

**Meeting: EXECUTIVE**

**Agenda Item:**

**7**

Portfolio Area: Resources

**Date: 19 SEPTEMBER 2017**

**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 2017/18 net expenditure and seek approval to these changes 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 2017/18 budget setting process.
- 1.3 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 2017/18 1<sup>st</sup> quarter projected net decrease in General Fund expenditure of £55,060 be approved.
- 2.2 That it be noted that cumulative decreases 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 2017/18 approved Financial Security options, growth bids, carry forward requests be noted.

- 2.4 That the 2018/19 ongoing net pressure of £28,070 that will be incorporated into the General Fund Medium Term Financial Strategy (MTFS).

### **Housing Revenue Account**

- 2.5 That the 2017/18 1<sup>st</sup> quarter projected net decrease in HRA net surplus expenditure of £203,410 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 (excludes carry forwards).
- 2.7 That the progress of the 2017/18 approved financial security options, growth bids, and carry forward requests be noted.

## **3. BACKGROUND - GENERAL FUND**

- 3.1. Since the General Fund net budget of £9,382,220 was approved at Council Members have approved net budget changes of £713,240, as detailed in Table one below:

<b>Table One – 2017/18 General Fund Working Budget</b>	<b>Working Budget £</b>
Original Budget	9,382,220
3rd Quarter 2016/17 net decrease	(60,600)
3rd Quarter Carry forwards	347,150
4th Quarter 2016/17 net decrease	(155,550)
4th Quarter Carry forwards	449,950
Legal Shared Services report (Exec 4-4-17)	125,790
Compliance service (Exec 24-5-17)	6,500
Total changes	713,240
<b>Total Net Budget Approved to Date</b>	<b>10,095,460</b>

### **3.2 General Fund – Budget Review**

- 3.2.1 Following the quarter one review of revenue budgets officers have identified the following budget alerts listed in table two below. Where the external/internal factors affecting budgets are known with some certainty projected changes to income and expenditure budgets have been flagged (red – budget exceed/ income not achieved or green – budget underspend/income exceeded) and budget changes are recommended. Where budgets are deemed at risk of being achieved service areas have been flagged at amber and no budget changes are proposed at this time.

Table Two - Budget Alerts - General Fund		Status (red=overspend/under recovery of income Green=underspend/over recovery of income)	Budget change £	Potential Budget Risk £
	<b>Service Area:</b>			
Income	Indoor Market	RED	31,240	
	Off street car parking	GREEN	(45,000)	
	On Street Parking	GREEN	(30,930)	
	Recycling sales	RED	60,000	
	Planning applications	GREEN	(82,170)	
	Housing Benefit overpayments	RED	78,200	
	Investment Interest (see para 4.4)	GREEN	(48,450)	
Expenditure	Parking enforcement contract	RED	24,000	
	Fuel (fleet vehicles)	GREEN	(23,200)	
	Salaries - Refuse and Recycling overtime	GREEN	(60,920)	
	Holiday Pay Provisions	GREEN	(18,750)	
	Business Rates - Carparks	RED	63,720	
Other		GREEN	(2,800)	
<b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b>			<b>(55,060)</b>	
<b>TOTAL BUDGET RISKS IDENTIFIED THIS QUARTER (AMBER STATUS)</b>				<b>0</b>

3.2.2 **Parking Income** – a number of new on street parking schemes have been established in the town to address parking issues. Costs to enforce these parking schemes have increased but are offset by the additional income.

3.2.3 **Housing benefit** - With the introduction of real time information sharing fewer housing benefit overpayments are being raised (£78,200). Recover of these overpayments is kept by the Council (as overpayments are excluded from the subsidy claim form).

3.2.4 **Car park business rates** – Since the budget was set in January the Valuation Office has revised the rateable value of the council’s carparks upwards. This has increased the business rate charge for 2017/18 (£63,720). Officers will investigate whether there is an opportunity to “check, challenge and appeal” these new valuations before the budget pressure is flagged as ongoing.

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

3.3.1 Included in within the 2017/18 General Fund budgets are Financial Security options totalling £226,190, growth bids of £143,700 and carry forward budgets of £797,100. Currently no variances to these budgets have been identified.

