

Meeting: EXECUTIVE

Portfolio Area: Resources

Date: 11 JULY 2018

Agenda Item:



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 2017/18 outturn positions for the General Fund and Housing Revenue Account (HRA) and to seek approval for revisions to 2018/19 revenue budgets, subject to completion of the 2017/18 audit of accounts.
- 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 2017/18 actual net expenditure on the General Fund of £10,138,229 be noted, subject to the 2017/18 audit of the Statement of Accounts.
- 2.1.2 That new carry forward requests totalling £338,100 be approved for the General Fund (paragraph 4.3.1).
- 2.1.3 That the removal of 2018/19 General Fund base budget net savings totalling £116,970 , which will contribute towards the Council's Financial Security objectives for 2018/19 be approved.

2.2 Housing Revenue Account

- 2.2.1 That the 2017/18 actual in year surplus on the HRA of £4,365,093 be noted, subject to the 2017/18 audit of the Statement of Accounts.
- 2.2.2 That new carry forward requests totalling £82,270 be approved for the HRA (paragraph 4.8.3).

- 2.2.3 That the removal of 2018/19 HRA budget net savings of £7,000 which will contribute towards the Council's Financial Security objectives for 2018/19.

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 is now in force with the requirement to publish the Statement of Accounts before the 31 May and complete the external audit report by the end of July. This statutory change to the Statement of Accounts has been successfully implemented and the Statement of Accounts was published on 31 May 2018.
- 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 2018 for financial year end of 31 March 2018.
- 3.3 The 2017/18 audited accounts must be presented and approved by Members (Audit and Statement of Accounts Committee) by 26 July. The financial figures for the General Fund and HRA contained within this report are subject to external audit and may change.
- 3.4 This report sets out the 2017/18 financial position but this may change on completion of the 2017/18 audit of accounts.

3.5 General Fund

- 3.5.1 The Council's original 2017/18 General Fund net revenue budget of £9,382,220 was approved at Council on 28 February 2017. Subsequently Members have approved net budget increases of £744,220 (including carry forwards totalling £797,100) giving a 2017/18 working budget of £10,126,440.

3.6 Housing Revenue Account (HRA)

- 3.6.1 The Council's HRA revenue budget of £2,790,940 (surplus) was approved at Council 31 January 2017. Subsequently Members have approved budget decreases of £229,180 giving a 2017/18 working budget of £3,020,120 (surplus).

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

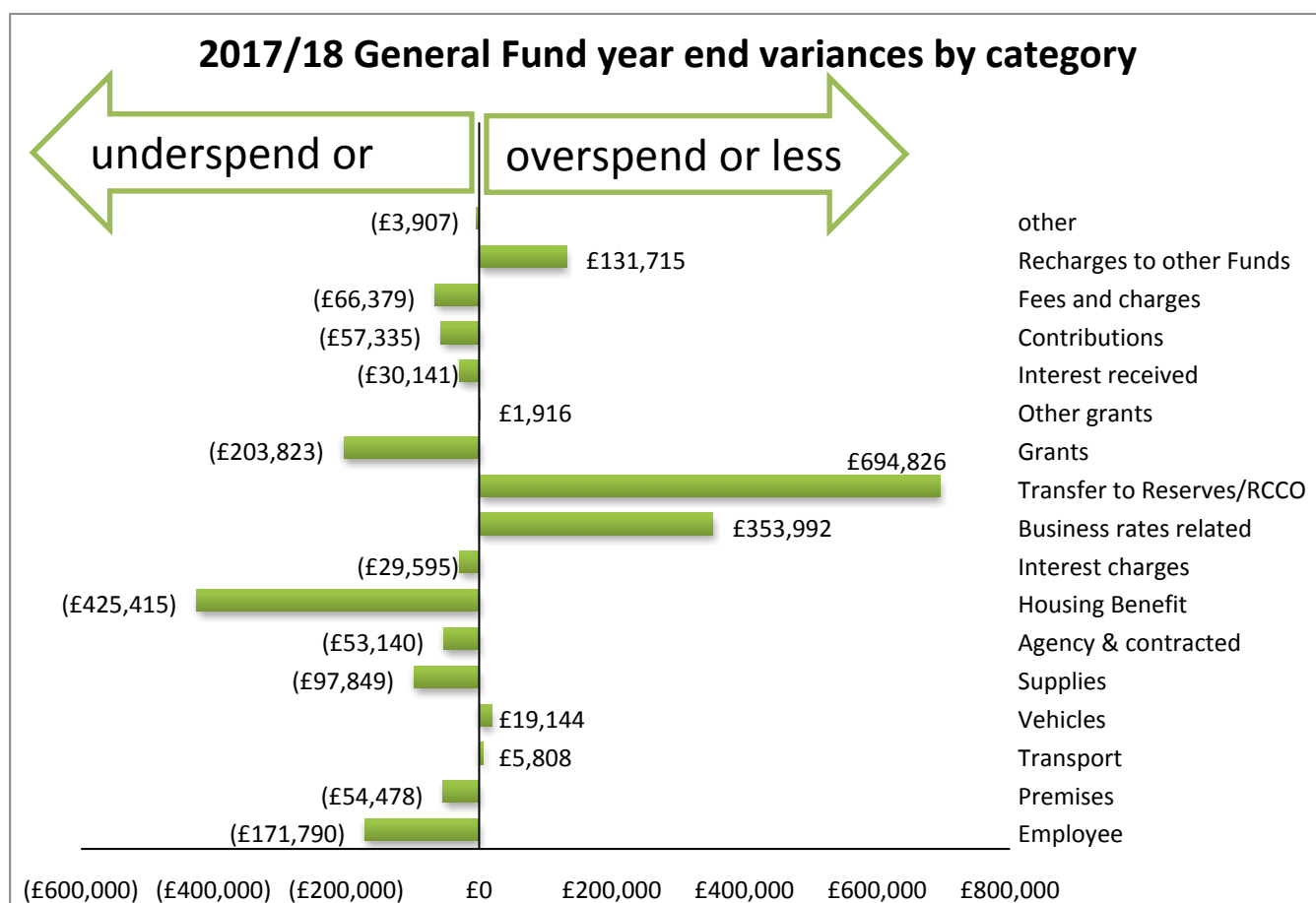
4.1 General Fund 2017/18 outturn

- 4.1.1 The 2017/18 outturn position on the General Fund was net expenditure of £10,130,229 an increase of £11,789 over the working budget of £10,126,440. However, included within this figure are transfers to allocated reserves of £650,000 and NDR related budget costs of £353,992 (see para 4.2.6-4.2.11).

