

Corporate Policy & Resources Committee

19 February 2024



Title	<i>2024-25 Funding activity (below the line) to support the Council's Net Expenditure Budget</i>
Purpose of the report	To note the "below the line" funding elements of the 2024-25 Budget to support the Net Expenditure Budget of £26,099,100, as part of the overall budget process for 2024-25
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Addressing housing needs Resilience Environment Services
Recommendations	The Committee is asked to note the report.
Reason for Recommendation	<i>This relates to the Council's below the line Cost Centres and forms part of the funding element of the 2025-26 Net Revenue Expenditure budget, often referred to as "above the line" expenditure.</i> <i>This is a new element to the Committee's reporting process and is aimed at being totally transparent with the budget setting process, in particular the funding element of the budget setting process, particularly around Commercial and regeneration income.</i>

Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The Council has a legal obligation to set a balanced budget for 2024-25 at its Council Meeting on 22 February 2024, The Committee is asked to note the service plan for income and regeneration portfolio, together with appendices a to D. 	<ul style="list-style-type: none"> As part of producing a balanced budget, the Investment & Regeneration portfolio, together with the items detailed in the report below provide the basis of the 2024-25 Budget funding for the net relevant expenditure budget being proposed to Council.

<ul style="list-style-type: none"> Appendix E provides a summary of the draft Budget by cost centre for the Committee to provide a comparison and benchmark for each member of the Committee. Appendix A provides the 2024-25 outline below the line budget at summary level. To note section 1 below. 	<ul style="list-style-type: none"> The budget is now balanced and any changes that reduce the proposed funding plans will mean that this Committee must produce alternative solutions to rebalance the budget, either by reducing services or increasing funding from other areas, i.e., increase Council Tax. To fulfil the Council’s statutory obligation to agree a balanced Budget for 2024-25 at the Council Meeting on 22 February 2024, of before 31 March if not agreed.
<p>This is what we want to do about it</p>	<p>These are the next steps</p>
<ul style="list-style-type: none"> To review the summary and appendices, and ask relevant questions, noting that many of the items are outside of Council’s control, i.e., Lower Tier Services Grant re Core Spending Power. Note the opportunities available to the Council, from New Homes Bonuses in the future, for achieving targets. 	<ul style="list-style-type: none"> to note the 2024-25 funding proposals to support the proposed net expenditure budget.

1. Key points

- 1.1 In addition to the information below, on Monday 29 January, Officers became aware of discussions with a major employer in the area, who is a tenant of the Council, and the intention to retain them within the borough.
- 1.2 The discussion is at an early stage and will require final Council approval.
- 1.3 The outline high level details are the cost of the building works could be between £1.5-2.0m and officers will be working to confirm these plans with the tenant over the next few months.
- 1.4 Therefore, it is unknown of these costs will be capital or revenue in nature, nor is it known what the timings for the work will be, and it is possible that the work could straddle two budget years.
- 1.5 Further, it may necessitate either deferring 2024-25 and 2025-26 planned refurbishments works to facilitate this expenditure, or it may require support from the Sinking Fund.
- 1.6 Once a detailed report has been produced and all options considered, Council will have to make its choice.

For now, due to the discussions being at such an early stage, this has not been included in the 2024-25 Budget setting process.

2. Appendices

2.1 Included with this report are six appendices.

- (a) Appendix A – 2024-25 Outline Budget Report
- (b) Appendix B – 2024-25 Commercial & Regeneration statement of contribution
- (c) Appendix C – Schedule of Commercial and Regeneration Contribution for the 4 years ended 31 March 2028
- (d) Appendix D – 2024-25 Breakdown of Minimum Revenue Provision between Commercial, Regeneration and Municipal portfolios.
- (e) Appendix E - 2024-25 Breakdown of Interest between Commercial, Regeneration and Municipal portfolios.
- (f) Appendix F – 2024-25 Detailed budget by cost centre.

3. Key issues

3.1 The draft 2024-25 Detailed Budget is effectively balanced, and therefore should this committee decide to:

- (a) reduce income or increase Revenue costs, it will increase the deficit and therefore Officers will be looking for the committee's suggestions to rebalance the budget.
- (b) Increase income or reduce costs, it will decrease the deficit and therefore the Committee can either use the savings elsewhere to deliver services to the Council's residents or it can used to reduce the funds taken from the Earmarked Revenue Reserves.

