

Meeting EXECUTIVE
Portfolio Area Resources
Date 14 MARCH 2019



3RD QUARTER MONITORING REPORT GENERAL FUND AND HOUSING REVENUE

KEY DECISION

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1 PURPOSE

- 1.1 The Council undertakes a review of all revenue and associated budgets on a quarterly basis. This is the 3rd quarter monitoring report for 2018/19.
- 1.2 To update Members on the General Fund and Housing Revenue Account (HRA) projected 2018/19 net expenditure and seek approval for the revisions to the 2018/19 revenue budgets.
- 1.3 To update Members on the General Fund and Housing Revenue Account (HRA) projected 2019/20 net expenditure and seek approval for the revisions to the 2019/20 revenue budgets.
- 1.4 To update Members on the General Fund and HRA Financial Security options approved for 2018/19.
- 1.5 To update Members on the Council's reserves and balances available to support revenue expenditure and to seek approval for revisions to the allocated reserves.

- 1.6 To update Members on any new Financial Security options that contribute to the General Fund and Housing Revenue Account savings target.

2 RECOMMENDATIONS

General Fund

- 2.1 That the 2018/19 3rd quarter General Fund projected net decrease in expenditure of £80,890 be approved
- 2.2 That it be noted that the cumulative changes made to the General Fund net budget remain within the £400,000 (increase) variation limit delegated to Executive.
- 2.3 That the progress of the 2018/19 approved savings, growth bids and carry forwards be noted.
- 2.4 That the 2019/20 pressure of £118,420 be approved. The ongoing pressure is £51,800 with £66,620 being for one year only.
- 2.5 That the new carry forward requests of £80,000 be approved.

Housing Revenue Account

- 2.6 That the 2018/19 3rd quarter decrease in the net HRA deficit of £966,030 be approved.
- 2.7 That the progress of the 2018/19 approved savings, growth bids and carry forward requests be noted.
- 2.8 That the 2019/20 ongoing pressure of £17,000 be approved.
- 2.9 That the new carry forward requests of £507,470 be approved.

3 BACKGROUND

3.1 General Fund Working Budget

Since the 2018/19 General Fund net revenue budget of £9,107,740 was approved by Council on 28th February 2018 Members have approved net budget changes as detailed in the following table.

Table One – 2018/19 General Fund Working Budget	Working Budget £
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
1st Quarter 2018/19	£195,750
2nd Quarter 2018/19	(£177,170)
November MTFS	£699,600
Draft Budget Report (Exec 13-12-18)	(£275,670)
Final Budget Report (Exec 23-1-19)	(£56,080)
Total Net Budget Approved to Date	£10,063,500

3.2 Housing Revenue Account Working Budget

- 3.2.1 The HRA revenue deficit budget of £2,756,630 was approved at Council on 30 January 2018. Subsequently Members have approved 2018/19 budget changes as detailed in table two below.

Table Two – HRA Working budget	Working Budget £
Original Budget	2,756,630
3rd Quarter Carry forwards	217,870
4th Quarter 2017/18 net decrease	(7,000)
4th Quarter Carry forwards	82,270
4th Quarter principal repayment	1,241,000
1st Quarter 2018/19	135,400
1st Carry forwards	(60,000)
2nd Quarter 2018/19	25,750
Draft Budget setting (Exec 13-12-18)	(424,830)
Budget setting (Exec 23-1-19)	93,830
Total Working Budget	4,060,920

4 REASONS FOR RECOMMENDED COURSE OF ACTION

4.1 General Fund Budget Review

- 4.1.1 As a result of the 3rd quarter budget monitoring review the General Fund net expenditure is projected to decrease by £80,890, including carry forward requests of £80,000. This means the net change in the General Fund projected expenditure is a decrease of £890 once carry forward requests are excluded.
- 4.1.2 Pressures and savings identified during the 3rd quarter are listed in table three below.

