Committee(s): Policy, Resource and Economic Development	**Date:** 11th September 2019
Subject: 2019/20 Budget Monitoring and Treasury Management Update	**Wards Affected:** All
Report of: Jacqueline Van Mellaerts, Director of Corporate Resources	**Public Report**
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Summary

This report provides the Policy, Projects & Resources Committee with an update to the 2019/20 General Fund Revenue Budget, Housing Revenue Account and Capital Program that was agreed at Council on 27th February 2019. It is based upon actual expenditure and income from April to July and predicts a forecast for the end of the 2019 financial year.

The report also gives an update regarding Treasury management & investment activity for 2019/20 and in accordance with the Treasury Management Strategy.

The General Fund is forecasting a £267K deficit.

On 10th July 2019 meeting, members noted concerns on overspends on certain line items with the 2018/19 Outturn report and asked for these budgets overspends to be explained and informed of cost control measures adopted to reduce future overspends. These specific line items have been addressed at paragraph 3.7.

The Housing Revenue Account is forecasting a net operating deficit of £267k.

The Capital Programme is forecasting to underspend by £9.539m; the updated position includes slippage brought forward from 2018/19.

Recommendation(s)

Members are asked to:

- To note the projected outturn forecasts and the reserve position for 2019/20 as set out within the report.

- To note the Treasury Management Activity and revised Prudential indicators included within the report.

Main Report

General Fund Revenue Account

1. On 27th February 2019 at Ordinary Council, the General Fund budget was set with a 2019/20 deficit of £185k. This included a proposed savings target of £210k for 2019/20 which has been incorporated into the original budget reporting position of General Fund net expenditure shown in Table A.

2. On the 10th July 2019, Policy, Resources and Economic Development Committee (PRED) was reported a revised position statement following the 2018/19 outturn showing a carried forward working balance of £3.117m. This revised working balance position shown at the bottom half of Table A

Table A – General Fund Revenue Account as at 31st July 2019

	2018/19 Actual £'000	2019/20 Current Budget £'000	2019/20 Estimated Outturn £'000
Total General Fund Net Expenditure	**8,873**	**9,102**	**9,259**
Total Funding	**(8,685)**	**(8,917)**	**(8,992)**
Funding Gap	**188**	**185**	**267**
Working Balance b/fwd	**3,305**	**3,117**	**3,117**
Funding Gap	**188**	**185**	**267**
Working Balance c/fwd	**3,117**	**2,932**	**2,850**

3. The General Fund Revenue Account estimated outturn is currently £267k deficit as at 31st August 2019.

4. Appendix A provides information in relation to the General Fund revenue budget. This information is presented in line with the current corporate vision. The appendix provides information in relation to net expenditure per area under each vision heading.

5. Appendix B summarises the subjective analysis of the current general fund variances.

6. Total expenditure for the Council is less than budgeted, overall expenditure is currently forecast to be £373k less than budgets. This is predominantly due to Vacancy Factor within the Council's establishment and the decrease expected on the Interest Payable budget.

7. The increase in deficit of £82k, from the budget deficit of £185k to £267k is predominantly attributed to the income budgets for the Council not being achieved. Currently income projections are forecasting a variance £456k, this variance is primarily due to the income target form Residential and Commercial income at the Town Hall only being part achieved this financial year, due to the delay to the completion of the building.

8. Overall, there is an adverse position of £267k, 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

Key Areas to Note

9. At the previous PRED committee, members noted concerns on certain line items within 2018/19 Provisional Outturn and Treasury management report. These individual line items were within *Appendix C – Detailed Subjective Variance Analysis 2018/19*. Members required explanation of the budget overspends and what cost control measures are being adopted to reduce these overspends.

10. The subjective line items requiring further information were:

- Managed Services
- Other Professional Fees
- Direct Vehicle Costs
- Legal Fees
- Waste Disposal
- Waste Collection Income

11. The required Information is detailed within Appendix C.

Seven Arches Investment Limited

12. The Council holds 100% shareholding in Seven Arches Investment Limited.

13. This company seeks to engage in a variety of commercial activities that is asset based initially.

14. The Council seeks a return from this company. Currently this is through charging interest on the loans advanced to the company as well as charging the company for services supplied. Table B summarises the Commercial targets built into the Council's current MTFP.