General Fund	£	£	£
Working budget			10,126,440
Service underspends	(394,570)		
Homelessness prevention grant	(172,218)		
Net Housing benefit	(425,415)		
total service related underspends		(992,203)	
NDR increase in 2017/18 tariff	102,229		
NDR levy payment	482,982		
NDR additional S31 grant	(231,219)		
total NDR related variances		353,992	
Transfer to Capital reserve	350,000		
Transfer to Regeneration reserve	300,000		
total transfers to reserves		650,000	
Total Net budget variances			11,789
General Fund outturn			10,138,229

4.2 General Fund Underspends

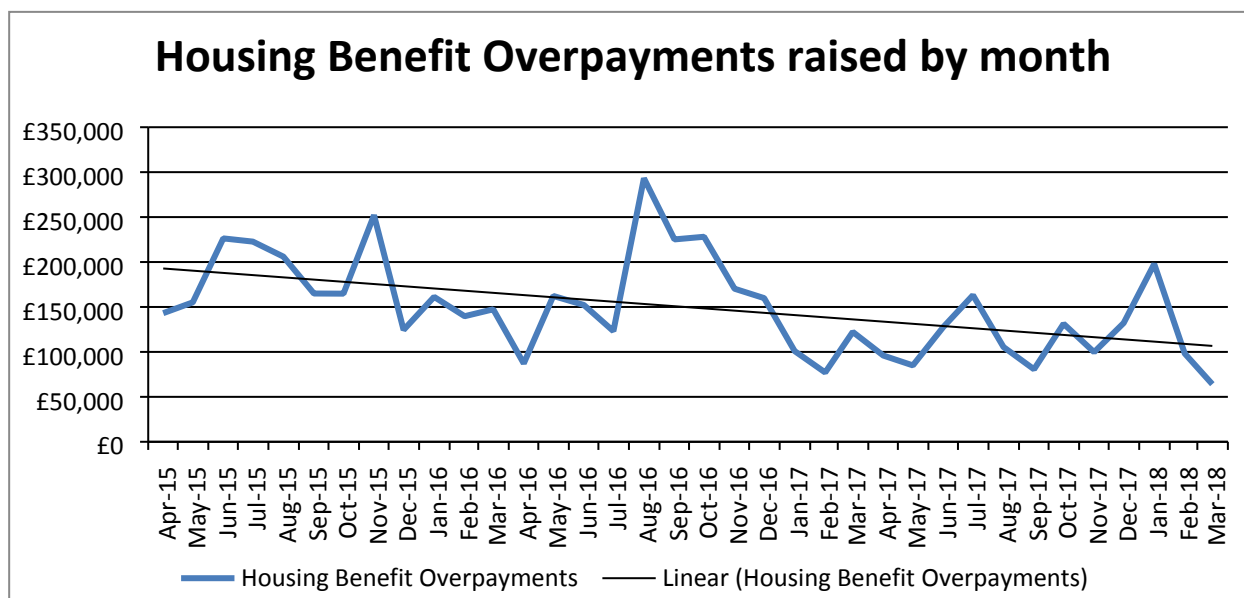
The underlying underspend has been analysed by category and is shown in the following chart.



4.2.1 Housing Benefit – Net underspend of £425,415.

	Budget 2017/18 £	Actual 2017/18 £	Underspend £
Bad debt Provision	259,260	(4,695)	(263,955)
Payment of benefit	33,187,050	33,040,833	(146,217)
Subsidy received	(32,045,350)	(32,074,683)	(29,333)
Admin Subsidy	(356,010)	(356,489)	(479)
Overpayments raised	(1,397,280)	(1,381,300)	14,569
Net position on General Fund	(352,330)	(776,334)	(425,415)

4.2.2 Stevenage is able to retain recovered benefit overpayments as these are not fully reimbursed through the benefit system. However, with improving processes overpayment backlogs are minimised and the level of overpayments has fallen steadily over the last two years as shown in the following chart.



4.2.3 Actual housing benefit payments made to claimants was 0.5% lower than budgeted (underspend of £146,217). New initiatives and closer working with other central government agencies has meant that errors and potential overpayments are identified earlier resulting in fewer overpayments. This is beneficial to both the claimant, in that they do not fall into HB debt and for the authority, in that subsidy for errors is not withheld. This has meant that although subsidy expenditure has fallen subsidy reimbursement has not been reduced. The original 2018/19 budget assumed £1.2million of overpayments raised so any reduction will adversely impact the General Fund. Officers propose that this is reduced to £1.0Million, offset by improved subsidy reimbursement. In summary, an ongoing net saving of £30,000 to the General Fund.

4.2.4 Recovery rates - The majority of the 2017/18 underspend has arisen from the reduction in bad debt contribution made in year for outstanding benefit

overpayment debt. The bad debt provision has been calculated based on live and dormant benefit claims. The majority of overpayments are recovered through ongoing entitlement (benefit payments) and in dormant cases this is not possible making it more difficult to collect. In 2017/18 collection rates for overpayment debt was 71% of raised debt compared to 57% in the prior year.