Table Three - Budget Alerts - General Fund		Budget change 2018/19 £	GF Impact 2018/19 £	HRA Impact 2018/19 £	GF Ongoing 2019/20 £	GF One Year Only 2019/20 £	Carry forward request £
	Service Area:						
Income							
	Commercial Rent	(75,140)	(75,140)				
	New Burdens Brexit Funding	(17,500)	(17,500)			(17,500)	
	Loss of rent from increased voids on Indoor Market Stalls	12,750	12,750				
	Delay in Building Control loan repayment	36,470	36,470			53,970	
	Property and Design demand led external income	72,570	72,570				
Expenditure	Brexit related activities	17,500	17,500			17,500	
	Security and Fencing for Fairlands Valley Farmhouse	38,100	38,100				
	Refuse and Recycling advertising to be reassessed	(17,130)	(17,130)				
	Issues with road sweeper purchased last year - additional cost for hire of another road sweeper	20,000	20,000				
	Shared Revenue & Benefits Service - salary under spends	(59,360)	(59,360)				
	CRM Implementation - Licence costs				26,000		
	Property and Design compliance contract	(70,000)	(70,000)				
Carry Forward	Communities Contribution Received	(30,000)	(30,000)				30,000
	Customer Services carry forward to cover FTC	(32,000)	(32,000)				32,000
	Town Twinning carry forward request	(18,000)	(18,000)				18,000
Other		40,850	129,210	(88,360)	25,800	12,650	0
TOTAL BUDGET CHANGES REPORTED THIS QUARTER		(80,890)	7,470	(88,360)	51,800	66,620	80,000

4.2 3rd Quarter variances

- 4.2.1 **Commercial Rent** – occupancy rates at the Business Technology Centre (BTC) have increased and some rent reviews and lease renewals for commercial shops and offices across the borough has resulted in higher than projected rental income of £75,140 (2% of total commercial rent income). The new BTC contract commences on 1st April 2019 and the Financial Security options presented to the February Council reflected an increase in income on that contract for next year. Commercial property rent has also been increased in the 2019/20 budget by £24,320, (Financial Security option SE1 refers).

- 4.2.2 **Brexit New Burdens Funding** – funding has been received from the Government to support Local Authorities as they prepare for Brexit of £17,500 in 2018/19 and 2019/20. This funding will be used for Brexit related activities.
- 4.2.3 **Indoor Market** – During the 3rd quarter the Indoor Market had six stalls terminate their contract and one new stall holder. This has led to loss of rent of £12,750. The Indoor Market is projected to make a deficit in 2018/19 of £38,390. At the end of December 2018/19 out of the 132 available stalls, 40 stalls are vacant (69.7% occupied). The 2019/20 budget assumes 103 (currently 92) occupied stalls generating £435,000 income and a surplus of £28,810. No budget pressure in 2019/20 has yet been reported.
- 4.2.4 **Building Control** – In August 2017 the Council partnered with six other local authorities to form Hertfordshire Building Control Ltd to reduce current and future predicted costs building control and mitigating erosion of income from Approved inspectors (private companies).
- 4.2.5 When the company was set up all partners provided a loan (£107,000 each) to the new company. The original business case assumed that loan repayments would commence in 2018/19, however this is now projected to start in 2020/21. The Building Control company has requested that the loan is reprofiled based on their revised cash flow need, due the initial time delay in setting up the company. The respective Hertfordshire CFO's have met with the company to agree the charges for the forth coming year and have reviewed the revised cash flow. The loan interest is payable at 4% which is significantly higher than that achieved on investment balances, (1.15% estimated for 2019/20) and should yield £12,840 over the two years, (built into the revised projections). There is also an increase in contract costs relating to statutory elements of the building control service increased by £4,630 in 2018/19 and £26,930 from 2019/20, which was not known at the time the budget report was completed
- 4.2.6 **Property and Design** – demand led external income is lower than anticipated by £72,570, mainly due to less contract work from other local authorities. This will be reviewed as part of the 5th Tier Business Unit Review currently under way. The team have been working on more capital projects so salaries charged to capital have increased income, but this is offset by a compensatory pressure from Agency staff costs.
- 4.2.7 **Fairland Valley Farmhouse** – Security and fencing to the Farmhouse and perimeter has led to £38,100 pressure. The sale of the Farmhouse is currently in progress.
- 4.2.8 **Refuse and Recycling Advertising** – an in year saving of £17,130 for refuse and recycling advertising is reported as the Assistant Director of Stevenage Direct Services (SDS) has requested a review of the effectiveness of advertising placed.
- 4.2.9 **SDS Road Sweeper** – one road sweeper purchased last year is not road worthy which has led to the hire of a substitute vehicle. The pressure of £20,000 is 50% of the overall cost to hire the vehicle and compensation of 50% is being sought from the supplier of the original vehicle.
- 4.2.10 **Compliance Contract** - There is a saving on the compliance contract of £70,000. The compliance contract has been retendered with the new contractor putting together a schedule of works following condition surveys of council buildings covered by the contract.

