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**Meeting: EXECUTIVE**

**Agenda Item:**

Portfolio Area: Resources

**Date: 5 SEPTEMBER 2018**

**1<sup>ST</sup> QUARTER REVENUE MONITORING REPORT – GENERAL FUND AND HOUSING REVENUE ACCOUNT**



**KEY DECISION**

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**1. PURPOSE**

- 1.1 To update Members on the General Fund and Housing Revenue Account (HRA) projected 2018/19 net expenditure and seek approval amend the General Fund and HRA budgets as part of the quarterly review of all revenue budgets.
- 1.2 To update Members on the progress of Financial Security options and growth bids approved as part of the 2018/19 budget setting process.
- 1.3 To update Members on the carry forward requests from 2017/18.
- 1.4 To update Members on the reserves and balances available to support revenue expenditure and seek approval for revisions to the allocated reserves.

**2. RECOMMENDATIONS**

**General Fund**

- 2.1 That the 2018/19 1<sup>st</sup> quarter projected net increase in General Fund expenditure of £195,750 be approved.
- 2.2 That it be noted that cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive.

- 2.3 That the progress of the 2018/19 approved Financial Security options, growth bids, carry forward requests be noted.
- 2.4 That it be noted that the 2019/20 ongoing net pressure of £57,090 will be incorporated into the General Fund Medium Term Financial Strategy (MTFS).

**Housing Revenue Account**

- 2.5 That the 2018/19 1<sup>st</sup> quarter projected net increase in HRA net deficit of £75,400 be approved.
- 2.6 That it be noted that the cumulative increases made to the HRA net budget remains within the £250,000 increase variation limit delegated to the Executive.
- 2.7 That the progress of the 2018/19 approved Financial Security options, growth bids, and carry forward requests be noted.
- 2.8 That budget carry forwards to 2019/2020 of £60,000 be approved.

**3. BACKGROUND - GENERAL FUND**

- 3.1. Since the General Fund net budget of £9,107,740 was approved at Council, Members have approved net budget changes of £569,330, as detailed in Table one below:

<b>Table One – 2018/19 General Fund Working Budget</b>	<b>Working Budget £</b>
Original Budget	9,107,740
3rd Quarter 2017/18 net decrease	(56,800)
3rd Quarter Carry forwards	405,000
4th Quarter 2017/18 net decrease	(116,970)
4th Quarter Carry forwards	338,100
<b>Total Net Budget Approved to Date</b>	<b>9,677,070</b>

- 3.2 General Fund – Budget Review
  - 3.2.1 Following the 1<sup>st</sup> quarter review of revenue budgets officers have identified the following budget movements.

Table Two - Budget Alerts - General Fund		Budget change £	GF	HRA
	<b>Service Area:</b>			
Income	Land Charges	11,500	11,500	
	Garages	45,000	45,000	
	Car Park Business	(96,030)	(96,030)	
	Investment Interest	(227,000)	(120,000)	(107,000)
	Recycling Income	105,100	105,100	
	Transport Subsidy	101,250	101,250	
Expenditure	IT Upgrades and new Website	25,930	17,370	8,560
	External Audit Fee 2016/17	9,510	6,340	3,170
	Shared Legal Service	(45,000)	(31,050)	(13,950)
	Council Properties - Business Rates	70,000	70,000	
	Trade Refuse Disposal	104,000	104,000	
	Transfer Station	(43,310)	(43,310)	
Other		31,700	25,580	6,120
<b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b>		<b>92,650</b>	<b>195,750</b>	<b>(103,100)</b>

3.2.2 **Land Charges – Adverse variance £11,500.** Income from search fees is forecast to be £30,000 lower due to an increase in solicitors using personal search companies to carry out searches. These companies are entitled to inspect the Local Land Charge register without payment of a fee. Under the Infrastructure Act 2015 HM Land Registry will take over the function of carrying out official searches (currently administered by Local Authorities). It is expected that Stevenage BC will be migrated to the new system within the next 12-18 months; therefore we need to prepare for this decrease in income. Grant received of £18,500 with no further spend against it, partially offsets the above pressure.