4.2.5 From October the majority of working age residents who would usually apply for Housing Benefit will be applying for universal credit instead. Existing working age Housing Benefit claimants will slowly transition into universal credit when they have certain changes in circumstances. Whilst recovery of overpaid Housing benefit is possible from universal credit it is very difficult as the Council will not be administering the claim. However HMRC and DWP have recently launched a new facility to trace debtors and identify employment details to enable recovery to be made from earnings. This should help mitigate the loss of the facility to recover from ongoing Housing Benefit for these cases. Officers will update members on any subsequent budget pressure as appropriate.

4.2.6 **Non Domestic Rate (NDR):** -net pressure £353,992 as shown in the following table.

NDR element	£
2017/18 tariff increase notified as part of 2018/19 Finance settlement (para4.2.9)	102,229
Increase levy (para 4.2.8)	256,739
levy (original budget included in core resources)	226,243
Additional S31 grant (para 4.2.10)	(231,219)
Total	353,992

4.2.7 The NDR variances have arisen due to increase in tariff paid to central government and the timing differences for levy (recognised in 2017/18), and additional NDR income (recognised in 2019/20) following the final 2017/18 NDR outturn figures.

4.2.8 Although gross yield is lower than the estimate and more reliefs were granted this was offset by reductions in the contributions to bad debt and appeals provision (see following table). The actual NDR net income for 2017/18 was £894,707 (in total before apportioning) higher than estimated, of which Stevenage will retain £357,882 before the tariff increase (para 4.2.9) £102,229 (£255,653 retained). The additional **levy payment of £256,739** is paid in 2017/18, however due to the complexities of the business rate scheme the gain of £255,653 will not be distributed until 2019/20.

	OR Estimate £	Rev Estimate January 2018	Actual £	Variance to Original Budget £
Gross Yield	(50,004,937)	(49,249,513)	(49,466,709)	538,228
Reliefs Mandatory/discretionary	4,592,795	5,004,969	5,033,622	440,827
Other S31 reliefs	111,621	9,447	22,232	(89,389)
Bad Debt	800,000	800,000	66,758	(733,242)
Cost of Collection	109,538	109,538	109,538	0
Appeals	2,200,000	1,192,275	1,148,869	(1,051,131)
Total NDR Net Surplus before distribution	(42,190,983)	(42,133,284)	(43,085,690)	(894,707)
SBC Share	(16,876,394)	(16,853,314)	(17,234,276)	(357,882)
Tariff (17/18 impact)	14,306,740	14,306,740	14,408,969	102,229
SBC Retained Share (19/20 impact)	(2,569,654)	(2,546,574)	(2,825,307)	(255,653)
S31 Grants (in the General Fund)	(362,350)	(346,186)	(593,569)	(231,219)
Baseline	(2,402,318)	(2,402,318)	(2,402,318)	0
Gains	(529,686)	(490,442)	(1,016,558)	(486,872)
Levy	226,243	225,800	482,982	256,739
SBC Retained Share	(2,705,761)	(2,666,960)	(2,935,894)	(230,133)

4.2.9 The 2017/18 NDR tariff payable to central government was initially based on the 2016/17 rateable value data before the new 2017 rateable list was published. In 2017/18 new rateable values have been applied to Stevenage businesses and the tariff was revised and notified to local authorities as part of the financial settlement in December 2017. The 2017/18 **tariff increased by £102,229** from £14,306,740 to £14,408,969.

4.2.10 Following the new rates list businesses have been encouraged to apply for reliefs. These applications have been successful and more reliefs have been granted. SBC are reimbursed for these reliefs through the **S31 grant** which means more income has been received (**£231,219**) in year via the S31 grant direct to the Council.

4.2.11 **Flexible Homeless support grant – £172,218.** The first year instalment of the two year Flexible Homeless Support Grant was received in 17/18 (£172,218). Funds were applied to provide a Tenancy sustainment officer and post to support private rented placements together with incentives to encourage private landlords to make their properties available to our client base. This work is ongoing and of the initial grant monies received £53,840 has been requested to be carried forward to 2018/19 to continue these projects.

4.3 General Fund carry-forward requests

4.3.1 Carry forward request of £338,100, and detailed in the table below, were identified at year end to fund projects that are due for completion in 2018/19.

Service Area	Reason for Carry Forward Request	Carry Forward to 2018/19 £
Community Services		
Leisure	Fairlands Valley Cycle Hub	11,500
Environment Services		
Regeneration & Stevenage First	To fund future Stevenage First projects.	96,260
Local Highway Services	Highway works completed by contractor in April 2018.	9,430
Planning Policy	Set up and enabling budget for planning and regulatory services to embed new structures.	8,940
Public Transport - Green Travel Plan E-Car Club	Additional budget was allocated in 2017/18 (£18,000 from pump prime funding). The carry forward will be used for the e-car club costs.	9,740
Support Services		
Revenues & Benefits Shared Service	In year contract saving requested to fund 2 posts in the Revenues and Benefits Shared Service. This is a one year pilot to use the HMRC debt recovery tool to establish if sufficient additional income recovery and associated reduction in bad debts can be achieved to sustain a longer term increase in staff.	26,000
Business Improvement	Requested for skills and resource to develop data connectivity in the InPhase corporate performance system as a key part of the Performing at Our Peak FTFC programme. This will enable performance measures to be automatically calculated by directly drawing data from business systems, rather than requiring staff to manually calculate figures on a regularly basis.	6,700
Resources		
Garages	Garage Disposal Surveyor – disposals to commence in 2018/19.	35,000
Future Town Future Council	Initiatives funding with commitments in 2018/19	35,230
General Fund - Housing		
Landlord incentives	Continuing projects funded from the Flexible Homelessness Support Grant (£172,218) received in 2017/18.	53,840
Homelessness	Projects funded by New burdens grant received in 2017/18	45,460
TOTAL (General Fund Carry Forward Requests)		338,100

4.4 General Fund ongoing Financial Security options

The Council's 'Financial Security' priority contains five work strands, the first being removal of efficiency savings from budgets. Following a detailed analysis of the year end underspends, £116,970 can be removed from the 2018/19 budget and contribute towards the General Fund's future years saving target.