4.2.11 **2019/20 General Fund Budget** – The 3rd quarter General Fund review has identified a net pressure of £118,420. The ongoing pressures are

- Customer Relationship Management licence costs £26,000 – the current CRM system will be out of maintenance from 2019/20 so a new system will be procured
- Other minor pressures £10,800 – less than £5,000 each

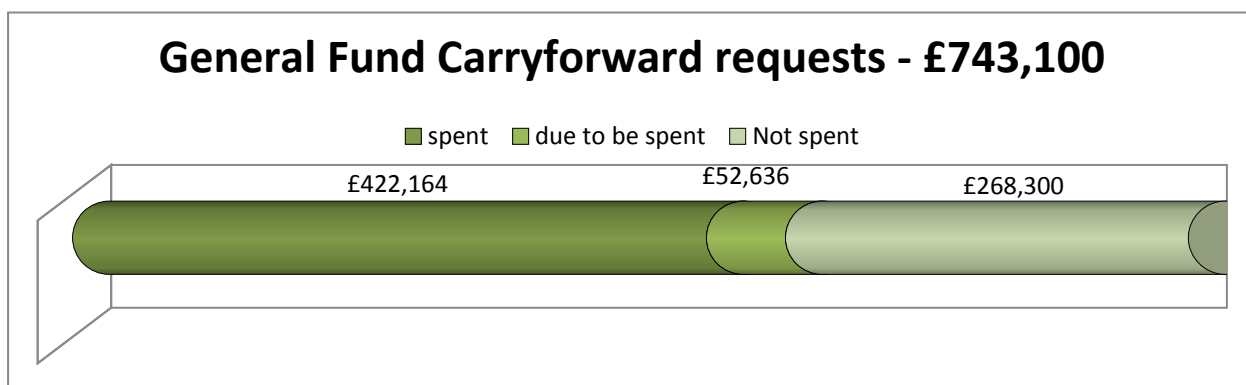
The 2019/20 one year only pressure of £66,620 is mainly from the Building Control Partnership (see 4.2.4)

The ongoing pressure may require a review of the Financial Security savings target and any revision will be considered in the next MTFS update.

4.2.12 **Other updates** – There is no income and expenditure variances reported for CCTV however it should be noted the SIAS Audit Recommendations were reported to the CCTV Joint Executive in October as part of the overall CCTV Governance Review. This Council has led the review working with the three partner councils. The Officer Management Board have commissioned legal advice to scope options for future governance and the future of both the partnership and the CCTV company. The finance team are working with the service on option appraisals for consideration, which may impact on income and expenditure projections.

4.3 **Approved Carry forwards 2018/19 (General Fund)**

4.3.1 Members have already approved total carry forward requests of £743,100



4.3.2 Carry forward requests continue to be monitored and following successful recruitments an assessment will be made and any necessary carry forwards will be requested at the 4th quarter. The unspent carry forwards relate to;

- Stevenage Against Domestic Abuse project £145,000 will be spent by the end of this financial year or used in 2019/20 to ensure the service is fully funded for 2019/20.
- Apprentice funding of £80,000 not required has already been returned to New Homes Bonus and has been reused to meet any NHB funding shortfall in the next financial year.
- Homelessness Support Grant of £43,300 is likely to be requested to carry forward to use in 2019/20.

