

Meeting: EXECUTIVE

Portfolio Area: Resources

Agenda Item:

10

Date: 12 JULY 2016

4th QUARTER MONITORING REPORT GENERAL FUND AND HOUSING REVENUE ACCOUNT

KEY DECISION

| | |
|----------------------------------|--------------|
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1. PURPOSE

- 1.1 To update Members on the 2015/16 outturn positions for the General Fund and Housing Revenue Account (HRA) and to seek approval for revisions to 2016/17 revenue budgets, as a result of the 2015/16 pre-audited actuals.
- 1.2 To update Members on the Council's reserves and balances available to support revenue expenditure.

2. RECOMMENDATIONS

2.1 General Fund

- 2.1.1 That the 2015/16 actual net expenditure on the General Fund of £8,891,797 be approved, subject to the 2015/16 audit of the Statement of Accounts.
- 2.1.2 That new carry forward requests totalling £337,530 be approved for the General Fund (paragraph 4.1.1 of this report refers).
- 2.1.3 That the removal of 2016/17 General Fund base budget net savings totalling £361,840 (including HRA impact) be approved, this will contribute towards the Council's Financial Security objectives for 2017/18 (paragraph 4.2.4 of this report refers).
- 2.1.4 That Members approve the net reduction of £266,620 to the 2016/17 working budget (one year only pressures (£95,220) and ongoing savings (£361,840) (paragraph 4.3.5 of this report refers).

2.2 Housing Revenue Account

- 2.2.1 That the 2015/16 actual in year surplus on the HRA of £3,251,538 be approved, subject to the 2015/16 audit of the Statement of Accounts.

- 2.2.2 That new carry forward requests totalling £324,370 be approved for the HRA (paragraph 4.8.2 of this report refers).
- 2.2.3 That Members approve the removal of 2016/17 HRA budget net savings of £203,740 which will contribute towards the Council's financial security objectives for 2017/18 (paragraph 4.7.2 of this report refers).

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations which contain provisions on financial management, annual accounts and audit procedures were amended with effect from 1 April 2015. The main change to the regulations comes into force in 2018 when there is a requirement to publish the Statement of Accounts before the 31 May and the external audit report completed by the end of July.
- 3.2 Within the amended regulations there is still no requirement for Member approval of the Statement of Accounts prior to the completion of the external audit and only the Responsible Financial Officer must certify the presentation of the pre audit annual accounts (no later than the 30 June 2016 for financial year end of 31 March 2016).
- 3.3 The 2015/16 audited accounts must be presented to Members (Audit and Statement of Accounts Committee) by 30 September; however this would mean that Members would not have been presented with financial information for the year end position for both revenue accounts until September. The financial figures contained within this report are subject to external audit and could change.

3.4 General Fund

- 3.4.1 The Council's original 2015/16 General Fund net revenue budget of £10,020,080 (including Non Domestic Rates (NDR) section 31 grant) was approved at Council on 25 February 2015. Subsequently Members have approved net budget decreases of £723,750 (including carry forwards) and a 2015/16 working budget of £9,296,330.

3.5 Housing Revenue Account (HRA)

- 3.5.1 The Council's HRA revenue budget of £2,698,930 (surplus) was approved at Council on 28 January 2015. Subsequently Members have approved budget increases of £530,630 and a 2015/16 working budget of £2,168,300 (surplus).

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 General Fund Budget 2015/16

- 4.1.1 The 2015/16 outturn position on the General Fund was net expenditure of £8,891,797 a decrease of £404,533 over the working budget of £9,296,330. However, included within this figure are carry forwards requests of £337,530 as listed in Appendix A. If carry forwards are excluded the net underspend is £67,003.

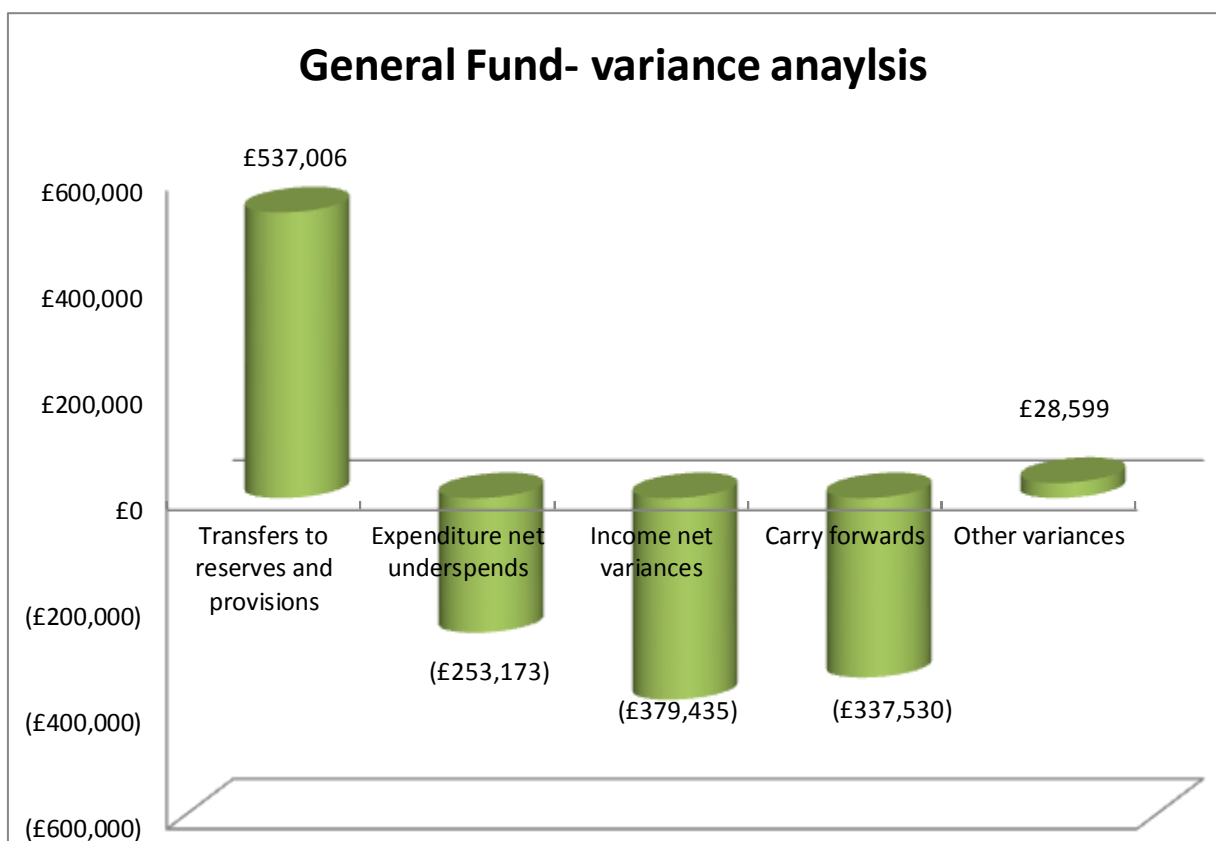
4.2 General Fund Underspends

4.2.1 The biggest monetary variance relates to **transfer to reserves and provisions** (£537,006). This included the return to allocated reserves for unspent New Homes bonus (NHB) funding.