3.2.3 **Garages** –Higher level of voids have led to an **in year pressure of £45,000.** The implementation of the garage improvement programme following on from the pilot schemes should improve reduce void levels. A report will go to Executive on 3rd October 2018 to give an update on the Garage Improvement Plan.

3.2.4 **Car park business – Favourable variance £96,030.** The following changes to the car parks original income budgets are forecast.

- Corey’s Mill – a pressure of £20,000. Delays to Financial Security Savings option see para 3.3.1.
- On Street Parking (Town Centre) – Additional income of £38,030 reflecting the continued higher level of demand for parking bays.
- Bulk Season Ticket Purchases – Additional income of £78,000. One off significant purchases of car park season tickets by three local companies.

3.2.5 **Investment Interest** – Increase in investment income to the General Fund of **£120,000** is forecast. Following the earlier than anticipated increase in Bank of England interest rate (by 0.25% to 0.75%) and investment balances higher than estimated, investment interest for both the General Fund (£120,000) and Housing Revenue Account (£107,000) is forecast to be higher for 2018/19.

3.2.6 **Recycling Income – Adverse £105,100 variance.** The council is part of a consortium of Hertfordshire district councils with the aim to achieve the best price for recycled paper. In June the contract was renewed and the sale price dropped from £85 to £35 per tonne, reflecting the weak market conditions for recycling products. The in-year reduction in sales income is forecast at £105,100 (£138,960 ongoing).

3.2.7 **Transport Subsidy** – Hertfordshire County Council have recalculated the transport subsidy for domestic waste. The 2017/18 subsidy was reduced by £32,780 (settlement and notification of the final subsidy is given a year in arrears). In setting the 2018/19 budget a reduction of £34,500 in subsidy had been estimated. Based on HCC's latest projections the 2018/19 subsidy is projected to be £68,470 lower. **A total in year pressure of £101,250.**

3.2.8 **IT Upgrades and the New Website – £25,930 in year pressure.** Essential upgrades to IT systems have been identified and the following pressures have arisen: reported pressure of has arisen from the following:-

- IT Shared Service, of which, Stevenage's share of these upgrades is £7,330.
- Stevenage's retained systems upgrades £8,600.
- New Stevenage Borough Council Website identified an ongoing pressure of £10,000.

Improvements to IT services include the project management process. A Steering Group has been set up and is due to have a first meeting at the beginning of September where all IT projects will go through a priority and approval process. A forward plan of projects will be available later this financial year thus giving longer term visibility on systems upgrades, the cost and budget requirements.

3.2.9 **Audit Fee 2016/17** – Ernst Young (EY) the Council's External Auditors submitted an audit fee variation for the 2016/17 audit of £18,794 based on additional work that EY felt was required for the audit. The Assistant Director (Finance and Estates) took this request to arbitration (Public Sector Audit Appointments – PSAA: body responsible for appointing and agreeing the fees of the Council's External Auditors). After reviewing the evidence the PSAA's decision was that Stevenage Borough Council should incur an additional fee of £9,509 a reduction of £9,285 from EY's requested figure.

3.2.10 **Shared Legal Service** – The Shared Legal Service with Hertfordshire County Council (HCC) commenced on 1<sup>st</sup> August 2017. Following a post implementation review it was agreed that four of the originally transferred posts (Paralegal and Clerical Assistants) should return to Stevenage Borough Council on 1<sup>st</sup> June 2018. **A saving of £45,000** is projected to be achieved by assimilating tasks into council departments.

3.2.11 **Council Properties Business Rates – Pressure is £70,000.** Transitional relief following NDR increases on Car Parks was lower than anticipated, partly offset by reductions in rates on other Council properties following revaluations.

3.2.12 **Trade Refuse Disposal** – In 2017/18 changes were made to the working processes at the Transfer Station (waste holding site) to minimise transportation costs incurred by the Council (see para 3.2.13). Waste from domestic and trade collections were held at the transfer station. During this transitional period tipping costs (attributable to trade waste only) which should have been included in the 2017/18 accounts, were invoiced in 2018/19 creating an in year **pressure of £104,000.**

3.2.13 **Transfer Station** – Changes to the way that waste is being processed has resulted in a **saving of £43,310.** Part year savings have been achieved by not tipping to the designated disposal site (vehicle, fuel and labour) and tighter labour management. The full year ongoing impact of these savings and the pressure from the Transport Subsidy (para 3.2.12) is included in the Medium Term Financial Strategy.