4.4 New carry forward requests 2019/20

4.4.1 Carry forwards are requested for the following

- A £30,000 contribution received from the Hertfordshire Growth Fund will fund a Community Buildings Officer in 2019/20
- The Customer Service Centre £32,000 to fund a temporary Planning and Resource management post until November 2019
- Town Twinning request £18,000 to part fund the tri-partite (Stevenage, Germany and France) reunion to be hosted by Stevenage between the 4th and 8th July 2019. In year underspends are requested for carry forward for the year that Stevenage hosts town twinning, to fund the additional expenditure. The budget is not increased in the hosting year.

4.5 Financial Security Options and growth proposals approved for 2018/19

4.5.1 As part of the 2018/19 budget setting process Financial Security savings of £342,400 were approved and implemented. 91% of the total Financial Security options approved have been achieved.

Savings option FS2 on street parking (as reported to Executive at 1st quarter) is delayed due to Herts Highways having lodged an objection to the planning application. The latest estimate is that £10,000 of the £40,000 saving is likely to be achieved resulting in pressure of £30,000.

4.5.2 Growth proposals totalling £470,370 were approved for the General Fund in 2018/19 and these are on target to be spent.

4.6 2018/19 General Fund Out turn position

4.6.1 Following the 3rd quarter review the General Fund balance as at 31 March 2019 is projected to be £4,177,368 as detailed in table four.

Table Four:	
General Fund Balances	£
Original Net General Fund Budget	9,107,740
Approved budget changes	955,760
Net Working budget approved to Date	10,063,500
3rd Quarter review	(80,890)
Total Net Expenditure post Q3 review	9,982,610
less core resources	(8,694,861)
Transfer (to)/from General Fund balances	1,287,749
General Fund balance 31/3/18	(5,465,117)
Transfer (to)/from General Fund balances	1,287,749
Projected General Fund balance 31/3/19	(4,177,368)
Allocated Revenue Reserves 31/3/19	(1,401,101)
Allocated Capital Reserves 31/3/19	(422,203)
Total General Fund balances (estimated 31/3/19)	(6,000,672)

4.7 Allocated Reserves

- 4.7.1 The total value of allocated reserves as at the 1 April 2018 was £2,849,582.
- 4.7.2 Total allocated revenue reserves as at the 31 March 2019 are forecast to be £1,401,101 and capital reserve of £422,203 remain unchanged from the 2019/20 budget report.

4.8 Investments and Loans

- 4.8.1 There are no significant changes to the Treasury Management Report approved by Council on 27th February 2019.

4.9 Housing Revenue Account – Budget review

- 4.9.1 As a result of the 3rd quarter budget monitoring review the HRA net deficit is projected to decrease by £966,030. However, from this underspend there are requests to carry forward expenditure budgets totalling £507,470.
- 4.9.2 Pressures and savings identified during the 3rd quarter are listed in table five below.

Table Five - HRA		Budget change 2018/19 £	HRA Impact 2018/19 £	GF Impact 2018/19 £	HRA Ongoing 2019/20 £	Carry forward request £
	Service Area:					
Income	Rent Income	32,023	32,023			
	Other Housing Income	65,400	65,400			
Expenditure	Salary Underspends	(261,410)	(261,410)			
	Electrical Works Contract	(544,040)	(544,040)			302,000
	Transformation Fund	(205,470)	(205,470)			205,470
	HRA Policy & Performance	(67,530)	(67,530)			
	Council Tax on Void Property	75,750	75,750			
	Arrears Management Legal Costs	16,130	16,130			
	Careline	(18,840)	(18,840)			
	Communal Area Maintenance	(40,000)	(40,000)			
	CRM Implementation Licence Costs				26,000	
Other		(18,043)	(18,043)	0	(9,000)	0
TOTAL BUDGET CHANGES REPORTED THIS QUARTER		(966,030)	(966,030)	0	17,000	507,470

- 4.9.3 **Rent, Service Charges, and HRA Income** – Income has been revised downwards by £32,023 for this quarter. This relates to the removal of an estimate of rent for Asquith Court for temporary accommodation. Due to the timing of the redevelopment of the site and the costs of bringing the units back into use it has now been decided not to go ahead with the temporary accommodation.