4.5 2017/18 – General Fund Out-turn Position and Core resources

4.5.1 The net spend and total core resources spent and received in 2017/18 has required a **contribution from balances of £961,866** for 2017/18. The impact of the 2017/18 outturn position on General Fund balances included in this report are summarised as follows :

GENERAL FUND RESERVES:	2017/18 Original Budget £	2017/18 Working Budget £	2017/18 Actual £	Variance to Working £	Impact in future years on collection fund
General Fund Balance 1 April	(6,426,983)	(6,426,983)	(6,426,983)	0	
Net Budget (incl S31 Grant & NDR levy)	9,382,220	10,126,440	10,138,229	11,789	
Council Tax	(5,299,586)	(5,299,586)	(5,299,586)	0	
Retained Business Rates	(2,343,411)	(2,343,411)	(2,569,654)	(226,243)	(255,653)
Retained Business Rates (levy change budgeted in 2018/19 but paid in 2017/18)					(102,229)
Government Support	(689,969)	(689,969)	(689,964)	5	
Transfers to/from collection fund	(617,159)	(617,159)	(617,159)		28,674
Total Core resources	(8,950,125)	(8,950,125)	(9,176,363)	(226,238)	
Net Contribution from/ (to) balances	432,095	1,176,315	961,866	(214,449)	
General Fund Balance 31 March	(5,994,888)	(5,250,668)	(5,465,117)	(214,449)	

4.5.2 Core resources are based on estimates and remain unchanged for the year. Any projected changes in council tax and NDR are adjusted for in future years' accounts. The exception to this rule is any levy due to the government on the surplus above the "base line" amount. In 2017/18 income from NDR was higher than the base line funding resulting in a levy payment to the government of £481,222 compared with the estimated amount of £226,243 in the working budget. The additional £255,653 income gained for Stevenage BC is realised in the following year's (2019/20) core resources (see also para 4.2.4).

4.5.3 **Collection Fund - Council Tax:** In setting the budget an estimate is made on expected income from Council tax based on forecasted property growth in Stevenage. The tax base is calculated in Band D equivalents which will change according to the property types built in Stevenage and the number of households in receipt of Council tax support. In setting the 2017/18 budget a surplus of £139,102 was estimated. The actual surplus was £110,428 a reduction of £28,674 that has to be repaid in 2019/20. (NDR variances are explained in para 4.2.6-4.2.9)

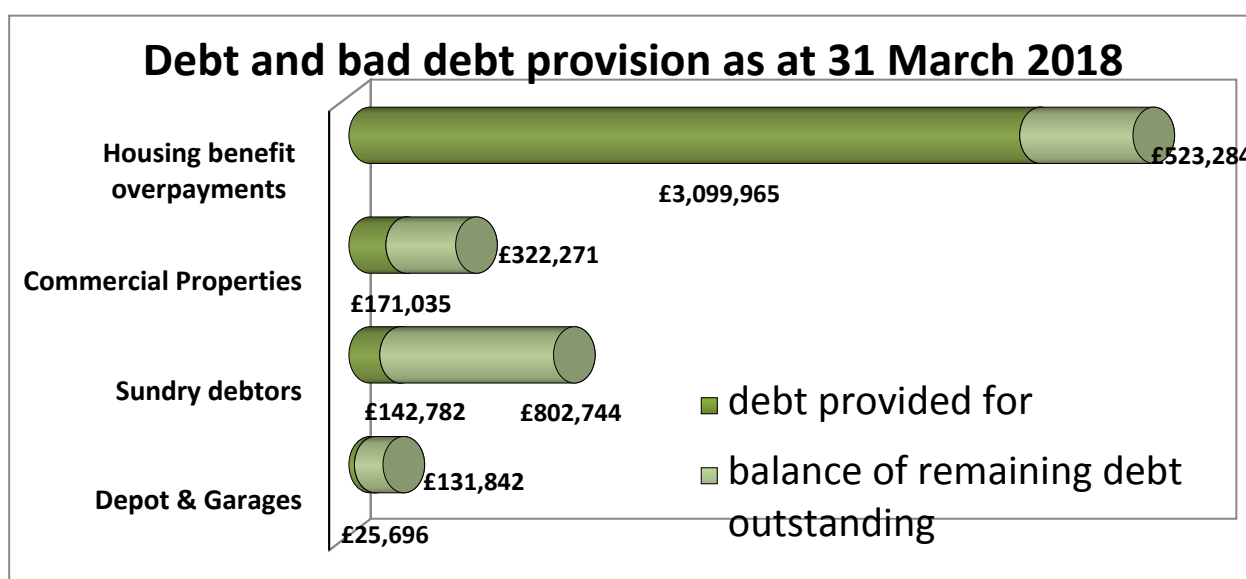
4.6 General Fund 2018/19 Budget

- 4.6.1 The impact on the 2018/19 General Fund budget of the savings, pressures and carry forwards identified at year end is summarised in the table below and will be incorporated in the General Fund Medium Term Financial Strategy (MTFS) update reported to September 2018 Executive.

