

18 September 2018

Policy, Projects & Resources Committee

2018/19 General Fund Revenue, Housing Revenue Account, Capital Budget Monitoring and Treasury Activity Update.

Report of: *Jacqueline Van Mellaerts, Interim Chief Finance Officer*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report provides the Policy, Projects & Resources Committee with an update to the 2018/19 General Fund Revenue Budget, Housing Revenue Account and Capital Program that was agreed at committee on 6th March 2018. Reporting the current projected outturn.
- 1.2 The report also gives an update regarding Treasury Management & Investment activity for 2018/19.

2. Recommendations

- 2.1 Agree the projected outturn position for 2018/19 of the Council's General Fund Revenue budget as at 31 August 2018, as detailed in Table A of the report.**
- 2.2 Agree the projected outturn position for 2018/19 of the Council's Housing Revenue Account at 31 August 2018, as detailed in Table B of the report.**
- 2.3 Agree the projected outturn position for 2018/19 of the Council's Capital Program as at 31 August 2018, as detailed in Table C of the report**
- 2.4 To Note the Treasury Management Activity for the period 1 April 2018 to 31 August 2018 as detailed in section 6 of the report.**

3. General Fund Revenue Account

- 3.1 On 6th March 2018 at Ordinary Council, the General Fund budget was set with a 2018/19 break even budget. This included a proposed savings target of £1.036m for 2018/19 which has been incorporated into the original budget reporting position of General Fund net expenditure shown in Table A.
- 3.2 On the 19th June 2018, Policy, Project and Resources Committee was reported a revised position statement following the 2017/18 outturn showing a carried forward working balance of £3.305m. This revised working balance position shown at the bottom half of Table A

Table A – General Fund Revenue Account as at 31st August 2018

	2017/18 Actual	2018/19 Current Budget	2017/18 Estimated Outturn
	£'000	£'000	£'000
Total General Fund Net Expenditure	9,747	8,940	9,023
Total Funding	(9,660)	(8,940)	(8,940)
Funding Gap	87	0	83
Working Balance b/fwd	3,742	3,305	3,305
Funding Gap	87	0	83
Earmarked spend on balances	350	0	0
Working Balance c/fwd	3,305	3,305	3,222

- 3.3 The General Fund Revenue Account estimated outturn is currently £83k deficit as at 31st August 2018.
- 3.4 This position is after taking into account the following pressures:
- Operational Service review saving £350k, only half of this will be achieved as the review is to be implemented half way through this financial year
 - Additional Lease Income £95k, the delay to the legalities of this has resulted in no additional income expected for 2018/19

- Transport Related Expenditure £64k, due to the service review being implemented halfway through the year, new vehicles have not been procured. Therefore, maintenance increase to existing fleet has increased for this year.
- Interest Payable £112k – Borrowing costs on Loans to SAIL.
- Grants & Reimbursement Income £98k, the majority of this is due to Waste Disposal/ Recycling Income – As the demand on recycling decreases the amount paid to Council has also decreased
- Parking Income £60k – Work on improving the MSCP has resulted in the closure of floors, in addition Hunters & Friars car park was not returned to the Council at the beginning of the financial year from Crossrail as assumed, so charging on these car parks have been delayed

3.5 The following savings have also been taken into account:

- Vacancy factor £55k, unfilled posts due to agency being used or natural vacancy due to timeline of recruitment.
- Pension Deficit funding £182k, as the organisation has naturally decreased in size, with the successful shared service and managed services, the council's pension strain has decreased to reflect this.
- New Ways of Working Initiatives £72k, moving out the Town Hall has encouraged officers to think alternatively to how they work, this has resulted in cost savings, on postage, printing & stationary and computing
- Asset Management £14k, tighter control on how Council assets are managed have seen savings on Building R&M and Utilities.
- Commercial Income £79k – Success of setting up Seven Arches Investment Limited as resulted in the Council being able to provide services for SAIL and charge competitive market rates for this work.
- Interest Receivable £119k – Return on Investments and Loans to SAIL

3.6 Overall, there is an adverse position of £83k, officers are continuing to look at opportunities to improve upon this position and therefore close the Funding Gap even further during the remainder of the financial year, to achieve a break-even position as budgeted.

3.7 Closing working balance is currently forecasted at £3.2m, which is still within the Council's minimum reserve level of £2.2m.

4. Housing Revenue Account

- 4.1 On 6th March 2018 at Ordinary Council, The Housing Revenue Account was set with a 2018/19 surplus of £116k shown in Table B.
- 4.2 On the 19th June 2018, Policy, Finance and Resources Committee reported the 2017/18 Housing Revenue Account outturn as a surplus of £494k. This has led to carried forward working balance of £2.041m shown at the bottom half of Table B.