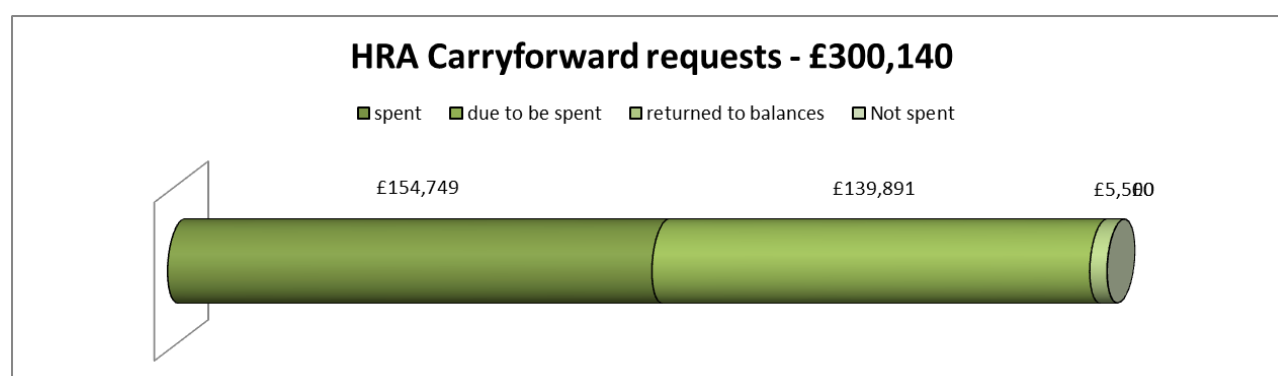
- 4.9.4 **Other Housing Income** – There are three areas of other housing income that are projected to be below the budget by £65,400 in total;
- Communal heating charges have been reduced by £19,310, mainly due to properties taken out of management for redevelopment schemes
 - Facilities charges on decommissioned sites see a reduction in income of £32,040
 - Aerial income £14,050 from communication companies has reduced following rationalisation of their sites. This budget has already been reduced for 2019/20 and included in the Final HRA Budget report.
- 4.9.5 **Salary under spend** – There is a projected saving against salaries and related costs of £261,410, against a working budget of £6,156,550. A full budget monitoring exercise on staffing was not completed until after the January Budget Report went to Executive. There are several reasons for this variance;
- Some posts have been held vacant while Business Unit Reviews have been taking place and as this process concludes are expected to be filled
 - There have been difficulties in recruiting new staff in some areas, notably in Income Maximisation.
- 4.9.6 **Electrical Works Contract** – The mobilisation of the new electrical works contract has been delayed and as a consequence this budget has been mainly unspent during 2018/19 by £544,040. This contract has been set up to put in place a comprehensive testing programme that will cover all properties over a ten year cycle. There were initial difficulties in procuring the works on the preferred time framework, of ten years, which led to a delayed commencement date. In order to make sure that a smooth rolling programme is maintained and a peak is not created at the start of the contract, work needs to be spread out over the first year of operation. It is estimated that first year costs will be higher than later years, as the programme has been targeted at properties that are likely to need improvement works to bring them up to contract standard. Therefore, there is a request to carry forward £302,000 to next year bringing the total available budget for 2019/20 to £654,020, a similar level to the 2018/19 original budget.
- 4.9.7 **Housing Transformation Project** – There is a carry forward request of £205,470 against the housing transformation budget. The approved budget was profiled over three years at £500,000 per year. However, the timing of the work has led to carry forwards as some project costs are due to fall at the back end of the three year programme. Significant progress has already been made with phase 1 of the programme complete. The next phase of work includes the transformation of the housing advice service, roll out of electronic document management, installation of the Northgate customer service module to improve workflows and the overall customer experience, and a project to review and improve standard letter templates for customers.
- 4.9.8 **HRA Policy and Performance** – The HRA Policy and Performance Team has been carrying several staff vacancies pending a Business Unit Review that has now been completed. A saving of £67,530 is projected.
- 4.9.9 **Council Tax on Empty Property** – The budget for council tax on void properties is likely to be overspent by £75,750 for the year. Empty properties attract a premium of 50% on the original council tax if they are left long term vacant and this has increased costs. This is due to the number of properties taken out of management

for development purposes. The actual cost for April to December 2018 is £95,315 and the projected full year is £134,500.

