5.2m by 2025/26 has now grown due to additional unforeseen growth approvals. Likewise, whilst the HRA started with much healthier 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.