3.2 This committee has overall responsibility for the elements that make up the below the line activity that fund the Net Relevant Expenditure budget (above the line) and this then balances the budget.

3.3 The funding element is divided into four distinct areas:

- (a) Interest Earnings, including Commercial and Regeneration portfolios.
- (b) Apportionments (transfers) to/from Reserves
- (c) Funding from Government
- (d) Council Tax income

3.4 Interest Earnings

3.5 This section refers to the block of items starting with Investment Property Income per lease including regen and ending with Interest received on loans to Spelthorne Direct Services (SDS), followed by the heading **NET EXPENDITURE AFTER INTEREST EARNINGS**, as shown in appendix F.

3.6 This section generates £8,958,000 of net funding towards the Council's Net Expenditure Budget, the equivalent of 34.3%

3.7 As the Council develops its capabilities using the new Centros system, officers will be looking to disaggregate the Interest Payable and Minimum

Revenue Provision (MRP) so that it is split between commercial, regeneration and municipal portfolios.

- 3.8 To assist members of this committee, get behind these figures, attached with this report are the following appendices:
- (a) Appendix B – 2024-25 Commercial & Regeneration statement of contribution, which sets a one-page summary of the rental income, less landlord costs, interest payable, minimum revenue payments.
 - (b) Appendix C – Schedule of Commercial and Regeneration Contribution for the 4 years ended 31 March 2028. (A high-level summary)
 - (c) Appendix D – 2024-25 Breakdown of Minimum Revenue Payments between Commercial, Regeneration and Municipal portfolios.
 - (d) Appendix E - 2024-25 Breakdown of Interest between Commercial, Regeneration and Municipal portfolios.
- 3.9 The commercial and regeneration rental income and landlord costs are based on the Service Plan reviewed by this Committee in December.
- 3.10 The Minimum Revenue Provision and Interest payable figures are aggregates.
- 3.11 Capitalised Interest – this represents the interest charged on the loans for the Council’s direct housing development projects and as mentioned in previous reports, in the event that Council decides to dispose of one of the development projects or repurposes the site for an alternative use, the capitalised costs currently held in the Council’s balance sheet will need to be released to the Revenue Budget and this would have a significant impact on the council’s finances, if not managed in an orderly fashion.
- 3.12 Interest on cash equivalents – This represents the surplus funds that are invested in the short-term money market over the year.
- 3.13 LA & Other Loans Interest Received – this has been reduced to £nil, because the Council will be looking to internally fund the building of the leisure centre, acquisition of the 18 properties with the assistance of the Local Authority Housing Fund grant and a number of other capital projects, rather than take our loans from the Public Works Loan Board, which is currently 5.1%.
- 3.14 Should Council decide on an alternative method to fund these projects, then a favourable ‘windfall’ sum, could be received.
- 3.15 Interest Rec - Pooled Funds – Based on the current holding and expected returns Officers are forecasting a modest increase in income.
- 3.16 Interest received on loans to Knowle Green Estates (KGE) – Interest received forecast is reduced based on current levels of borrowing and the credit note in respect of Benwell 1, as previously advised to this Committee.
- 3.17 This forecast does not reflect any additional income from KGE as a result the transfer of the 18 properties acquired with the Local Authority Housing Fund capital grant, as the projections indicate that the additional marginal income, will just reduce the current level of losses being incurred by KGE and should reduce the approved level of annual financial support provided by the Council.
- 3.18 Interest received on loans to Spelthorne Direct Services (SDS) – the company is trading well and generating positive cashflow, and it is using this money to

reduce the aggregate loan balance and therefore, it will reduce the interest received.

3.19 **Appropriation to/(from) Reserves:**

3.20 This section refers to the block of items starting with Revenue Contributions to Capital Outlay and ending with Sinking Fund (Funding), followed by the heading **BUDGET REQUIREMENT** as shown in appendix F.