Table B – Housing Revenue Account Position as at 31st August 2018

	2017/18 Actual	2018/19 Current Budget	2018/19 Estimated Outturn
	£'000	£'000	£'000
Total Housing Service Expenditure	8,965	8,497	8,595
Total Housing Service Income	(13,066)	(13,094)	(13,031)
Non Service Costs	3,107	4,481	4,454
Appropriations	500	0	0
(Surplus)/Deficit for HRA	(494)	(116)	18
Working Balance b/fwd	1,547	2,041	2,041
(Surplus)/Deficit for HRA	(494)	(116)	18
Working Balance c/fwd	2,041	2,157	2,023

- 4.3 The Housing Revenue Account estimated outturn is currently showing a deficit of £18k as 31st August 2018 which is a difference in position of £134k.
- 4.4 One of the Pressures that Housing Revenue Account is currently facing is the Revenue contribution to capital and the additional cost required to fund slippage on the Capital program from 2017/18 that has not yet been funded from revenue because HRA is self-funding.
- 4.5 Due to the new R&M contract beginning June 2019, officers this year are ensuring all current R&M work is completed before the new contract

starts. This has resulted in the HRA planning to use £225k of earmark reserves to fund the backlog of work.

4.6 Other pressures include:

- Supervision & Management £92k, communal utility costs are increasing as the share market price increases. This variance also covers the use of consultants through the repairs & maintenance procurement exercise.
- Rents, Rates, Taxes & other Charges £16k, increase to insurance and long-term voids increase council tax payable.
- Bad debt 20k, as arrears increase the bad debt of these arrears increase.
- HRA Income £63k, long term voids and right to buy factor decrease income collectable.
- Revenue Contribution to Capital program £146k, additional revenue funds to fund the planned capital expenditure on affordable housing.

4.7 Savings within the HRA include:

- Vacancy Factor £30k, vacancies within Caretaking and Sheltered Schemes are being trialled to determine the structure required to deliver services to tenants.
- Interest and Debt management charges £73k, transfer of shops to the General Fund also transfers the PWLB debt that finances these shops. Therefore, interest payable is due by the General Fund.
- Payments to the Pension Fund £100k, with current vacancies and in line with 17/18 actual, pension strain on the HRA has decreased.

4.8 Officers will continue to review projected spend so the HRA can potentially make a surplus as originally budgeted.

5. Capital Program

5.1 On 6th March 2018 the Capital program was agreed. On 19th June 2018 the slippage was agreed. Bringing the total capital program to £22.160m

5.2 Table C shows the current Capital program and estimated outturn regarding the Capital program and how the program will be funded.

Table C – Capital Projects and Funding as at 31t August 2018

<u>Capital Projects</u>	Current Budget	Estimated Outturn	Proposed Slippage
ICT Services	250	250	0
Town Hall	5,205	5,205	0
Asset Management	919	200	(719)
SAIL Borrowing	30,000	6,000	(24,000)
Equipment Purchase S106	41	41	0
Vehicle Replacement Program	791	300	(491)
Play Area Refurbishments	151	151	0
Irrigation Golf Course	29	29	0
Environment - including incursion defences	49	49	0
Cemetery Headstones	35	35	0
Memorial wall	100	100	0
Warley Sports pavillion	170	0	(170)
Parks Infrastructure	125	125	0
Warley Park - S106	125	125	0
Cemetery Infrastructure	191	191	0
MSCP	1,900	1,750	(150)
Other Parking Improvements	10	10	0
Home Repairs Assitance grants	30	30	0
Disabled Facilities Grant	250	250	0
CCTV Upgrade	16	16	0
King Edward Road Development	500	0	(500)
Renaissance Capital Grant	39	39	0
Highways match Funding with ECC	0	100	100
<u>General Fund Total</u>	<u>40,926</u>	<u>14,996</u>	<u>(25,930)</u>
HRA Decent Home Standard	3,115	1,971	(1,144)
HRA Affordable Housing Development	2,832	2,832	0
HRA Parking Spaces	25	0	(25)
<u>HRA Total</u>	<u>5,972</u>	<u>4,803</u>	<u>(1,169)</u>
<u>Total</u>	<u>46,898</u>	<u>19,799</u>	<u>(27,099)</u>
<u>Capital Funding</u>			
General Fund Capital Receipts	2,965	3,593	628
HRA Retained Capital Receipts	850	850	0
Borrowing	37,473	10,915	(26,558)
Government Grants	250	250	0
Section 106	238	238	0
HRA Revenue Contributions	1,982	1,982	0
HRA Major Repairs Reserve	3,140	1,971	(1,169)
<u>Total</u>	<u>46,898</u>	<u>19,799</u>	<u>(27,099)</u>