### 3.4 New Homes Bonus funded schemes

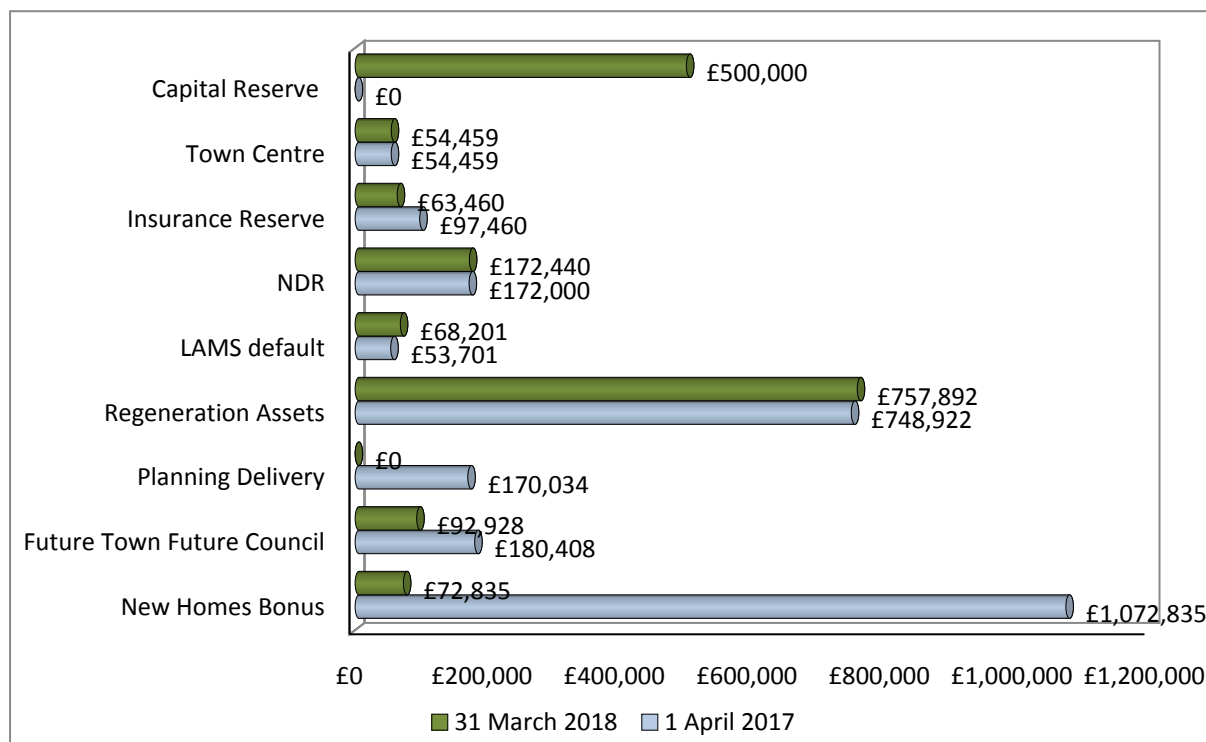
3.4.1 An update on new homes bonus funded projects will be given in the 2<sup>nd</sup> quarter budget monitoring report to Members in November.

### 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 2017 was £2,549,819 – the majority of which is held in the New Homes Bonus reserve for projects already identified (£1,072,835) and Regeneration assets (£748,922).

3.5.3 No specific transfers to/from allocated reserves have been requested in this report, however anticipated transfers to cover the cost of known projects in 2017/18 have been included the forecasted balance of allocated reserves as at 31 March 2018 (£1,782,215).



3.5.4 General Fund Balance – Following the 1<sup>st</sup> Quarter review the General Fund balance as at the 31 March 2018 is now forecast to be £5,336,708 subject to any changes included in the Medium Term Financial Strategy (MTFS) update to this Executive

<b>Table 4- General Fund Balances</b>	
	<b>£</b>
<b>Original Net General Fund Budget</b>	<b>9,382,220</b>
Approved budget changes	713,240
<b>Net Working budget approved to Date</b>	<b>10,095,460</b>
1st Quarter review	(55,060)
<b>Total Net Expenditure post Q1 review</b>	<b>10,040,400</b>
less core resources (see para 3.5.5)	(8,950,125)
<b>Transfer (to)/from General Fund balances</b>	<b>1,090,275</b>
<b>General Fund balance 31/3/17</b>	<b>(6,426,983)</b>
Transfer (to)/from General Fund balances	1,090,275
<b>Projected General Fund balance 31/3/18</b>	<b>(5,336,708)</b>
Allocated Revenue Reserves 31/3/18	(1,282,215)
Allocated Capital Reserves 31/3/18	(500,000)
<b>Total General Fund balances (estimated 31/3/18)</b>	<b>(7,118,923)</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 2017/18 is now estimated at 26,944 band D equivalents (Council Tax setting report in February estimated 26,695). Although the taxbase has increased and there is likely to be a surplus at the year end, the budgeted figure is calculated on a full year effect the July taxbase is a point in time. 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 surplus of £2,790,940 was approved at Council, Members have further approved net budget increases of £462,610, as detailed in the following table:

Table Four – HRA Working budget	Working Budget £
Original Budget	( 2,790,940)
3rd Quarter 2016/17 net decrease	( 62,970)
3rd Quarter Carry forwards	317,250
4th Quarter 2016/17 net decrease	( 112,600)
4th Quarter Carry forwards	273,720
Legal Shared Services report (Exec 4-4-17)	47,210
Total changes	462,610
<b>Total Working Budget</b>	<b>( 2,328,330)</b>