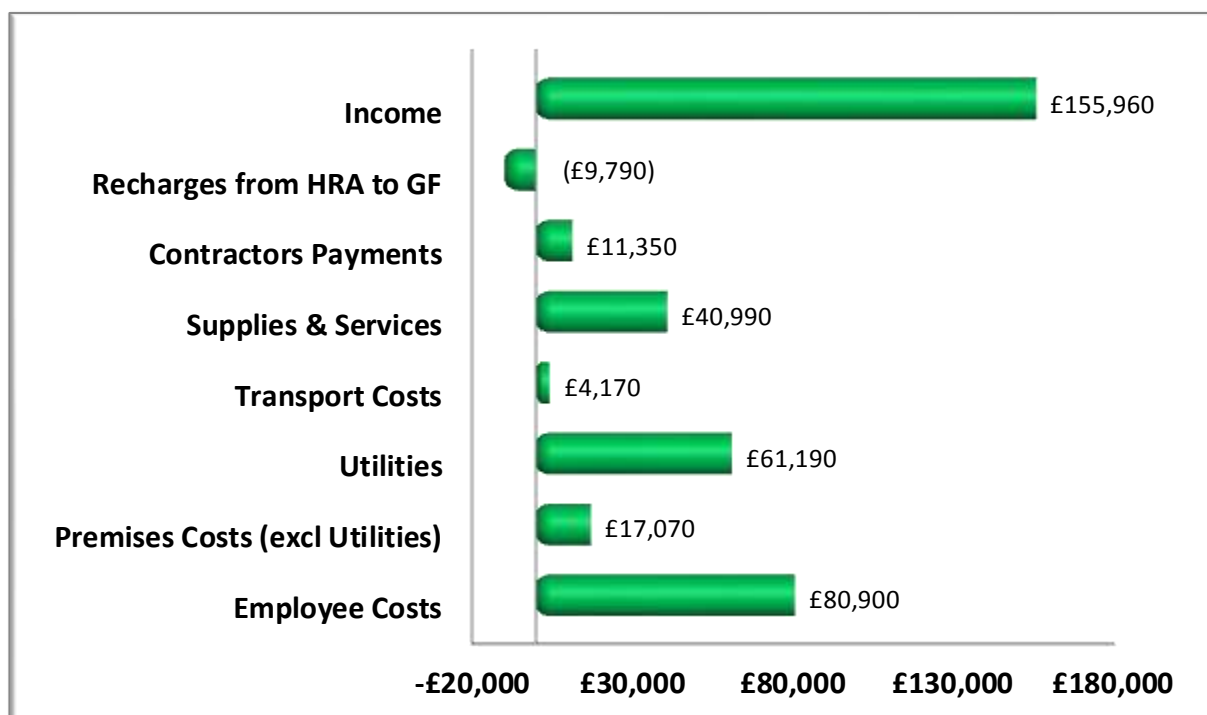
- Shrub bed improvements (£109,283) - This scheme came in below budget as existing staff were utilised to complete the works.
- Town centre capital schemes (£377,000) - will be spent in 2016/17 as reported in the Capital Strategy (February Council).

4.2.2 In addition £259,580 was transferred to the **Capital Reserve** making a total of £350,000 for 2015/16, in line with the General Fund Medium Term Financial strategy assumptions. Although the capital strategy assumes a contribution of £350,000 per year, the General Fund saving has to be realised before this transfer is made at the year end.

4.2.3 There was return to balances for a specific **provision** set up for flood damage in 2014/15, this is no longer required and has been returned to balances (£207,000).



4.2.4 The Council's 'Financial Security' priority contains five work strands, the first being identification of efficiency savings. Following a detailed analysis of the year end underspends, £361,840 can be removed from the 2016/17 budget and contribute towards the General Fund's future years saving target. The following chart identifies the areas in which the ongoing savings/ increase in income were found.



4.3 2015/16 – General Fund Out-turn Position

4.3.1 The impact of the 2015/16 outturn position on General Fund balances included in this report and detailed in Appendix A are summarised below.

| GENERAL FUND RESERVES: | 2015/16 Original Budget £ | 2015/16 Working Budget £ | 2015/16 Actual £ | Variance to Working £ |
|--------------------------------------|---------------------------|--------------------------|----------------------|-----------------------|
| General Fund Balance 1 April | (£4,890,626) | (£6,090,320) | (£6,090,320) | £0 |
| Net Budget (incl S31 Grant) | £10,020,083 | £9,296,330 | £8,891,797 | (£404,533) |
| Council Tax | (£4,894,102) | (£4,894,102) | (£4,894,102) | £0 |
| Retained Business Rates | (£3,802,744) | (£3,912,219) | (£3,933,936) | (£21,717) |
| Government Support | (£1,861,231) | (£1,861,231) | (£1,861,231) | £0 |
| Total Core resources | (£10,558,077) | (£10,667,552) | (£10,689,269) | (£21,717) |
| Net Contribution from/ (to) balances | (£537,994) | (£1,371,222) | (£1,797,472) | (£426,250) |
| General Fund Balance 31 March | (£5,428,620) | (£7,461,542) | (£7,887,792) | (£426,250) |

Summary of Movement

| | |
|--|-------------------|
| General Fund underspend | (£404,533) |
| Carry Forward Request | £337,530 |
| General Fund Variance | (£67,003) |
| NDR Pooling gain | (£21,717) |
| Total Variance after Carry Forwards | (£88,720) |

- 4.3.2 The General Fund had 2015/16 budgeted core resources of **£10,667,552**, which fund General Fund net expenditure with the remainder a contribution to or from balances. The actual 2015/16 resources were £21,717 higher than budgeted.
- 4.3.3 Core Resources are balances based on estimates for the year which remains unchanged with any in year changes in council tax and NDR adjusted for in future years' accounts.
- 4.3.4 The exception to this rule is the levy/top up due to/from the government on the actual 2015/16 NDR retained by the council. In 2015/16 Stevenage was part of a Hertfordshire Pooling arrangement with Hertfordshire County Council and four other district councils. The actual NDR income retained in 2015/16 was higher than the base line funding which would have been subject to the normal levy of 50%. Had the council not been in the 2015/16 pool the levy that would have been paid would have been £325,700. However by "pooling" the NDR yield with Hertfordshire County Council and the other districts the levy payment is reduced giving rise to a pooling gain of £230,897 to the Council. The pooling gain is recognised in this year while the variance between actual retained NDR income received and the estimate NDR will be recognised in the 2017/18 core resources.

| GENERAL FUND RESERVES: | 2015/16 Original Budget £ | 2015/16 Working Budget £ | 2015/16 Actual £ | Impact in 2015/16 £ | Impact in 2017/18 £ |
|-------------------------------|----------------------------------|---------------------------------|-------------------------|----------------------------|----------------------------|
| Estimated NDR | (2,848,851) | (2,472,894) | (2,588,819) | | (115,925) |
| Levy Payment | 425,995 | 264,520 | 325,700 | 61,180 | |
| Estimated Pooling gain | (200,000) | (148,000) | (230,897) | (82,897) | |
| Total | (2,622,856) | (2,356,374) | (2,494,016) | (21,717) | (115,925) |

- 4.3.5 The impact on the 2016/17 General Fund budget of the savings, pressures and carry forwards is summarised in the table below and will be incorporated in the General Fund Medium Term Financial Strategy (MTFS) update reported to September 2016 Executive.