3.21 This section generates £3,111,500 of net funding towards the Council's Net Expenditure Budget, the equivalent of 11.9% of the overall funding of the net expenditure budget.

3.22 The use of the reserves to fund the Net Expenditure Budgets have been detailed in the growth bids approved by each Committee.

3.23 The Sinking Fund movement is covered by the Commercial and Regeneration portfolio as set out in appendix B below.

3.24 This Committee has approved the use of the Social Housing Initiative Fund Reserve to cover the £703.8k budget deficit and therefore balance the 2024-25 Budget.

3.25 **Funding from Government**

3.26 This section refers to the block of items starting with Allocation from National Non-Domestic Rate pool and ending with New Homes Bonus Grant, followed by the heading **NET BUDGET REQUIREMENT** as shown in appendix F.

3.27 It also included the row Collection Fund (Surplus)/Deficit

3.28 This section accounts for net funding of £5,298,500, the equivalent of 20.3% of the Council's Net Expenditure Budget

3.29 The information included in this section of the report are notified to the council by various third parties on the level of income the council will receive from the sources identified.

3.30 Council does not have any influence over these figures.

3.31 **Council Tax**

3.32 This section refers to the Council Tax figure only as shown in appendix F.

3.33 Using the Council Tax base figures of 39,241 for Band D equivalent properties, as agreed by Council on 14 December 2023 and multiplying this by the proposed 2024-25 Council Tax Charge of £222.41 this will generate £8,727,600 of council tax income, which represents 33.5% of the funding towards the Council's Net Expenditure Budget.

3.34 The actual Council Tax charge will be subject to Council approval, as part of the Detailed budget report

4. **Financial management comments**

4.1 Please refer to section 2 above.

5. **Risk management comments**

5.1 A key financial risk is highlighted at paragraph 3.11 above. 'As mentioned in previous reports, in the event that Council decides to dispose of one of the development projects or repurposes the site for an alternative use, the capitalised costs currently held in the Council's balance sheet will need to be

released to the Revenue Budget and this would have a significant impact on the council's finances, if not managed in an orderly fashion'. This risk area is also referred to in the Council's corporate risk register.

- 5.2 Section 3.19 of this report refers to the Council's use of reserves to support the delivery of a balanced budget for 2024/25.
- 5.3 Regarding content at section 1 of this report, financial risk implications, budgetary impact and any potential adverse effect on the sinking fund position will need to be rigorously identified, assessed and evaluated . It is noted that early-stage discussions are referred to.

6. Procurement comments

- 6.1 Any new Council contracts taken on as part of the revenue and capital growth bids will be subject to the Council's procurement policies.

7. Legal comments

- 7.1 Any contracts required in connection with the revenue and capital growth bids shall have to comply with the Contract Standing Orders and the Council's duty to deliver best value under the Local Government Act 1999.

The Legal Services (g.legal@spelthorne.gov.uk) will assist with the preparation, review and negotiation of the contract terms and conditions where necessary.

8. Other considerations

- 8.1 There are none.

9. Equality and Diversity

- 9.1 Individual projects are subject to equality and diversity impact assessments.

10. Sustainability/Climate Change Implications

- 10.1 All new actions and ongoing activities undertaken by the Council should meet the objectives of the Council's climate change strategy.

11. Timetable for implementation

- 11.1 Once approved the 2024-25 Detailed Budget will be presented to Council for approval at their meeting on 22 February.

12. Contact

- 12.1 Paul Taylor Chief Accountant – p.taylor@spelthorne.gov.uk

Background papers:

2024-25 - Reserve Strategy

2024-25 - Revenue Growth bids and funding bids for each Committee

Appendices:

Appendix A – 2024-25 Outline Budget Report

Appendix B – 2024-25 Commercial & Regeneration statement of contribution

Appendix C – Schedule of Commercial and Regeneration Contribution for the 4 years ended 31 March 2028

Appendix D – 2024-25 Breakdown of Minimum Revenue Payments between Commercial, Regeneration and Municipal portfolios.

Appendix E - 2024-25 Breakdown of Interest between Commercial, Regeneration and Municipal portfolios.

Appendix F – 2024-25 Detailed budget by cost centre.