#### 4.2 Housing Revenue Account – Budget Review

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

Table Five - Budget Alerts - Housing Revenue Account		Status (red=overspend/under recovery of income Green= underspend/over recovery of income)	Budget change £	Potential Budget Risk £
	<b>Service Area:</b>			
Income	Increase in re-let times (void repairs)	RED	145,000	
	Out of management properties	RED	40,000	
	Delays in stock acquisitions	RED	31,000	
	Right to Buy increase rent loss	RED	7,000	
	Service charges & miscellaneous income reductions	RED	44,260	
	Phone mast Income (one off )	GREEN	(35,920)	
	Service charge adjustment for prior year	GREEN	(42,270)	
	Investment interest (see para 5.1)	GREEN	(49,090)	
	Bad debt provision	AMBER		(45,000)
Expenditure	Absence cover for caretaking service	RED	30,490	
	Agency use to cover recruitment lag in Repairs & Voids service	RED	30,000	
Other		RED	2,940	
<b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER (RED STATUS)</b>			<b>203,410</b>	
<b>TOTAL BUDGET RISKS IDENTIFIED THIS QUARTER (AMBER STATUS)*</b>				<b>(45,000)</b>

*\* amber status - budget variance not included in the recommended budget adjustment at this time*

- 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 £101,832 with an additional void loss of £145,000 over the original budgeted amount of £201,000 giving a total void loss projected of £346,000 for the year. A new process for voids has been implemented by the Repairs and Voids Team with the empty homes officers being relocated to Cavendish Road. Officers are currently looking at how performance can be improved. The losses are also exacerbated by voids being re-let at formula rents so increasing the rental loss. The rent estimates for 2017/18 include an additional £19,890 of income from letting void properties at their formula rent.
- 4.2.2 **Out of management properties/delays in stock acquisition** - In setting the rent budget in January a number of new build properties were expected to be available to let from April. The actual number of properties available as at the 1 April was slightly lower impacting on rental forecast for this year (£31,000). In addition a number of properties have been taken out of management in readiness for redevelopment (£40,000), which will reduce decant costs in later years. This will also impact on service charge income.
- 4.2.3 **Repairs and Void Service** – recruitment to permanent posts is proving difficult due to higher technical requirements of the new posts. To minimise service disruption to tenants additional agency staff and subcontractors have been used, increasing the costs of the repairs and void service in year only (£30,000).
- 4.2.4 In the interim additional agency staff have been used to ensure caretaking cover is maintained during staff absences due to holiday and sickness (£30,490). A review of the caretaking service is being undertaken to assess what level of service should be provided and as such an ongoing pressure has not been raised.
- 4.3 Housing revenue account balances**
- 4.3.1 Following the 1<sup>st</sup> quarter review the HRA balance is now forecast to be £21,874,491. Although forecast balances are high, Members will be aware of the funding gap identified in the HRA in future years and the ongoing requirement to find Financial Security options.

<b>Table Ten – Housing Revenue Account out-turn Position</b>	<b>£</b>
<b>Original Budget</b>	<b>( 2,790,940)</b>
Approved budget changes	462,610
1st Quarter adjustments	203,410
<b>Projected net surplus post 1st Quarter review</b>	<b>( 2,124,920)</b>
HRA balance brought forward 1/4/17	( 19,749,571)
Surplus in year	( 2,124,920)
<b>Projected HRA balance 31/3/18</b>	<b>( 21,874,491)</b>

#### **4.4. Investment balances**

4.4.1 The Council's investments as at 30 June 2017 were £66.33million. The average investment rate achieved in the 1st quarter was 0.57% 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 £48,450 and £49,090 to General Fund and HRA respectively is forecast.

4.4.2 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 £54million as at 31 March 2018, subject to the capital programme being fully spent.

4.4.3 The Council's loan portfolio totals £209.494million with the majority (£207.994million) 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 2017/18 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 2017/18 General Fund balances was calculated at £2,656,938. This report forecasts General Fund balances of £5,336,708 and allocated reserve balances of £1,782,215 which is above the minimum balances required.
- 5.4.2 The HRA balances are projected to be £21,874,491. The level of HRA balances or revenue reserves risk assessed for 2017/18 is £1,947,740. 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 26 January 2017)

<http://www.stevenage.gov.uk/content/committees/160923/160927/160991/20170131-Item3.pdf>

BD2 - 2017/18 Council Tax Setting and General Fund Budget (Council 24<sup>th</sup> February 2017)

<http://www.stevenage.gov.uk/content/committees/160923/160927/160991/20170228-Item5A.pdf>

### **APPENDICES**

Appendix A - Investment and Loans Portfolio