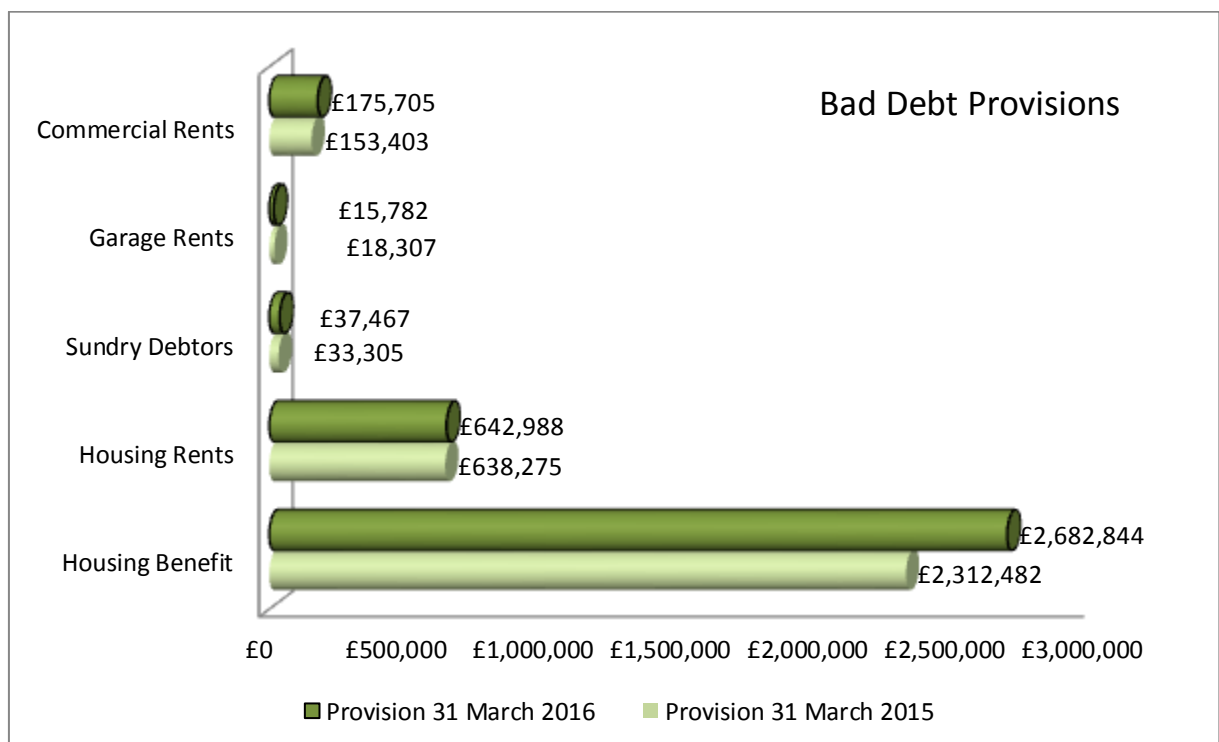
| GENERAL FUND NET BUDGET: | 2016/17 Budget £ |
|--|-------------------------|
| Original Budget | 9,130,150 |
| Quarter 3 approved net changes | (11,330) |
| Quarter 3 carry forwards requests | 177,220 |
| Approved 2016/17 budget to date | 9,296,040 |
| Quarter 4 one year only net changes | |
| Quarter 4 ongoing net changes | (361,840) |
| One year only pressures | 95,220 |
| Quarter 4 carry forwards requests | 337,530 |
| Changes to approved 2016/17 savings | nil |
| General Fund Working Budget | 9,366,950 |

4.3.6 The one year net pressure identified in the table above includes business rates expected to be payable for the vacant Q3 building of £107,000.

4.4 Balances Sheet 31 March 2016 year end Position

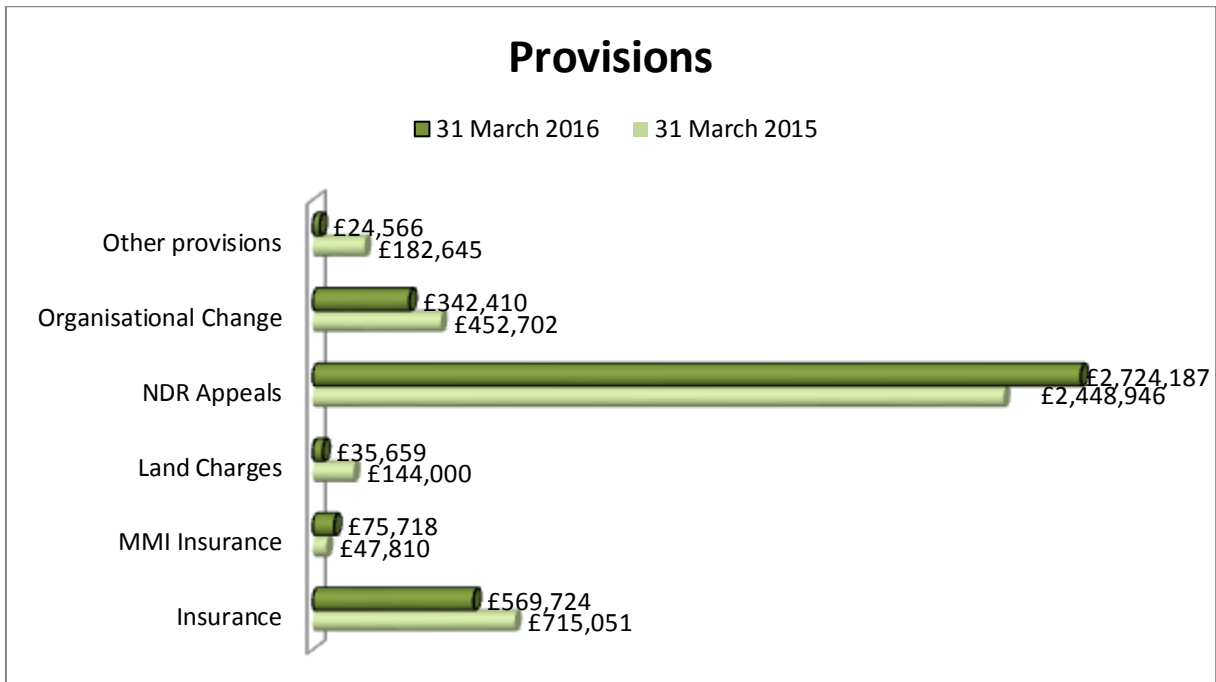
4.4.1 The Council’s General Fund and HRA balance sheet is reviewed quarterly and reported annually in the Council’s Statement of Accounts in its entirety. The following adjustments were made to the balance sheet as at 31 March 2016.

4.4.2 **Bad Debt Provision** – The bad debt provision for the Council’s debtors (excluding Council Tax and NDR) increased by £399,014 to £3,554,785 but was within or under budgeted amounts. The specific provision for the bad debt on the recovery of housing benefit overpayments increased by £370,000 and a net reduction in other bad debt provisions of £28,600. Benefit arrears have increased from £2,753,000 (as at 31 March 2015) to £3,283,000 (as at 31 March 2016). The provision calculated for benefit overpayments is a high proportion of the outstanding debt (81%), due to the difficulty and length of time it takes to recover the monies.



4.4.3 Members should also be aware that there are currently 12 housing benefit claims that are now paid via universal credit, five of these had overpayments, totalling £3,533 which can no longer be reclaimed by reducing claimants benefit. Officers continue to monitor the impact of universal credit on the housing benefit overpayment arrears levels.