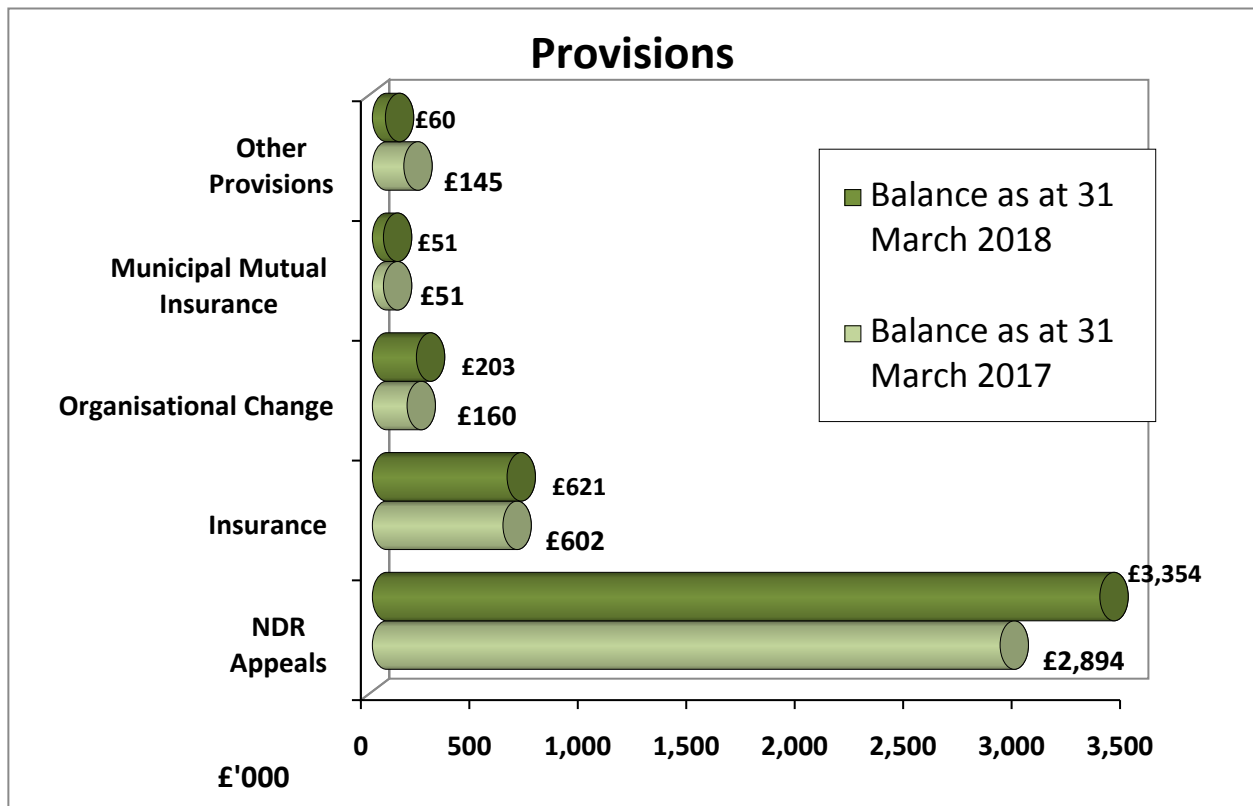
GENERAL FUND NET BUDGET:	2018/19 Budget £
Original Budget	9,107,740
Quarter 3 approved net changes	(56,800)
Quarter 3 carry forwards requests	405,000
Approved 2018/19 budget to date	9,455,940
Quarter 4 ongoing net changes	(116,970)
Quarter 4 carry forwards requests	338,100
Changes to approved budget options	nil
General Fund Working Budget	9,677,070

4.7 Balance Sheet 31 March 2018 year end Position

- 4.7.1 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 accounting adjustments were made to the balance sheet as at 31 March 2018.
- 4.7.2 **Bad Debt Provision** – The bad debt provision for the Council's debtors (excluding Council Tax and NDR) as at 31 March 2018 is £3,439,478. The specific bad debt provision for housing benefit overpayments accounts for most of this provision (90%), as detailed in the following chart.

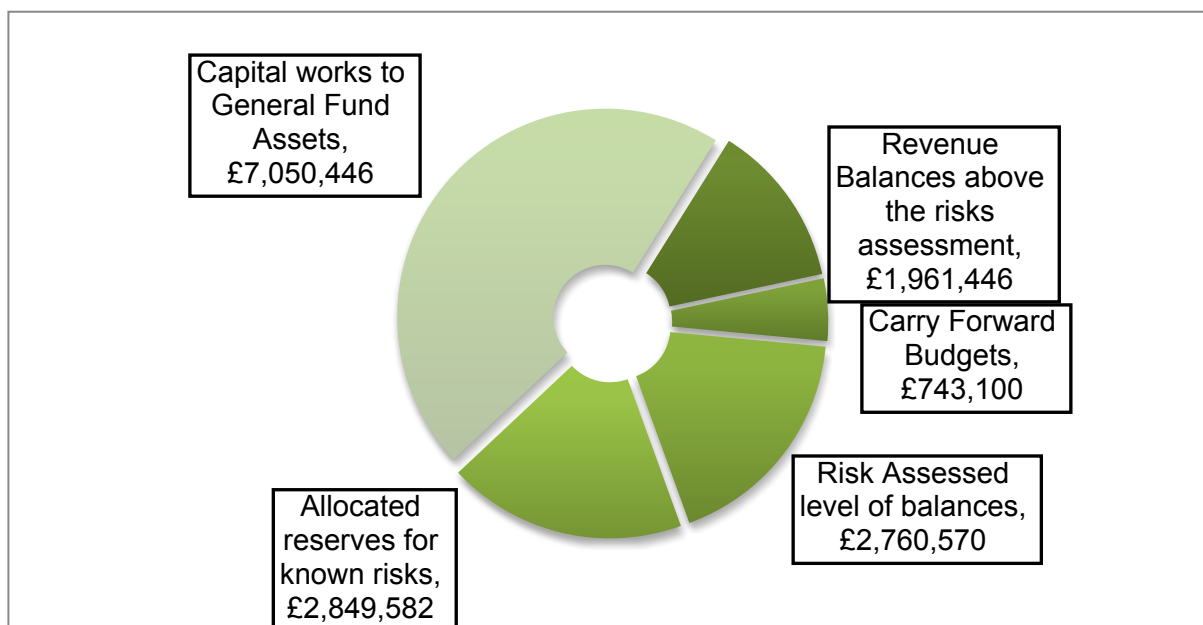


4.7.3 **Provisions** - As at the 31 March 2018 Council's total provisions (funded from the General Fund and HRA) were £4.289Million and these are shown in the chart below.