3.2.14 The impact of the first quarter review is an ongoing pressure of £57,090 (see table three below). This has been included in the 2018/19 MTFs update to this Executive and in the Financial Security targets for 2019/20-2021/22.

Table Three - Q1 Ongoing - General Fund		Budget change 2019/20 £
	<b>Service Area:</b>	
Income	Land Charges	30,000
	Car Park Business	(38,010)
	Investment Interest	(120,000)
	Recycling Income	105,100
Expenditure	IT Upgrades and new Website	10,000
	Council Properties - Business Rates	70,000
Other		
<b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b>		<b>57,090</b>

### 3.3. Financial Security options, Growth bids and Carry forward requests

3.3.1 Included in the 2018/19 General Fund budgets are Financial Security options totalling £342,400, growth bids of £130,230 and carry forward budgets of £743,100. Of the Financial security options two have been implemented later than estimated so the full year saving will not be achieved. The savings forecast to be achieved 93% with 7% that will not be achieved (£24,670)

- Corey's Mill additional parking bays – a planning objection from Hertfordshire County Council (HCC) has delayed the progress of

this parking scheme and it is now anticipated that additional income will start from 1<sup>st</sup> October 2018 (£20,000 shortfall in year one).

- Rental properties – the increase in rental charges to two property management companies are still subject to negotiation and are not expected to be implemented before 1<sup>st</sup> April 2019 (£4,670).

3.3.2 There is no change to the 2018/19 growth bids or the 2017/18 carry forwards requested at Quarter 3 and Quarter 4.

### 3.4 New Homes Bonus funded schemes

3.4.1 An update on new homes bonus funded projects will be given in the 2<sup>nd</sup> quarter budget monitoring report to Members in November.

### 3.5 Review of General Fund Balances

3.5.1 **Provisions** for bad debt and known liabilities are within budgeted levels and no changes are required after the 1<sup>st</sup> quarter review.

3.5.2 **Allocated Reserves** - Total allocated reserves available for the Council to spend as at 1 April 2018 was £2,849,581 – the majority of which is held in the Regeneration assets reserve (£846,860) and New Homes Bonus for already identified projects (£690,281).

3.5.3 **Anticipated transfers to/from allocated reserves** – Total allocated reserves as at 31 March 2019 are forecast to be £2,017,633. Anticipated movements are shown in the following table

Movements to/from Allocated Reserves 2018/19				
Allocated Reserve	Balance as at 31 March 2018	Transfers in	Transfers out	Forecast balance as at 31 March 2019
<b>Revenue Reserves</b>				
New Homes Bonus	(£690,281)	(£1,096,456)	£1,762,251	(£24,486)
Future Town Future Council	(£263,499)		£209,340	(£54,159)
Planning Delivery	(£61,264)		£61,264	(£0)
Regeneration Assets	(£846,860)	(£58,856)	£0	(£905,716)
Regeneration Reserve (SG1)	(£603,440)	(£356,000)	£645,850	(£313,590)
LAMS default	(£61,132)	£0	£0	(£61,132)
NDR	(£172,000)	£0	£0	(£172,000)
Insurance Reserve	(£123,509)		£15,000	(£108,509)
Town Centre	(£27,596)		£27,596	£0
<b>TOTAL REVENUE RESERVES</b>	<b>(£2,849,581)</b>	<b>(£1,511,312)</b>	<b>£2,721,301</b>	<b>(£1,639,592)</b>

Allocated Reserve	Balance as at 31 March 2018	Transfers in	Transfers out	Forecast balance as at 31 March 2019
<b>Capital Reserves</b>				
Capital Reserve	£0	(£998,000)	£619,959	(£378,041)
<b>TOTAL CAPITAL RESERVE</b>	<b>£0</b>	<b>(£998,000)</b>	<b>£619,959</b>	<b>(£378,041)</b>
<b>TOTAL ALLOCATED RESERVES</b>	<b>(£2,849,581)</b>	<b>(£2,509,312)</b>	<b>£3,341,260</b>	<b>(£2,017,633)</b>