4.4.4 **Provisions** - As at the 31 March 2016 the Council total provisions funded from the General Fund and HRA were £3.772Million and these are shown in the chart below.



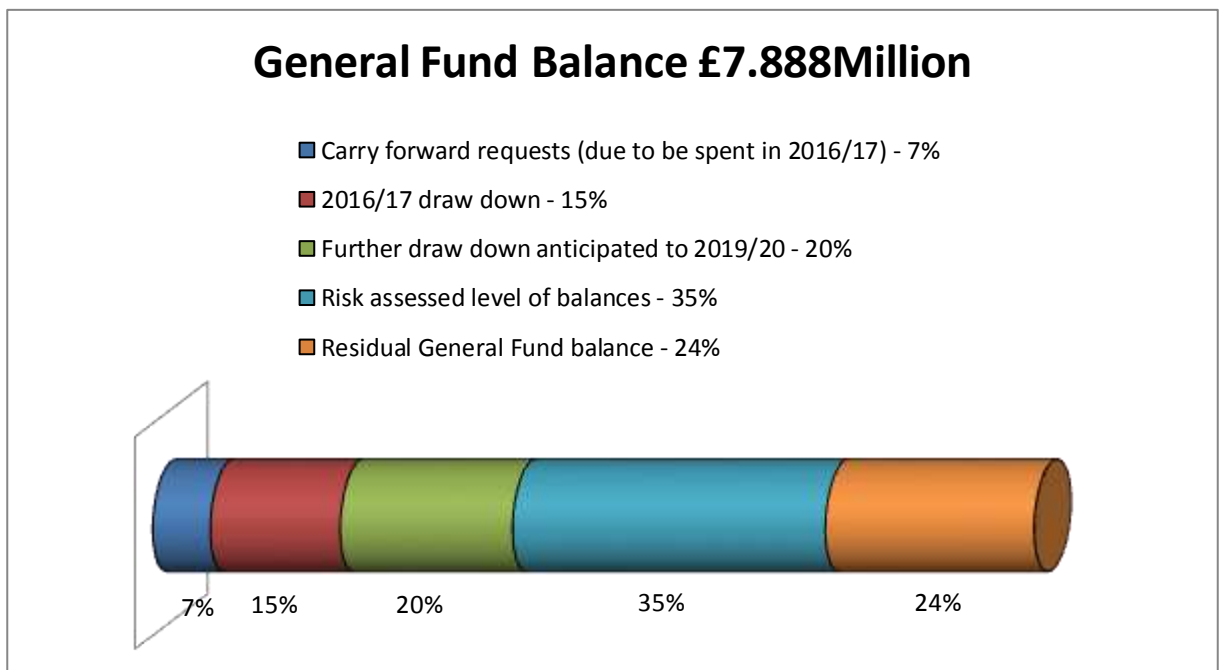
- Other Provisions** – In March 2015, following a survey of the BTC roof structure, major repairs were anticipated in 2015/16 and a provision was set up to cover these costs. However following further surveys the remedial works were covered under the management agreement and the provision is now longer required and has been returned to balances.
- Organisation Change-** This provision relates to redundancies arising from the priority based budgeting process and anticipated cost of the Repairs Service Improvement plan. This provision represents an assumption of redundancies to be paid in 2016/17 as a result of consultation started in 2015/16.
- NDR Appeals-** This was a new provision made in 2013/14 relating to the retained business rates regime and represents the Council’s share (40%) of estimated outstanding appeals on Business rates. Based on independent advice and an assessment of likely successful appeals a provision of £6,810,000 is required of which Stevenage’s share is £2,724,000 (40%).
- Insurance Provision**– Insurance provisions have decreased from 31 March 2015 to 31 March 2016 by £145,000. Two specific provisions relating to claims involving a Tree Preservation Order (TPO) tree and a flooding incident are no longer required and have been returned to General Fund balances. The movement between insurance excesses held on the balance sheet is shown in the following table:

| 31 March 2015 £'000 | Claim Type | 31 March 2016 £'000 |
|---------------------------|---------------------|---------------------------|
| 608 | Public Liability | 446 |
| 39 | Employers Liability | 24 |
| 1 | Motor | 5 |
| 24 | General Properties | 74 |
| 43 | Housing Properties | 21 |
| 715 | Total | 570 |

4.5 Usable reserves – General Fund

4.5.1 As at the 31 March 2016 the General Fund had useable reserves of £12,687,242, (£10,971,754 for revenue purposes and £1,715,488 for capital spend). The revenue balances include the General Fund reserve balance of £7,887,791, this includes £514,750 of approved carry forward requests which were not spent not spent in 2015/16 and are now due to be spent in 2016/17.

4.5.2 The General Fund balance of £7,887,792 may seem high compared to the risk assessed level of balances (£2,796,985). However, the 2016/17 budget report anticipated a drawdown of balances of £1.4million in 2016/17 and in total the Medium Term Financial Strategy (MTFS) forecasts a draw down from General Fund balances of £2.7million between 2016/17 and 2019/20. Taking this into account the remaining unallocated General Fund balance is £1,877,026.



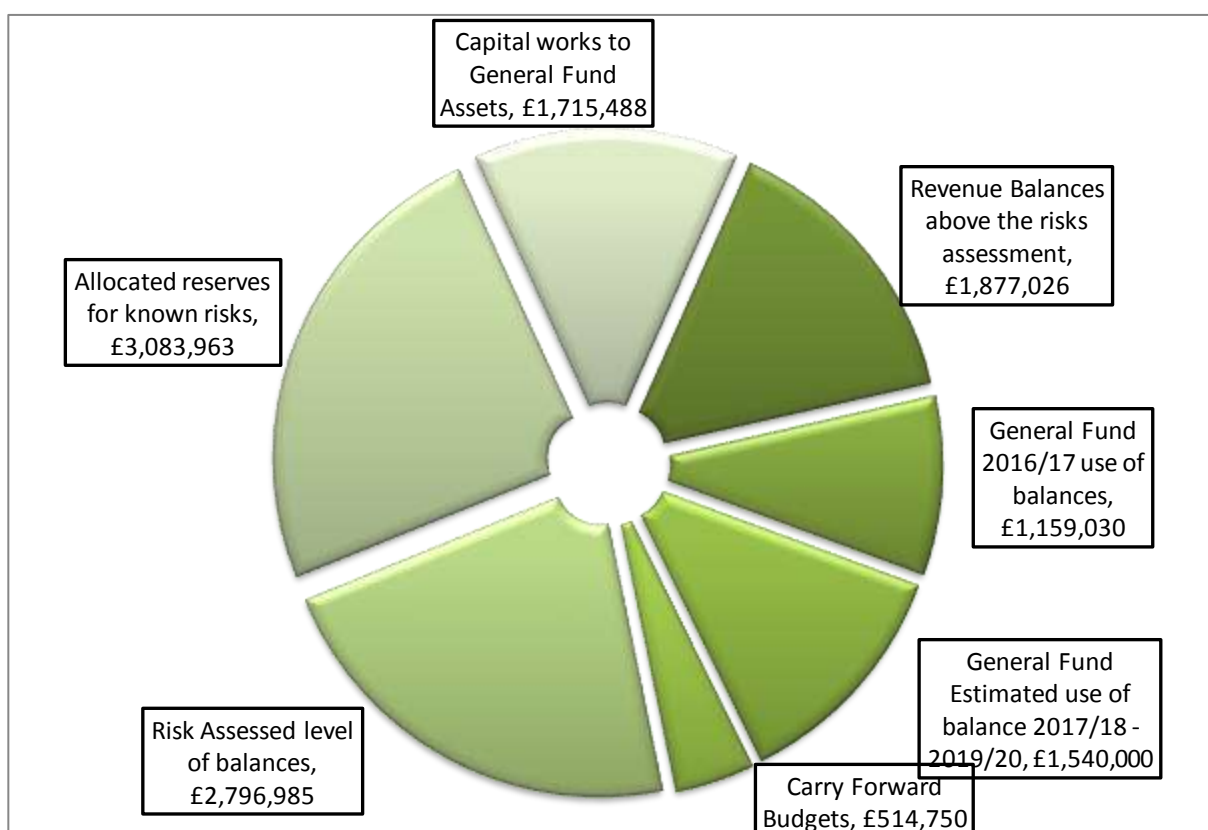
4.5.3 In addition the General Fund is required to find a further £1.484Million of savings (between 2017/18 – 2019/20), of which this report identifies £361,840, as part of the Financial Security strand of Future Town Future Council. If these savings cannot be identified there would be a further draw down of General