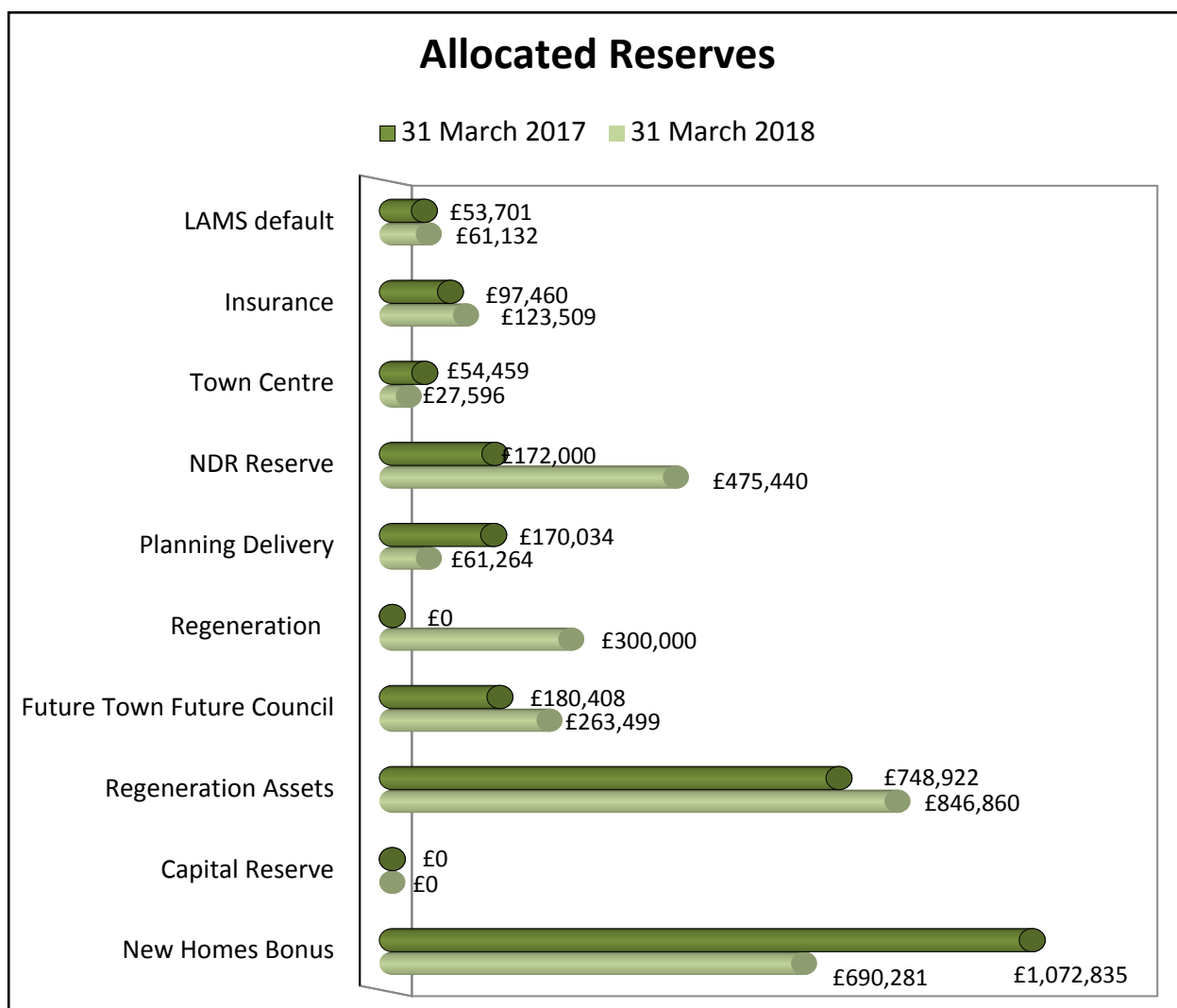


- **NDR Appeals (SBC share only)** – This provision has been made on the basis of expected outcome of business rate appeals outstanding with the Valuation Office Agency (VOA). If the appeal is successful the Council is responsible for the repayment of business rates to the business following the NDR reforms in 2013/14. The total provision for NDR appeals is £8.4M which SBC holds on behalf of HCC and central government.
- **Organisation Change-** This provision represents an assumption of costs associated as part of the business unit reviews being undertaken to shape the Council as part of Future Town Future Council. These costs are due to be paid in 2018/19 as a result of consultation started in 2017/18. In 2017/18 actual costs were lower (due to redeployment and staff leavers) than estimated and £91,000 was returned to balances.

4.7.4 **Usable reserves – General Fund** As at the 31 March 2018 the General Fund had **useable reserves of £15.365Million**, (£8.315Million for revenue purposes and £7.050Million for capital spend). The revenue balances include the General Fund balance of £5,465,117, and includes £743,100 of approved carry forward requests due to be spent in 2018/19). Of the capital resources £6.2Million is allocated to the 2018/19 General Fund capital strategy. The following pie chart details the General Fund usable reserves.