3.5.4 General Fund Balance – Following the 1<sup>st</sup> Quarter review the General Fund balance as at the 31 March 2019 is now forecast to be **£3,881,216** subject to any changes included in the Medium Term Financial Strategy (MTFS) update to this Executive

<b>Table Five: General Fund Balances</b>	<b>£</b>
<b>Original Net General Fund Budget</b>	<b>9,107,740</b>
Approved budget changes	569,330
<b>Net Working budget approved to Date</b>	<b>9,677,070</b>
1st Quarter review	195,750
<b>Total Net Expenditure post Q1 review</b>	<b>9,872,820</b>
less core resources	(8,288,919)
<b>Transfer (to)/from General Fund balances</b>	<b>1,583,901</b>
<b>General Fund balance 31/3/18</b>	<b>(5,465,117)</b>
Transfer (to)/from General Fund balances	<b>1,583,901</b>
<b>Projected General Fund balance 31/3/19</b>	<b>(3,881,216)</b>
Allocated Revenue Reserves 31/3/19	(1,639,593)
Allocated Capital Reserves 31/3/19	(378,041)
<b>Total General Fund balances (estimated 31/3/19)</b>	<b>(5,898,850)</b>

3.5.5 **Core resources** used for the financing of the net General Fund expenditure comes from council tax, retained business rates and revenue support grant. Changes in the council tax base and business rate yield now have a direct impact on Council finances since the localisation of business rates. As at 31 July the council tax base for 2018/19 is now estimated at 26,960 band D equivalents (Council Tax setting report in February estimated 27,059). Whilst this is lower than the budgeted figure, the taxbase at July is only at a point in time and the budgeted figure is for the full year. The taxbase is lower than expected due to the delayed completion of the Park Place development which is now expected later in the year. More information relating to the taxbase can be found in the General Fund MTFS (September Executive).

3.5.6 The forecast yield from business rates remains largely unchanged from original budget. More information relating to the taxbase can be found in the General Fund MTFS (September Executive).

#### 4. HOUSING REVENUE ACCOUNT (HRA)

4.1 Since the Housing Revenue Account (HRA) net budget deficit of £2,756,630 was approved at Council, Members have further approved net budget deficits of £1,534,140, as detailed in the following table:

Table Six – HRA Working budget	Working Budget £
<b>Original Budget 2018/19</b>	<b>2,756,630</b>
3rd Quarter 2017/18 net changes	0
3rd Quarter Carry forwards	217,870
4th Quarter 2017/18 net decrease	(7,000)
4th Quarter Carry forwards	82,270
4th Quarter one year only (debt repayment)	1,241,000
<b>Total Changes</b>	<b>1,534,140</b>
<b>Total Working Budget</b>	<b>4,290,770</b>

#### 4.2 Housing Revenue Account – Budget Review

4.2.1 Following the 1st quarter review of revenue budgets officers have identified the following budget alerts listed in the table below.

Table Seven - Budget Alerts - Housing Revenue Account		Budget change £	Ongoing Impacts £
Income	Rent - Net delays in stock acquisitions	124,340	(16,000)
	Rent - Additional Void loss	85,340	
	Rent - Additional Out of Management (OOM) properties	62,540	62,530
	Rent - Fewer Right to Buys (35 from budgeted 50).	(80,390)	(99,040)
	Right to Buy Admin fee reduction	19,500	
	Peppercorn Rent (budget option para 4.2.8)	13,990	
	Investment Interest	(107,000)	(107,000)
	Other Income changes	(39,560)	(30,360)
Expenditure	General Data Protection Regulations (GDPR) Agency costs	31,250	
	Council tax on additional Out of Management	22,000	22,000
	Net Increases in charges from GF	3,900	3,300
Carry Forwards	Housing Transformation Project	(60,000)	
Other		(510)	
<b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b>		<b>75,400</b>	<b>(164,570)</b>