Table B – SAIL's Expected Return on Investment

	2018/19 Actual £'000	**2019/20 Estimated Outturn £'000**	**2020/21 Forecast £'000**	**2021/22 Forecast £'000**
Commercial Saving Target	423	800	780	780
Interest Net	(178)	(590)	(375)	(375)
Service Level Agrement Recharge	(406)	(406)	(405)	(405)
Total Income from SAIL	(584)	(996)	(780)	(780)
Difference	**(161)**	**(196)**	**0**	**0**

15. Orginally it was assumed that the Council would fund SAIL's loans through Public Works Loan Board at a rate of 3% and therefore making a 1% return on the loan advanced. However, the Council is currently funding all borrowing on a short term basis due to the rate averaging at 1%. Therefore the Council is able to make short term gains on the loans to SAIL of 3%. This is not sustainable due to risk associated with the fluctuations in interest rates in the economy. Officers are currently developing a borrowing strategy in line with it's Medium-Term Financial Plan.

16. The additional return on the investment for 2018/19 and 2019/20 is due to the Council be able to access cheap short-term borrowing, not because SAIL has achieved above it's planned target.

17. 2019-20 assumes that SAIL will be requesting a loan draw down of £15 million in December 2019 to fund a property purchase. This will generate additional interest of £200k for the 4 month period. If there is no property to purchase then SAIL will not be requesting the loan drawdown and there is risk the Council will not achieve it's saving target built into the budget.

18. Future forecasts are the current forescast built into the base MTFP. It is assumed that SAIL will have utilised it's £30 million drawdown facility by 31st March 2020. Therefore generating gross Interest of £1.2 million. It is assumed the Council will look to support these loan with secured long term borrowing at a rate around 2.75%. Therefore net income to the Council would be £375k.

19. The service level agreement is assumed to remain at around £400k per annum, however this is reviewed on an annual basis. It is charge to SAIL for support such as financial support, office accommodation, ICT charges etc.

Working Balance and Reserves

20. Closing working balance is currently forecasted at £2.850m, which is still within the Council's minimum reserve level of £2.2m.

21. The General Fund balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the working balance should provide a reasonable allowance for unquantifiable risks or one-off exceptional items of expenditure that are not covered within existing budgets.

22. The total reserve balance as a 31st March 2019 is £4.820 million; the budgeted drawdown requirement was £1.036m. The complete revised reserves position is set out in Appendix D.

23. The reserves are grouped into 5 types of reserves.

- **Service** – Monies requested by the service from existing budgeted to be used on specific plans or projects.
- **Trading** – Trading Accounts are held so that over a period of three financial years the account should balance to zero. Any surplus is taken into account when setting future years fees and charges.
- **Specific** – Monies that the Council has received that have restricted conditions on how the money can be used.
- **Funding** – Earmarked specifically to mitigate financial risks to the Council

- **Transformation** – Monies specifically earmarked to fund the Councils transformational activities.

24. Based on the current forecast, a further £268k is required from Earmarked reserves this is to fund the following expenditure:

    - £143k of Joint Venture Costs to finalise the contract, funded from Organisational Transformation Reserve (OTR)
    - £60k ASELA subscription, funded from OTR
    - £11k for High Street Clear Up funded from Waste Management Reserve.
    - £54k for Organisation Transformation.

25. There is a decrease on required budgeted drawdown of £112k

    - £33k will be earmarked to the Health and Wellbeing Reserve for funding this year, to be spent in future years.
    - £8k less is required to fund fixed term contracts in Homelessness admin.
    - £71k reduction on required expenditure on the Local Development Plan.

26. Overall the net effect is an increase in drawdown from reserves of £156k

Housing Revenue Account

27. On 27th February 2019 at Ordinary Council, The Housing Revenue Account was set with a 2019/20 surplus of £60k shown in Table C.