Fund balances and there may be unbudgeted upfront costs to implement savings.

4.5.3 The updated MTFS will be presented to the September Executive and will update Members on progress towards meeting the savings target.

4.5.5 The General Fund also has reserves it can use to fund works to assets such as buildings and plant (capital). This money cannot be spent on revenue services and the majority of the cash resources have been given for specific capital projects. As at 31 March 2016 the General Fund had capital resources of £1,715,488.

4.5.6 The General Fund usable reserves are summarised in the following chart.



4.6 Allocated Reserves

4.6.1 Some balances are 'ring fenced' and have been set aside for specific purposes. The total value of (revenue) allocated reserves available for the Council to spend as at 1 April 2016 is £3,083,963, (1 April 2015, £1,488,291). Reserve balances have increased by £1,595,672, the majority of this increase relates to the New Homes bonus reserve where funds have been allocated to projects but the money is not due to be spent until 2016/17. In addition the Future Town Future Council reserve has been established to fund delivery of the council's priorities.

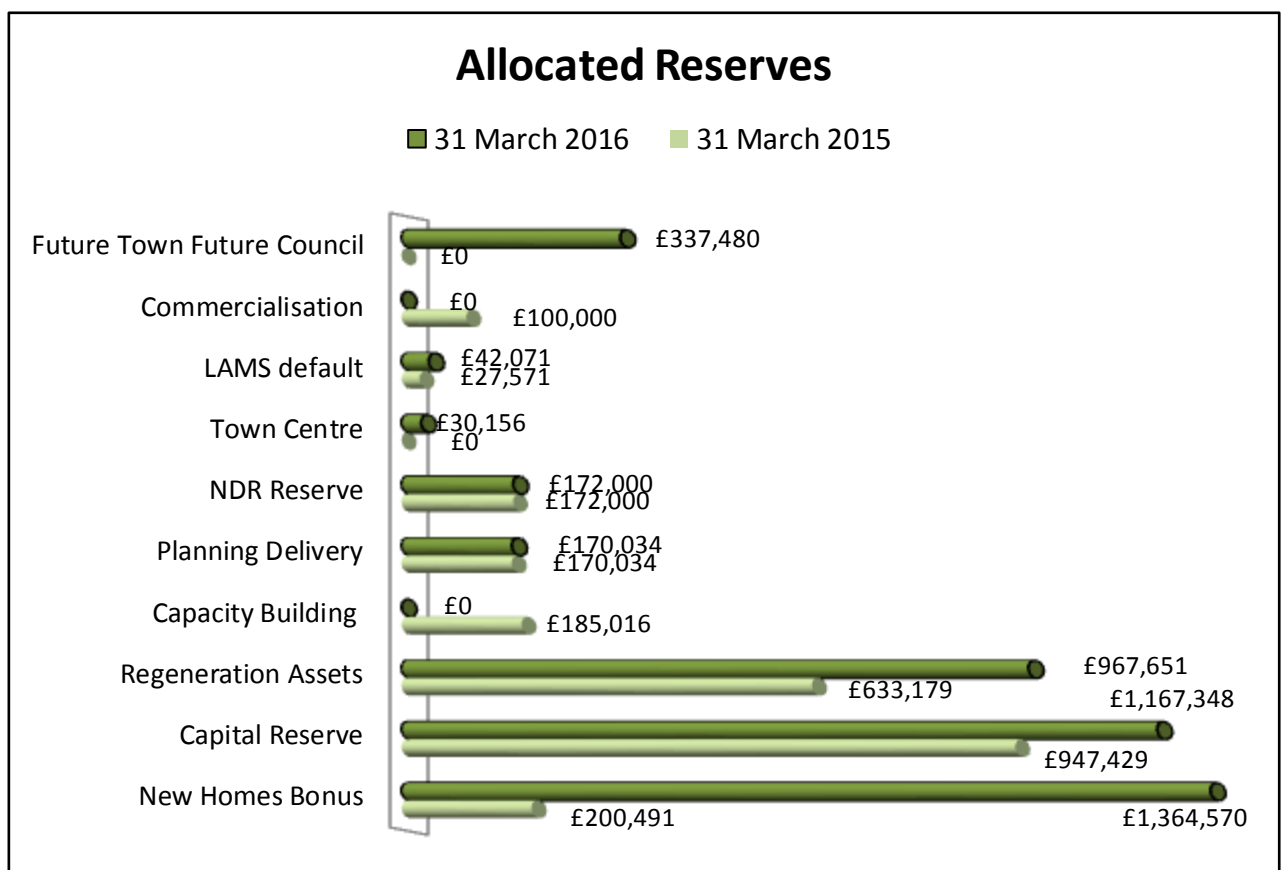
- **Regeneration Assets reserve (£967,651)** this reserve contains the ring fenced surplus/deficit for the Regeneration assets in the town centre and will be used to cover any future fluctuations in costs or rental streams. Any balances remaining will be used to help repay any debt outstanding and to contribute towards the regeneration costs of

the Town Centre. £ 475,200 has been set aside from this reserve to fund capital improvements 2016/17.

- **Future Town Future Council Reserve (formerly known as Commercialisation Reserve) (£337,480).** The Council has identified nine strands as part of the Future Town Future Council agenda and this reserve will be used to pump prime and support these priorities during 2016/17 -2017/18.
- **Town Centre Reserve (£30,156).** This reserve contains the ring fenced surplus/deficit from the Town Centre management service and will be used to contribute towards the Town Centre management cost.
- **New Homes Bonus Reserve (£1,364,570).** This reserve is held for one off projects and £1,236,117 has been allocated to projects that have already been approved and will be spent in 2016/17. The remaining. £128,453 has been returned to the reserve and is available for new schemes.