\* 2 additional properties at affordable rent properties



- 4.2.2 **Rent variances** -The original rent projections include assumptions about **void levels** for each type of rental property. However in the current year, void loss to week 13 is £25,600 with an **additional void loss of £85,340** over the original budgeted amount of £285,710 giving a total void loss projection of £371,050 for the year (0.95% of gross rent).
- 4.2.3 Turn-around times for general needs standard voids (requiring minor works prior to relet) have improved – currently 23 days against a target of 32 days. However, turn-around times for general needs properties requiring major works and sheltered properties continue to exceed the 70 day target. Officers have introduced a number of initiatives to reduce these void times including:
- Seeking to relet properties (that meet the lettable standard) and schedule major works while the tenant is in the property and not when void.
  - Collaborative approach between investment and empty homes teams, including relocating repairs and voids team to Daneshill House to improve communication.
- 4.2.4 Sheltered properties are historically difficult to let. The relet time for these properties is currently 84 days. During June a total of six independent living schemes were let. Of these one took 273 days to let and another 140 days. If these two voids are discounted, performance for the remaining four sheltered properties would have been 37.25 days. The independent living team continue to market voids through direct contact with potential tenants and referrals received. In addition when studio flats become vacant they are considered for potential remodelling into one bed flats to improve marketability.
- 4.2.5 **Rent variances - Out of management properties/timing of stock acquisition** - In setting the rent budget in January a number of new build properties were expected to be available to let from April (Twin Foxes). These properties will now be available to rent in Mid-August, this together with other new build delays results in a rent loss of £124,340. In addition a number of properties have been taken out of management in readiness for redevelopment £62,540. These properties will be refurbished and used for homeless until the redevelopment is ready to commence. This has also had an impact on Council Tax charges.
- 4.2.6 **Rent variances - Right to Buys and Other.** Right to Buy sales have been lower than anticipated in the first three months of the year, and we have revised our estimate of the number of right to buys expected in the year down from 50 to 35. This, together with re-profiling the anticipated 35 sales to later in the year, results in **additional rent of £80,380**.
- 4.2.7 **Right to Buy Administration Income** – The council receives £1,300 from each Right to Buy Sale as a contribution to the costs of administering the scheme. A reduction of 15 Right to Buy sales means that this income will be **reduced by £19,500**.
- 4.2.8 **Peppercorn Rent** – A budget saving (additional income) was included within the budget on the assumption that rent negotiate on the peppercorn rents

would result in significantly higher rents. The negotiated increase has been lower than anticipated resulting in a £13,990 shortfall, however officers will be looking to implement the full increase in 2019/20.

**4.2.9 Investment Interest – favourable £107,000.** Please refer to narrative at paragraph 3.2.5

**4.2.10 Other Income – favourable £39,560.** This consists of three elements –

- Supporting people £18,550 due to more people than anticipated choosing to stay with the service after introduction of fees.
- Leaseholder Insurance £11,810 recovery of actual insurance premium costs relating to 2017/18.
- Increase in the leaseholder management fee (to cover costs) generating £9,200.

**4.2.11 General Data Protection Regulations** - Due to the volume of work involved in the initial set up of compliance with the Regulations two agency staff have been commissioned for eight months at an anticipated cost to the end of November 2018 **£31,250**.

**4.2.12 Council Tax** – as explained at paragraph 4.2.2 the higher number of properties being held out of management whilst being refurbished has increased resulting in additional council tax payments for empty properties of **£22,000**.

**4.2.13 Net Increase in recharges from the General Fund – adverse £3,900.** There are a number of changes in the recharges being made which are referred to in the General Fund section of the report as follows: IT paragraph 3.2.8, Audit Paragraph 3.2.9, and Legal Paragraph 3.2.10

**4.2.14 Carry forwards** – The three year Housing Transformation Project is in its second year and a **carry forward of £60,000** into year three has been requested.

### **4.3 Financial security options, Growth bids and Carry forward requests**

**4.3.1** Included in the 2018/19 Housing Revenue Account budgets are Financial Security options totalling £225,960, growth bids of £365,092, and carry forward budgets of £301,410. The growth bids and carry forwards are currently on track to be achieved, however two items, within the Financial Security regarding increasing peppercorn rents to achieve an additional £19,990 of income have only achieved additional income of £6,000, a £13,990 shortfall.