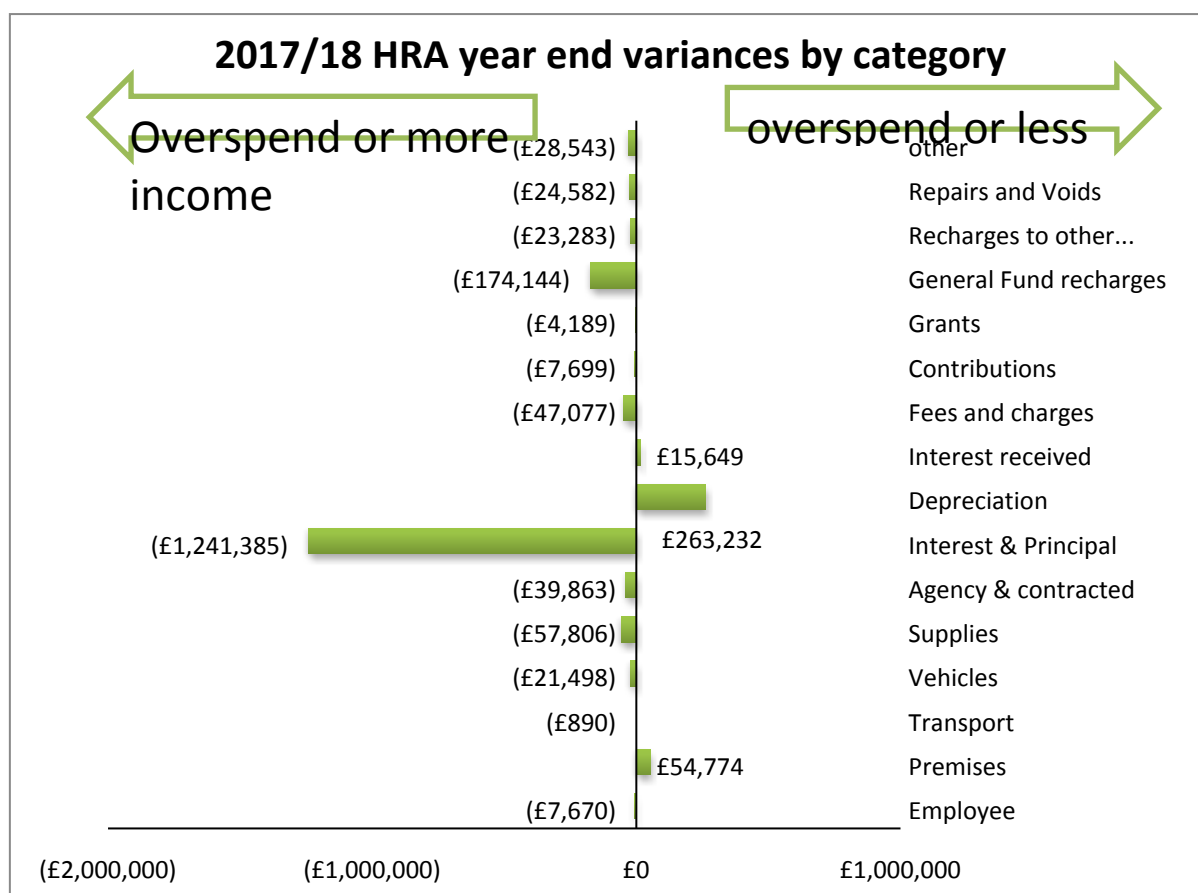
- 4.7.5 In addition the Medium Term Financial Strategy (MTFS) identifies that there is a need to draw down on balances in the next few years and does not anticipate a contribution to balances until 2022/23. In addition there is a requirement to find ongoing financial security options.
- 4.7.6 The General 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 allocated to specific capital projects. As at 31 March 2018 the General Fund had capital resources of £7,050,446 all of which is estimated to be spent by 2019/20.
- 4.7.7 **Allocated Reserves** - 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 31 March 2018 is **£2,849,582**, (31 March 2017, £2,549,819). Reserve balances have increased by £299,763, however the majority of the allocated reserves has already been allocated to regeneration projects, new build projects and local planning costs.
- 4.7.8 The General Fund also has a specific reserve for capital projects funded from unbudgeted underspends at year end (£350,000). All of the capital reserve was used to finance part the 2017/18 General Fund capital programme.
- 4.7.9 A summary of the allocated reserves are shown in the following chart:



4.8 Housing Revenue Account (HRA)

4.8.1 The 2017/18 outturn position on the HRA was an in year surplus of £4,365,093, an increase in surplus of £1,344,973 over the current working budget of £3,020,120 (surplus). However included in this total is a budgeted debt repayment of £1,241,000 scheduled for repayment on 31st March. Due to Easter bank holidays the physically payment was made on 3rd April and in accordance with treasury advice is recognised and accounted for in 2018/19 and not 2017/18.

4.8.2 Other HRA variances are shown in the chart below.



4.8.3 As part of 4th quarter monitoring carry forwards of £82,270 were identified and listed below.

Service Area	Reason for Carry Forward Request	Carry Forward to 2018/19
Housing Revenue Account		£
Home Ownership Team	HQN Service Charge Review Project - funds required to complete 18/19 work.	25,080
Housing Transformation Project	Required to complete 3 year project	42,690
Housing Development	Roll out of IT tablets to improve efficiencies	9,000
Homelessness	CCTV rewiring project at Wellfield Court started in 17/18 and is due to be completed in 18/19.	5,500
TOTAL		82,270

- 4.8.4 In addition ongoing efficiency savings of £7,000 were identified and will contribute towards the savings target required in the HRA business plan.

4.9 2017/18 – HRA Out-turn Position

- 4.9.1 The 2017/18 outturn position on the HRA included in this report and its impact onre summarised in the table below.