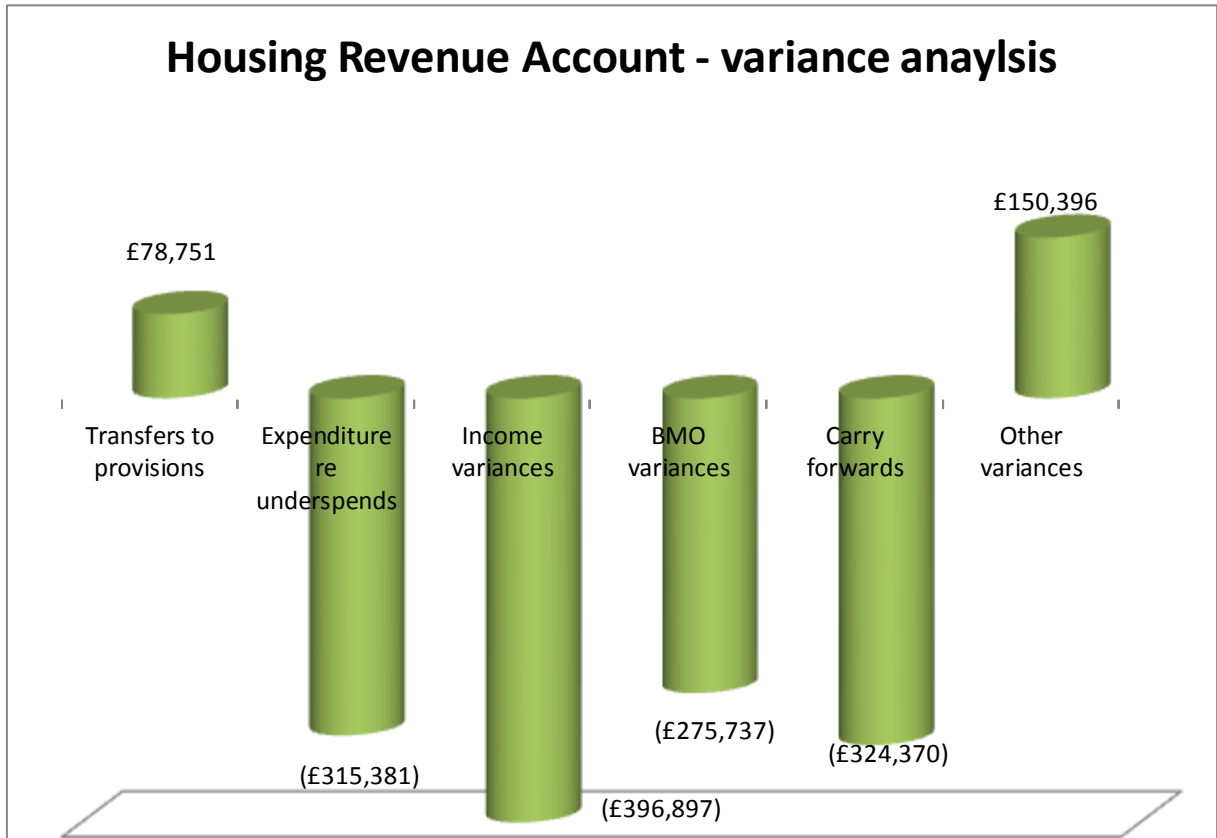
4.6.2 The General Fund also has a specific reserve for capital projects was established under the 'integrated financial strategy' - **Capital Reserve (£947,429).** This reserve funds categories of spend which are deemed not appropriate for prudential borrowing. The current balance includes the transfer of £350,000 from General Fund underspends in 2015/16.

4.6.3 The allocated reserves will be reviewed in the MTFs report to September Executive and as part of the quarterly monitoring process. A summary of the allocated reserves are shown in the chart below:

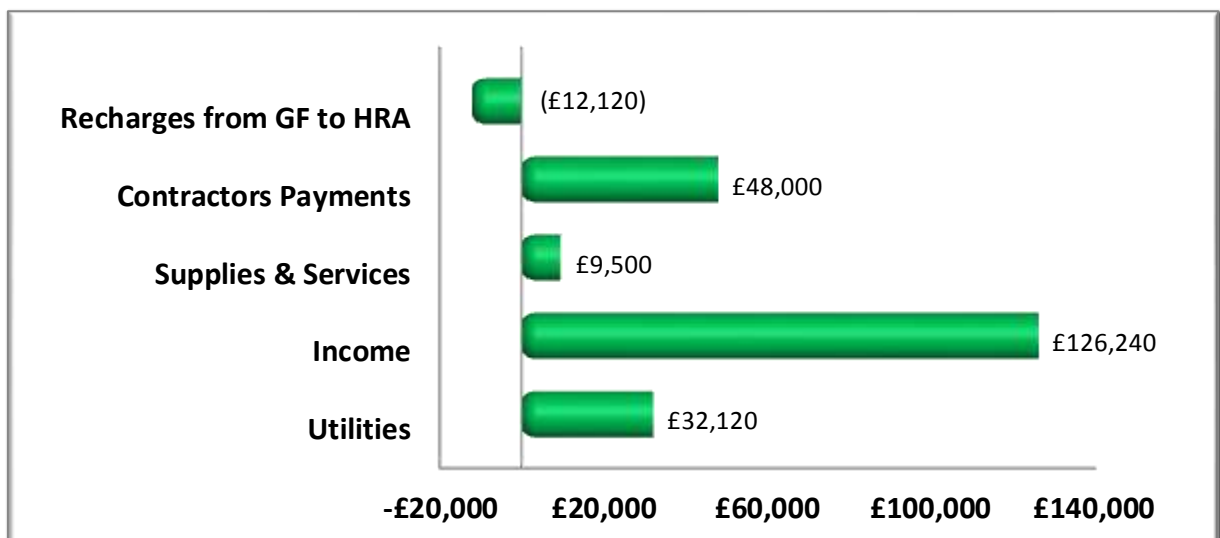


4.7 Housing Revenue Account (HRA)

4.7.1 The 2015/16 outturn position on the HRA was an in year surplus of £3,251,538, an increase of surplus of £1,083,238 over the current working budget of £2,168,300 (surplus).



4.7.2 A review of the 2015/16 net under spends has identified savings of £203,740 which will contribute towards the savings target required in the HRA business plan. The following chart identifies where the ongoing savings were found.



4.8 2015/16 – HRA Out-turn Position

4.8.1 The 2015/16 outturn position on the HRA resulting from the net under spends included in this report and detailed in Appendix B are summarised in the table below.

| HRA RESERVES | 2015/16 Original Budget £ | 2015/16 Working Budget £ | 2015/16 Actual £ | Variance to Working £ |
|---|---------------------------------|--------------------------------|---------------------|-----------------------------|
| HRA Balance 1 April | (13,498,769) | (13,703,547) | (13,703,547) | 0 |
| Net Budget | (2,698,930) | (2,168,300) | (3,251,538) | (1,083,238) |
| Net Contribution from/ (to) balances | (2,698,930) | (2,168,300) | (3,251,538) | (1,083,238) |
| HRA Balance 31 March | (16,197,699) | (15,871,847) | (16,955,085) | (1,083,238) |

Summary of Movement

| | |
|--|--------------------|
| HRA underspend | (1,083,238) |
| Carry Forward Requests | 324,370 |
| Total variance after Carry Forwards | (758,868) |

4.8.2 The impact on the 2016/17 HRA budget of the savings, pressure and carry forwards is to decrease the 2016/17 budget by £120,630 as shown in the table below.

| HRA NET BUDGET: | 2016/17 Budget £ |
|--|---------------------|
| Approved Working Budget | (2,203,710) |
| Quarter 3 approved net changes | (14,370) |
| Quarter 3 carry forwards requests | 226,890 |
| Approved 2016/17 budget to date | (1,991,190) |
| Quarter 4 net changes | (203,740) |
| Quarter 4 carry forwards requests | 324,370 |
| Changes to approved 2016/17 savings | Nil |
| 2016/17 budget | (1,870,560) |