- 5.3 Based on the current outturn, all capital receipts will be used to fund 2018/19 capital program. Any future capital projects will require borrowing in order to fund these projects.
- 5.4 It is assumed the proposed slippage will be funded by borrowing in 2019/20. Officers will review the future capital program and funding alongside the Draft Medium Term Financial Plan due November 2018.
- 5.5 Slippage is due to the following:
- Asset management – Funds were set aside regarding works required for the Joint venture Procurement. As the procurement exercise has developed the works will not be required until future years.
 - SAIL Borrowing – On 27th June, Council agreed a drawdown facility for Seven Arches Investment Ltd of up to £30 million. £6 million has been currently utilised and no further funds are anticipated to be drawn down currently.
 - Vehicle Replacement Program – There is a need to replace vehicles in the current fleet, however this has been delayed while the operational service review is implemented.
 - Warley Sports Pavilion – Whilst feasibility studies are carried out and other funding sources investigated, works not planned to commence until 2019/20.
 - MSCP – The concrete repairs along with additional works for CCTV enhancement and installation of dry risers has been achieved below budget.
 - King Edward Road Development – On 20th June 2017 PP&R approved the development of two semi-detached properties at King Edward Road, subject to planning approval. Currently, planning has not been granted as access rights are being investigated. Therefore, no planned spend for 2018/19.
 - Highways match funding – The underspend from MSCP is to be used to match fund with Essex County Council for highway improvements within the Borough.
 - HRA Decent Home Standards – Work to HRA properties currently include compliance work to properties. Major planned works such as bathroom and kitchen renewals will commence as a work program once the new R&M contract is awarded.
 - HRA Parking Spaces – Feasibility studies are to commence this year, therefore works most likely to commence in the next financial year once sites are identified and agreed.

6. Treasury Management & Investment Activity 2018/19

6.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by Council on 6 March 2018.

6.2 This report presents an update on the Council's treasury activities covering the first five months of the 2018/19 financial year.

Investments

6.3 The Council's investment balances at 1 April and 31 August are outlined in Table D: -

Table D – Council's Investment Balances

	£000
Investments at 1 April 2018	14,000
Investments at 31 August 2018	15,000
Increase	1,000

6.4 The increase in investment balances has been modest, with cash flows into the Council being largely offset by spend on capital schemes and operational activities. The £15m balance is mostly represented by fixed term deposits and is spread as follows: £8m other local authorities; £7m banks and building societies.

6.5 The investment balances are expected to remain relatively constant to the end of January 2019 and to decrease over the last two months of the financial year, as council tax and business rates receipt tail off.

6.6 The latest forecast is for the year-end investment balance to be approximately £6m, though the actual amount will depend on factors such as the size of any slippage on the capital programme.

Borrowing

- 6.7 Table E identifies the loans held by the Council at 31 August 2018:

Table E - Loans as at 31 August 2018

Category	Start Date	Repayment Date	Interest rate	Amount £'000
<u>HRA</u>	28/03/2012	28/03/2022	2.40%	5,000
	28/03/2012	28/03/2027	3.01%	10,000
	28/03/2012	28/03/2032	3.30%	15,000
	28/03/2012	28/03/2037	3.44%	15,000
	28/03/2012	28/03/2042	3.50%	14,166
TOTAL				59,166
<u>General Fund</u>	30/04/1995	30/04/2055	8.88%	800
	24/04/1995	24/02/2055	8.88%	800
	08/01/2003	08/01/2028	4.88%	400
	03/08/2018	04/02/2019	0.75%	4,000
TOTAL				6,000
	Total			65,166

Seven Arches Investment Limited (SAIL)

- 6.8 The Council recently advanced £6 million to SAIL in line with the drawdown facility agreed at Ordinary Council on 27 June.
- 6.9 This £6 million is currently financed by £4 million short term borrowing and £2m use of existing cash balances
- 6.10 Officers are seeking external advice as to how best schedule the debt long term to achieve the optimum interest rate payable.

7. Reasons for Recommendation

- 7.1 Effective financial management underpins all of the priorities for the Council and will enable the Council to operate within a sustainable budget environment.

8. Consultation

- 8.1 None

9. References to Corporate Plan

- 9.1 The Medium Term Financial Plan is linked to achieving the vision in the corporate plan.

10. Implications

Financial Implications

Name & Title: Jacqueline Van Mellaerts, Interim Chief Finance Officer

Tel & Email: 01277 312 500

jacqueline.vanmellaerts@brentwood.gov.uk

- 10.1 The financial implications are set out in the report.

Legal Implications

Name & Title: Daniel Toohey, Head of Legal Services & Monitoring Officer

Tel & Email: 01277 312 860 **daniel.toohey@brentwood.gov.uk**

- 10.2 *There are no direct legal implications arising from this report.*

Other Implications - Risk Management

- 10.3 Finance Pressures is an existing Risk on the Council Strategic Risk register. The outcome of this Budget monitoring update has not altered the current risk rating of this specific risk, as it is currently set at the highest level.

11. Background Papers

- 11.1 Available from the Finance Department

Report Author Contact Details:

Name: Phoebe Barnes, Interim Financial Controller

Telephone: 01277 312 839

E-mail: **phoebe.barnes@brentwood.gov.uk**