HRA RESERVES	2017/18 Original Budget £	2017/18 Working Budget £	2017/18 Actual £	Variance to Working £
HRA Balance 1 April	(19,749,571)	(19,749,571)	(19,749,571)	
Net Budget	(2,790,940)	(3,020,120)	(4,365,093)	(1,344,973)
Net Contribution to balances	(2,790,940)	(3,020,120)	(4,365,093)	(1,344,973)
HRA Balance 31 March	(22,540,511)	(22,769,691)	(24,114,664)	(1,344,973)

- 4.9.2 The impact on the 2018/19 HRA budget is shown in the table below.

HRA NET BUDGET:	2018/19 Budget £
Original Budget	2,756,630
Quarter 3 approved net changes	nil
Quarter 3 carry forwards requests	217,870
Approved 2018/19 budget to date	2,974,500
Quarter 4 ongoing net changes	(7,000)
Quarter 4 carry forwards requests (para 4.8.3)	82,270
Quarter 4 one year only (debt repayment)	1,241,000
Changes to approved 2018/19 budget options	nil
HRA Working Budget	4,290,770

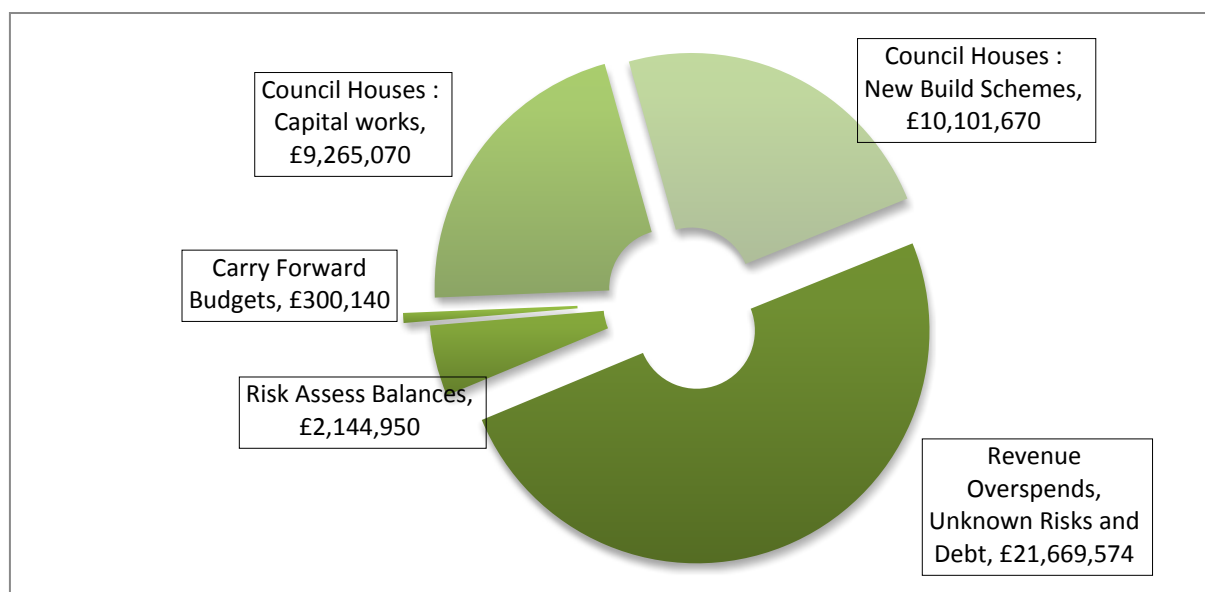
- 4.9.3 These changes will be incorporated into the updated HRA Business Plan to be presented to the September Executive.

4.10 Usable reserves – Housing Revenue Account

- 4.10.1 The Reserves which can be used to support Housing Revenue Account (HRA) total £42,937,152, of which £10,101,670 has restricted use 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).

- 4.10.2 The level of HRA balances/revenue reserves risk assessed for 2018/19 is £2,144,950 - with the remainder available to cover future debt repayments and unforeseen risks including carry forward requests of £491,590 and debt repayment (£1,241,000) made 3rd April 2018.

4.10.3 Usable HRA balances are shown in the following pie chart.



4.11 Investments and Loans

4.11.1 Council's actual **investments** as at year end were **£62.38Million** (31 March 2018 cash balance forecast was £61.4Million), £4.785Million higher than the £57.595Million held at 31 March 2017. Included in year end balances is the HRA debt repayment of £1.25Million paid on the 3 April. The Council's investment portfolio is detailed in appendix A.

4.11.2 The cash balances held by the Council relate to the provisions held (including those held for the collection funds), 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.

4.11.3 The Council took additional borrowing of £1.756Million in 2017/18 to part fund the General Fund capital programme and £0.263M was repaid. The HRA took no new borrowing but repaid £2.5M. As at the 31 March 2018 the Council had loans of £208.487Million of which £207.171million are with the Public Works Loan Board (PWLb).

5. 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 2018/19 General Fund balances were calculated at a minimum level of balances of

£2,760,570 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 2018 Executive.

- 5.3.2 The HRA balances are higher than the minimum level of balances required for the year (£2,144,950). However Members should remember that the Business Plan showed a significant reduction in HRA reserves over the next few years resulting in a need to make reductions in the HRA capital programme. The identified need to refinance £3.5Million has been deferred from 2017/18 and may be taken in 2018/19. There are forecast minimum balances in 2021/22-2022/23 and there are still significant risks facing the HRA.

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.

5.5 **Equalities and Diversity Implications**

This report is of a technical nature reflecting the actual spend for the year for the General Fund and HRA. The identified ongoing budget changes reported have arisen through efficiencies and do not change any existing equalities and diversity policies, nor will they impact on any groups covered by statutory equalities duties.

BACKGROUND DOCUMENTS

- BD1 - 3rd Quarterly monitoring report General Fund and Housing Revenue Account
- BD2 - 2018/2019 Council Tax and General Fund Budget

APPENDICES

- Appendix A - Investment and Loans Portfolio