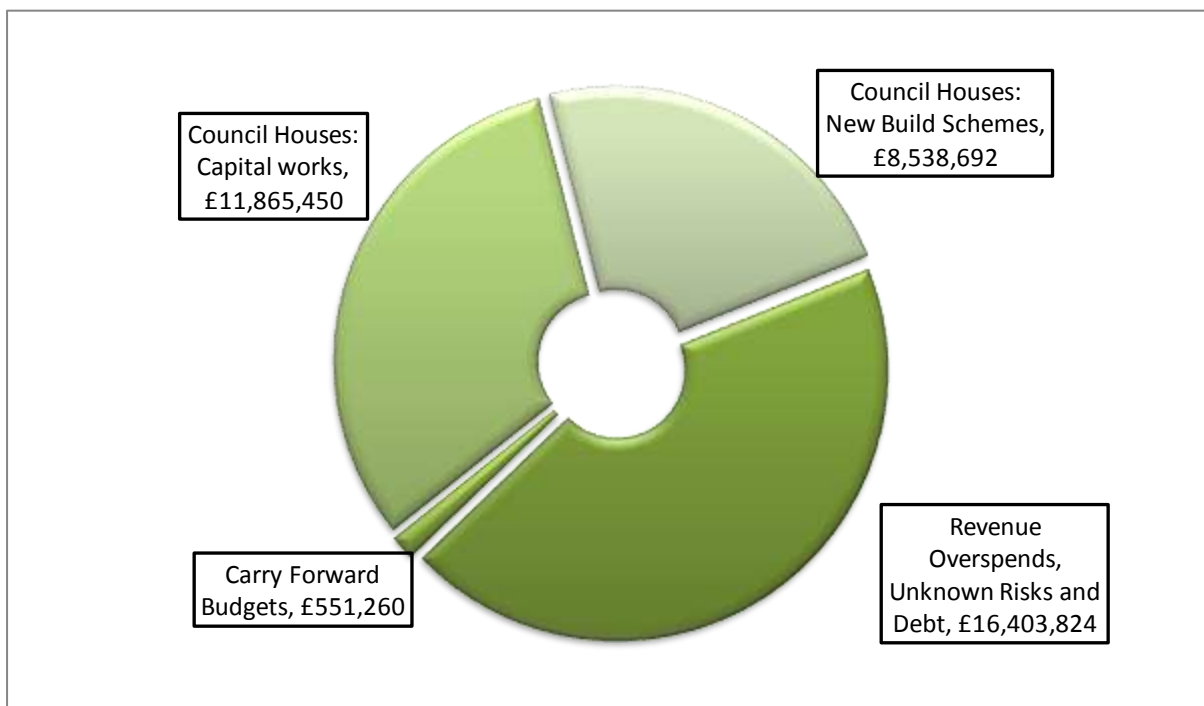
4.8.3 These changes will be incorporated into the updated HRA Business Plan to be presented to the September Executive.

4.9 Usable reserves – Housing Revenue Account

4.9.1 The Reserves which can be used to support Housing Revenue Account (HRA) total £37,359,225, of which £8,538,692 is ring fenced and can only be used to fund the provision of new social housing. The Council must match fund 70% of any project and spend the money within three years. If un-spent the receipt must be returned to government plus interest (calculated at 4% above base rate).

4.9.2 The level of HRA balances/revenue reserves risk assessed for 2016/17 is £2,784,437 - with the remainder available to cover these risks and fund future debt repayments. However as a result of welfare reforms and the Housing and Planning Bill the HRA forecasts a significant loss of revenue, causing a deficit in the business plan over 30 years, which officers are currently looking to address as part of the HRA business plan update.

4.9.3 The HRA reserves are summarised below



4.9.4 There are still significant financial risks for the HRA including:

- A number of legislative changes may have the effect of increasing the levels of RTB sales over and above those anticipated in the HRA Business Plan.
 - Pay to stay – higher earners will be required to pay higher rents (an extra 15p per week for every £1 they earn over £31,000), this money must be paid over to the government. There will also be the cost of administering the scheme which is still to be determined.
 - The maximum level of discount available to tenants under RTB has been increased, whilst the minimum tenancy term to be eligible for the scheme has reduced. The combined impact of these changes could increase the level of RTB sales. The business plan currently assumes a reduction in sales in later years.
- Higher Value voids – a new Central Government policy will require the Council to pay a “levy” to Central Government based on an assumed income from sales of higher valued void properties. Details of this policy

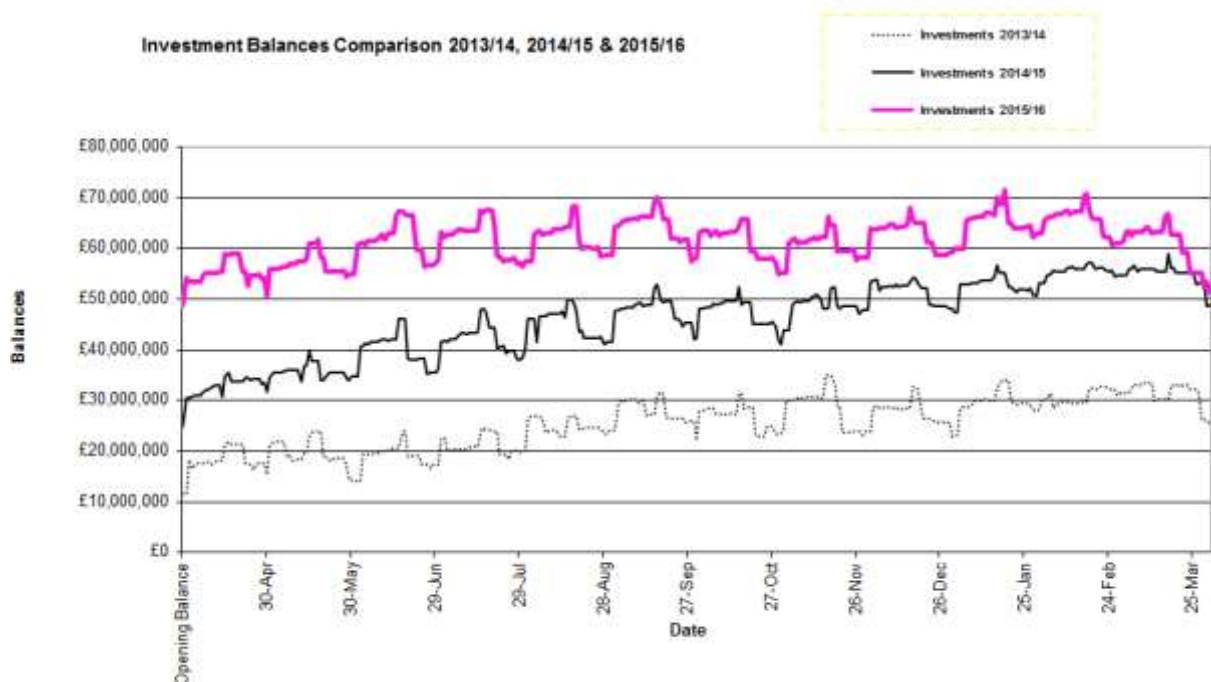
are still to be announced, but to maintain operational efficiency the Council may not want to sell these properties and will need to either fund the “levy” from operational income, or make sales of other social housing assets.