28. On 10th July 2019, Policy, Resources and Economic Development Committee reported the 2018/19 Housing Revenue Account outturn as a deficit of £138k. This has led to carried forward working balance of £1.902m shown at the bottom half of Table C.

Table C – Housing Revenue Account Position as at 31st July 2019

	2018/19 Actual £'000	2019/20 Current Budget £'000	2019/20 Estimated Outturn £'000
Total Housing Service Expenditure	**9,450**	**9,155**	**9,799**
Total Housing Service Income	**(13,049)**	**(12,954)**	**(13,021)**
Non-Service Costs	**4,737**	**3,739**	**3,489**
Appropriations	**(1,000)**	**0**	**0**
(Surplus)/Deficit for HRA	**138**	**(60)**	**267**
Working Balance b/fwd	**2,040**	**1,902**	**1,902**
(Surplus)/Deficit for HRA	**138**	**(60)**	**267**
Working Balance c/fwd	**1,902**	**1,962**	**1,635**

29. The Housing Revenue Account estimated outturn is currently showing a deficit of £267k as 31st July 2019 which is a difference in position of £327k.

30. Detailed Variance analysis can be found within Appendix E

Pressures include:

- Increase in Premises related expenditure, mainly associated with Planned Maintenance costs, these costs have increased above budget due to work plans formed within year, from the HSE review. In addition, Snakes Hill sewerage plant has been delayed and therefore the costs associated with emptying the tanks have been forecast until December.
- Fees and Services have predominantly increased due to asbestos surveys needing to be carried out within year. In addition, decant costs of Brookfield Close have been incurred that were not originally budgeted for.
- Communications and Computing, a large investment is required in ICT for housing.
- Increase in Project management support costs to support the workstreams required from the HSE workplans to ensure the Council delivers them in a timely manner.

Savings within the HRA include:

- Voluntary minimum revenue provision of £250k is forecast not to be met this year. This is to offset the increase in costs within Repairs and Maintenance for compliancy work required by the HSE workplans.
- Increase to Council Dwelling Income, this increases as properties built or bought, are charged at Affordable Rent. As well as tight turn around on void periods maximises dwelling income.

31. Overall the deficit is mainly attributed to the extra resource required in satisfying the works required by the HSE. Officers will continue to review projected spend so the HRA can appropriately control the current financial pressures the HRA faces.

Capital Program

32. On 27th February 2019 the Capital program was agreed. On 10th July 2019 the slippage was agreed. Bringing the total capital program to £40.459m

33. A further £173k was added to the Capital programme on 30th July 2019 at Extraordinary Council. This was an increase to the total for King Georges Play Field Pavilion. Therefore, the current total capital programme is £40.641m

34. Appendix F shows the current Capital program and estimated outturn regarding the Capital projects.

35. Based on the current outturn, all capital receipts will be used to fund 2019/20 capital program. Any future capital projects will require borrowing in order to fund these projects.

36. 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 2019.

    Projects that are projecting to overspend are:

    - Town Hall Redevelopment – The £1m forecast is a prudent forecast due to the delay in completion. These extensions of time are currently being negotiated between the contractor and Council. A more detailed report on the completion of the Town Hall development will be presented at a future PRED committee.

- MSCP – The slippage from 2018/19 of £90k was not enough to cover the final professional fees associated to this project. The project is now complete and the final build costs was £1.9m

37. Underspends on the Capital Programme that will not require slippage are:

- Community Halls - £105k the works required to the halls have come in less than anticipated.
- Depot Works - £163k this project has now be halted pending further review on the depot site
- Disabled Facilities Grant – this is funded by an external grant.
- HRA Decent Homes - £2.566m this underspend will not be carried forward. Instead housing will be working up a new capital work programme to be submitted based on the stock condition surveys that new contractor is currently carrying out.

Forecast Slippage is due to the following:

- King Georges Pavilion - £6.673m due to delay in submitting Planning Application the build of this project is most likely to begin early 2020. Therefore, the majority of expenditure will be incurred in the next financial year.
- Football Hub – £690k feasibility study needs to commence to inform the plans on the site for development. Therefore, development will occur in the next financial year.
- Car Park Improvements - £200k Original planned works to updating machines have been delayed due to the review of the contract on taking contactless payments.