### **4.4 Housing revenue account balances**

**4.4.1** Following the 1<sup>st</sup> quarter review the HRA balance is now forecast to be £19,748,494. Although forecast balances are high, Members will be aware of the funding gap identified in the HRA Business Plan in future years and the ongoing requirement to find Financial Security options.

<b>Table Eight – Housing Revenue Account Out-turn Position</b>	<b>£</b>
<b>Original Budget</b>	<b>2,756,630</b>
Approved budget changes 17/18	1,534,140
1st Quarter adjustments	135,400
1st Quarter carryforwards	(60,000)
<b>Projected net deficit post 1st Quarter review</b>	<b>4,366,170</b>
HRA balance brought forward 1/4/18	(24,114,664)
Deficit in year	4,366,170
<b>Projected HRA balance 31/3/19</b>	<b>(19,748,494)</b>

#### 4.5. Investment balances

- 4.5.1 The Council's investments as at 30 June 2018 were £64.16million. Of this £10.1million relates to restricted use 1for1 receipts, £12.0million relates to ring fenced resources to fund HRA capital programme (major repairs reserve) and £24Million held for HRA debt repayments and planned contributions to the HRA revenue cost. In addition, the council as the billing authority holds collection fund monies on behalf of HCC, Hertfordshire Police & Crime Commissioner, and central government.
- 4.5.2 The average investment rate achieved in the 1st quarter was 0.72% and the revised forecast for investment income is now higher than budget. Investment interest is allocated to the General Fund and HRA based on cash balances held by each fund. At the 1<sup>st</sup> quarter additional investment income of £120,000 and £107,000 to General Fund and HRA respectively is forecast.
- 4.5.3 Cash balances are held by the Council to meet financial obligations such as NDR refunds following successful appeals (for which a provision is held) and restricted use reserves such as right to buy one for one receipts. Cash balances are expected to fall during the year and are forecast to be £56million as at 31 March 2019, subject to the capital programme being fully spent.
- 4.5.4 The Council's loan portfolio totals £207.246 million with the majority (£205.746million) with the Public Works Loan Board (PWLb). Details of investments and loan portfolios are shown in Appendix A.

## 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**

- 5.2.1 The objective of this report is to outline the projected General Fund and HRA net expenditure for 2018/19 and the impact on the General Fund and HRA balances. While there are no legal consequences at this stage Members are reminded of their duty to set a balanced budget.

## **5.3 Equalities and Diversity Implications**

- 5.3.1 This report summarises external and internal factors that impact on approved budgets and recommends changes to those budgets in year. Budget changes identified for future years that could adversely impact on groups covered by statutory equality duties will be incorporated into the budget setting process which includes Equality Impact Assessments (EqIA). None of the budget changes reported will change any existing equalities and diversity policies.
- 5.3.2 The service department has been asked to look at the equalities and diversity implications in the increase in void re-let times and any potential impact on protected groups.

## **5.4 Risk Implications**

- 5.4.1 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 was calculated at £2,760,570. This report forecasts General Fund balances of £3,881,216 and allocated reserve balances of £1,639,592 which is above the minimum balances required.
- 5.4.2 The HRA balances are projected to be £19,748,494. The level of HRA balances or revenue reserves risk assessed for 2018/19 is £2,144,950. The projected HRA balance is above the risked assessed level, however it should be noted that the HRA holds balances for future debt repayments and the capital programme for throughout the 30 year business plan.

## **5.5 Policy Implications**

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

## **BACKGROUND PAPERS**

BD1 - HRA final budget proposals and rent setting report (Council 30<sup>th</sup> January 2018)

[Agenda for Council on Tuesday, 30 January 2018, 7.00pm](#)

BD2 - 2018/19 Council Tax Setting and General Fund Budget (Council 28<sup>th</sup> February 2018)

[https://democracy.stevenage.gov.uk/documents/s5594/20180228-Item5A-General%20Fund\\_Council%20Tax.pdf](https://democracy.stevenage.gov.uk/documents/s5594/20180228-Item5A-General%20Fund_Council%20Tax.pdf)

**APPENDICES**

Appendix A - Investment and Loans Portfolio.