- Central Government rent policy has been updated so that formula rents will be reduced by 1% per annum for four financial years beginning April 2016, before reverting back to CPI+1%. The impact of this change over a 30 year planning horizon is to reduce revenue by an estimated £225,000,000 – more than the initial debt taken on at the onset of self-financing.
- The HRA needs to hold higher revenue balances during the Business Plan period as there are peaks and troughs in the capital programme and the majority of the HRA debt is paid back in the latter years of the plan.

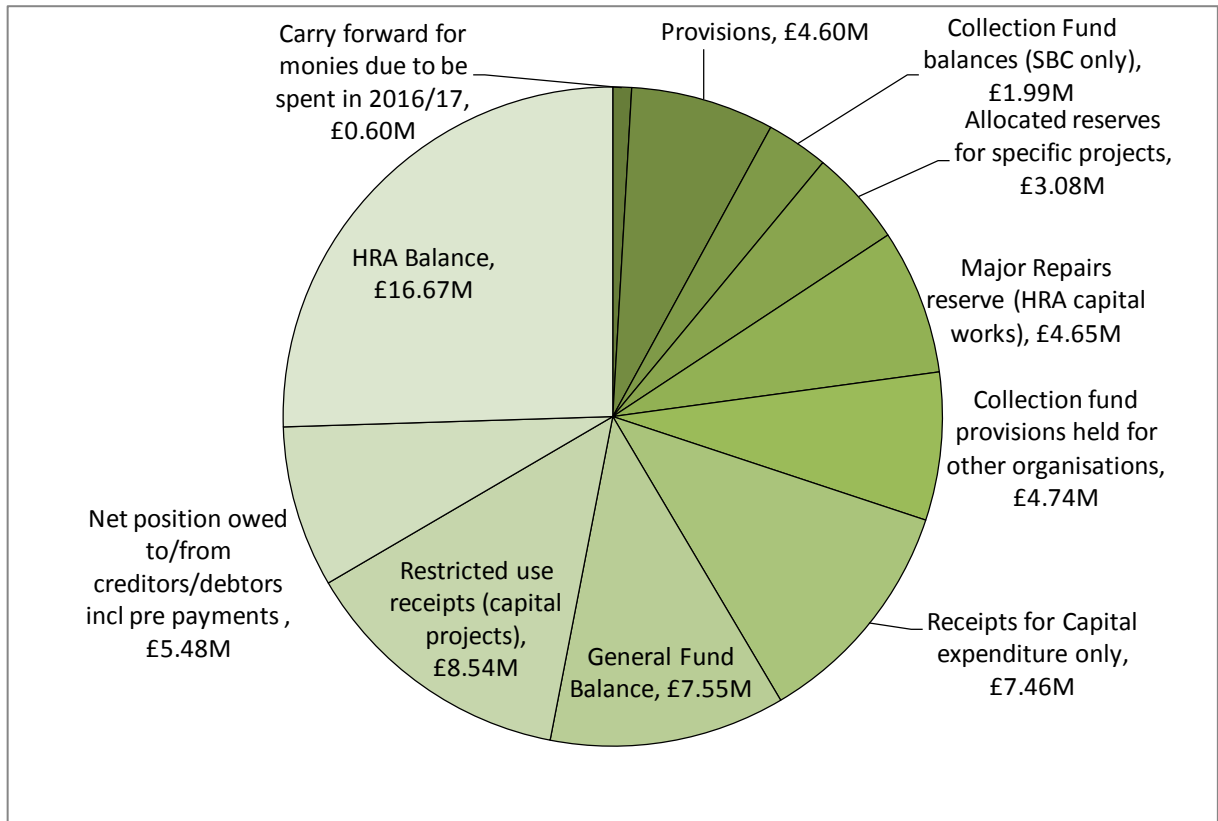
4.9.5 Despite the level of reserves shown in 4.9.3 there is a significant future funding gap in the HRA business plan as a result of government legislative changes as outlined above.

4.9.6 The HRA also has reserves totalling £20,404,142 it can use to fund capital works to council houses, this cannot be spent on revenue services. Included within this total is £8,538,692 which must be used for the provision of new housing (up to 30% of the build cost) or repaid to the Government. With the exception of the 1:4:1 receipts most of the HRA capital reserves will be utilised in 2016/17 and 2017/18.

4.10 Investments and Loans



4.10.2 The cash balances held by the Council relate to the provisions held, capital receipts, for which some have restrictions over their use and may have to be returned, and timing issues between when the council receives the money and when it is to be paid out as shown in the following pie chart.



4.10.3 The difference between the totals shown in the pie chart above (£65Million) and the investment balances of £51Million is internal borrowing used for capital expenditure.

| | £Million |
|---|--------------|
| Reserves and Provisions held by the Council | £65 |
| Less Internal borrowing | <u>(£14)</u> |
| Residual balance = Investments | <u>£51</u> |

4.10.4 The Council did not take out any further borrowing in 2015/16. The Council has loans of £209.757million loans of which £208.257million are with the Public Works Loan Board (PWLB). These monies have been borrowed to fund the decent homes programme and the one off payment to the Government relating to the self-financing settlement of £199.9million.

IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is financial in nature and consequently financial implications are included above.

5.2 Legal Implications

None identified at this time.

5.3 Risk Implications

5.3.1 A risk based assessment of General Fund balances is undertaken and reported to Council as part of the General Fund Budget setting process. The required level of 2016/17 General Fund balances were calculated at a minimum level of balances of £2,796,985 should be maintained, whilst the uncertainty around further Government funding remains high. This report forecasts General Fund balances in excess of this and these projections have been included in the Council's updated Medium Term Financial Strategy to be reported to Members at the September 2016 Executive.

5.3.2 The HRA balances are higher than the minimum level of balances required for the year (£2,784,237). However there are significant risks faced by the HRA as described in paragraph 4.9.4 to 4.9.5. The update HRA Business Plan will be presented to Members in September 2016.

5.4 Policy Implications

The budget framework represents a development of a policy led budgeting approach across Council services and the overall Medium Term Financial Strategy.

5.4 Equalities and Diversity Implications

This report is of a technical nature reflecting the actual spend for the year for the General Fund and HRA. None of the budget changes reported will change any existing equalities and diversity policies and it is not expected that these budget changes will impact on any groups covered by statutory equalities duties.

BACKGROUND DOCUMENTS

BD1 - 2015/16 Budget Report General Fund and HRA

<http://www.stevenage.gov.uk/content/committees/117036/117040/117104/Council-25-Feb-2015-Item5A.pdf>

BD2 - 1st Quarter monitoring Report General Fund and Housing Revenue Account

<http://www.stevenage.gov.uk/content/committees/139616/139705/139725/Executive-21-September-2015-Item-9.pdf>

BD3 - 2nd Quarter monitoring Report General Fund and Housing Revenue Account

<http://www.stevenage.gov.uk/content/committees/139616/139705/139725/150274>

BD4 - 3rd Quarterly monitoring report General Fund and Housing Revenue Account
<http://www.stevenage.gov.uk/content/committees/139616/139705/139725/Executive-8-March-2016-Item-5.pdf>

BD5 - 2016/2017 Council Tax and General Fund Budget
<http://www.stevenage.gov.uk/content/committees/139616/139701/139721/Council-24-Feb-2016-Item5A.pdf>

APPENDICES

- Appendix A - Summary of variances to the 2015/16 General Fund Budget
- Appendix B - Summary of variances to the 2015/16 HRA Budget.
- Appendix C - Investment and Loans Portfolio