Treasury Management & Investment Activity 2019/20

38. The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by Council on 27th February 2019.

39. This report presents an update on the Council's treasury activities covering the first four months of the 2019/20 financial year.

<u>Investments</u>

40. The Council's investment balances at 1 April and 31 July are outlined in Table D.

Table D – Council's Investment Balances

	£000
Investments at 1 April 2019	2,000
Investments at 31 July 2019	3,000

41. The investments made during 2019/20 are shown in Appendix G.

42. The investment balances are lower than previous years because the Council used part of its cash balances to part-fund the capital programme during 2018/19. This approach was better value than borrowing externally because the interest payable on external loans would have been higher than the interest income foregone on the utilised cash balances.

Borrowing

43. At 31 July 2019, the Council held long-term borrowings of £61.166m and short-term borrowings (due to mature within one year) of £10.000m. A breakdown of these balances is shown in Appendix H.

44. The short-term borrowings have been raised in order to finance the long-term loans made to SAIL. These have all been borrowed from other local authorities at an average interest rate of 1.02%. At this point in in time, this remains a more economic option than borrowing long-term from the Public Works Loans Board. PWLB rates are an average of 1.65% for between periods between one and twenty years, and 2% for periods beyond 20 years.

45. The Council will continue to finance its borrowing requirements by short-term borrowing from other local authorities whilst this remains the most economic option. However, officers are currently reviewing the Council's Borrowing Strategy and portfolio of borrowing against external economic factors.

Prudential and Treasury Indicators

46. Table E below sets out some revised prudential and treasury indicators for 2019/20. These have changed as a result of the resulting from the capital programme slippage and the consequential reduction in the forecast borrowing, as detailed in section 6. Members are requested to approve the revised indicators.

Table E – Revised Prudential and Treasury Indicators for 2019/20

Indicator	Treasury Strategy (£000)	Revised (£000)
Prudential Indicators		
Capital expenditure	36,478	31,102
Capital financing requirement (note 1)	118,233	115,283
Treasury Indicators		
Operational boundary for external debt (note 2)	123,233	120,283
Authorised limit for external debt (note 3)	126,233	123,283
Borrowing in-year	25,912	22,024
Actual gross debt at year end	100,578	95,190

47. Capital Financing requirement: this is the Council's underlying borrowing requirement.

48. Operational Boundary for external debt: this is the limit beyond which external debt would not normally be expected to rise.

49. Authorised limit for external debt: this is the maximum level of borrowing that the Council is permitted to hold.

Reasons for Recommendation

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

Consultation

51. None

References to Corporate Plan

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

Implications

Financial Implications
Name & Title: Jacqueline Van Mellaerts, Director of Corporate Resources
Tel & Email: 01277 312829 /jacqueline.vanmellaerts@brentwood.gov.uk

53. The financial implications are set out in the report.

Name & Title: Paula Harvey, Corporate Governance Solicitor & Deputy Monitoring Officer
Tel & Email: 01277 312705/paula.harvey@brentwood.gov.uk

54. The Council has duties within an existing legal framework to set a balanced budget for each financial year and to monitor income and expenditure against this budget.

Economic Implications
Name & Title: Phil Drane, Director of Strategic Planning
Tel & Email: 01277 312610/ philip.drane@brentwood.gov.uk

55. No specific economic implications for the wider area.

Other Implications - Risk Management

56. 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.

Background Papers

2018/19 Provisional Outturn and Annual Treasury Management Report

Appendices

Appendix A – Corporate Vision 2019/20 Forecast
Appendix B – General Fund Subjective Variance Analysis
Appendix C - 2018/19 General Fund Variance Detail
Appendix D – Forecast Earmark Reserve Position
Appendix E – HRA Subjective Variances
Appendix F – 2019/20 Capital Program Forecast
Appendix G – Investment made 2019/20
Appendix H – Current Borrowing 2019/20