- 4.9.10 **Arrears Management Legal Costs** – There is projected to be a £16,130 overspend on legal costs, relating to possession orders, as more cases are being referred to legal. These budgets are directly linked to activity and the recovery of rent owed to the Council and should result in maintaining rent collection rates and keeping arrears figures on the HRA low. The debt provision is closely monitored and in the future may reduce if rent arrears decrease as a result of successful legal action. There is likely to be a time lag in seeing increased income for these cases.
- 4.9.11 **Careline Costs** – There is a saving of £18,840 on Careline charges from North Herts DC, as they have received and allocated a rebate on supported housing for a second year. This is an in year reduction only.
- 4.9.12 **Communal Area Maintenance** – The budget of £40,000 will not be spent this year but it is going to be part of a wider work programme review for the next financial year.

4.10 Approved Carry forwards 2018/19 (HRA)

- 4.10.1 Members have approved HRA carry forward budgets totalling £300,140.



- 4.10.2 Overall, £154,749 of the total £300,140 has been spent at quarter 3, with a further £139,891 expected to be spent by the year end.

- 4.10.3 In total £5,500 of carry forward requests can be returned to HRA balances for CCTV work that will not be required in the current year.

4.11 HRA Financial Security Options and growth proposals approved for 2018/19

- 4.11.1 As part of the 2018/19 budget setting process financial security savings of £225,960 were identified. At the 3rd quarter £209,122 are on schedule to be achieved and £16,838 are not likely to be met. The failed savings are from various equipment and advertising budgets which will be reviewed in 2019/20.
- 4.11.2 Growth proposals totalling £365,090 (in addition to the £500,000 Housing Transformation Fund) were approved for the HRA in 2018/19. At quarter three, £325,981 of this amount is due to be spent by the year end. There are two schemes, totalling £58,710 that will not be spent;

- Financial Security option HG4 Decant of Kenilworth Close £43,710 – this was to fund a Development Liaison Officer for 2 years. The post has not yet been recruited to and there is likely to be a carry forward request in the 4th quarter for the whole of this budget if no appointment is made.
- Financial Security option HG2 Relocation incentive £5,000 – the growth approved was £15,000

4.12 2018/19 HRA Outturn position

- 4.12.1 Following the 3rd quarter review the HRA balance as at 31 March 2019 is projected to be **£21,019,774** as detailed in table six.

Table Six – Housing Revenue Account Out-turn Position	£
Original Budget	2,756,630
Approved budget changes	1,304,290
3rd Quarter adjustments	(966,030)
Projected net deficit post 3rd Quarter review	3,094,890
HRA balance brought forward 1/4/18	(24,114,664)
Deficit in year	3,094,890
Projected HRA balance 31/3/19	(21,019,774)

4.13 2019/20 HRA Budget

- 4.13.1 The 3rd quarter budget review has identified additional budget pressures of £17,000 for 2019/20. This is made up of;
- CRM licence costs £26,000 – the current CRM system will be out of maintenance from 2019/20 so a new system is to be procured
 - Other various savings totalling £9,000

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 £4,177,368 and allocated reserve balances of £1,401,101 which is above the minimum balances required.
- 5.4.2 The HRA balances are projected to be £21,019,774. The level of HRA balances or revenue reserves risk assessed for 2018/19 is £2,144,950. The projected HRA balance is currently above the risk assessed level. However, it should be noted that the HRA holds balances for future debt repayments and the capital programme across a 30 year business planning period.

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 DOCUMENTS

BD1 FINAL GENERAL FUND AND COUNCIL TAX SETTING 2018/2019 Council 28th February 2018

BD2 FINAL HRA RENT SETTING AND BUDGET REPORT 30th January 2018