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**Meeting:** EXECUTIVE

Portfolio Area: Resources

**Date:** 20 November 2019

**2<sup>ND</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 projected General Fund and Housing Revenue Account (HRA) 2019/20 net expenditure and seek approval to amend the General Fund and HRA budgets as part of the quarterly revenue review.
- 1.2 To update Members on the carry forward requests from 2018/19.
- 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 2019/20 2<sup>nd</sup> quarter projected net increase in General Fund expenditure of £25,010 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 it be noted that the 2020/21 ongoing net pressure of £5,180 will be incorporated into the Budget setting process.

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### Housing Revenue Account

- 2.4 That the 2019/20 2<sup>nd</sup> quarter projected net decrease in HRA net deficit of £88,760 be approved.
- 2.5 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.

### 3. BACKGROUND - GENERAL FUND

- 3.1. Since the General Fund net budget of £8,802,520 was approved at Council, Members have approved net budget changes of £972,770, as detailed in Table one below:

| <b>Table One – 2019/20 General Fund Working Budget</b> | <b>Working Budget<br/>£</b> |
|--|-----------------------------|
| Original Budget  | 8,802,520                   |
| 3rd Quarter 2018/19 net increase                       | 118,420                     |
| 3rd Quarter Carry forwards                             | 80,000                      |
| 4th Quarter 2018/19 net decrease                       | (10,990)                    |
| 4th Quarter Carry forwards                             | 591,770                     |
| 1st Quarter net increase                               | 193,570                     |
| <b>Approved movement</b>                               | <b>972,770</b>              |
| <b>Total Net Budget Approved to Date</b>               | <b>9,775,290</b>            |

- 3.2 General Fund – Budget Review
- 3.2.1 Following the 2<sup>nd</sup> quarter review of revenue budgets officers have identified the following budget movements.

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| Table Two - Budget Alerts - General Fund          |  | Budget change<br>2019/20<br>£ |
|---|--|-------------------------------|
|   | <b>Service Area:</b>   |                               |
| Income  | Procurement Services Income from EHDC  | (22,870)                      |
|   | New Investment Properties underachievement of target income  | 158,910                       |
|   | Proposed use of Regeneration Assets Reserve to cover Investment income shortfall                               | (158,910)                     |
|   | CCTV dividend (from Business Plan) not projected to be achieved  | 50,000                        |
|   | Increase in income from recycle contract   | (30,000)                      |
|   | Reduction of skip income   | 27,200                        |
|   | Brokerage of skip custom through third party - savings option 2019/20 not achieved                             | 5,000                         |
|   | On Street Parking increase in income projected   | (45,100)                      |
|   |  |                               |
| Expenditure                                       | Cost of increased homeless pressure and consequential use of Bed and Breakfast                                 | 164,100                       |
|   | Fuel cost saving lower than anticipated from 2019/20 Savings option 'Use of Transfer station for bulk haulage' | 40,000                        |
|   | Trade Waste Disposals cost saving  | (22,340)                      |
|   | Review of insurance provisions, lower public liability costs projected   | (131,440)                     |
|   | Reduction in telephone rental costs (GF share)   | (10,000)                      |
| Other   |  | 460                           |
| <b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b> |  | <b>25,010</b>                 |

(-) lower expenditure / more income

**3.2.2 Procurement Services – in year saving £22,870.** The procurement team are providing procurement services to East Hertfordshire District Council, which has exceeded the budget amount.

**3.2.3 Investment Properties – in year pressure £158,910.** The £200,000 target to bring in income from Investment Properties is not projected to be achieved. Currently Essex House is the only investment property purchased by the Council, however Officers are still actively looking for other commercial property options. The return on investment has become more difficult with the increase in Public Works Loan Board (PWLB) rates. To widen the options available Counsel opinion is being sought on the ability to invest out of area. This pressure is mitigated by a proposed one off release of the Regeneration Assets Reserve (see 3.2.4 below).

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- 3.2.4 **Proposed use of Regeneration Assets – transfer to the General Fund £158,910.** A review of future funding requirements from the Regeneration Asset Reserve allows for a one off release to offset the pressure from Investment Properties (3.2.3 above).
- 3.2.5 **CCTV Dividend – in year pressure £50,000.** The original business plan for the CCTV company business plan assumed an annual dividend to the Council of £50,000. Company profits have been lower than the business plan anticipated and since the start-up of the company no dividends have been received.
- 3.2.6 **Recycling Contract – in year saving £30,000.** In August a new contract has been concluded increasing the price received for recycling income. Future year increases have been built into the Financial Security Options for 2020/21 onwards.
- 3.2.7 **Skip Income – in year pressure £32,200.** This is a demand led budget
- **£27,200** is impacted by delays in the recruitment of a Commercial and Logistics Manager. It is anticipated the position will be filled in the early part of 2020
  - **£5,000** is a 2019/20 savings option not implemented – relating to the brokerage of skip custom, and again is linked to the recruitment pressures identified above.
- 3.2.8 **On Street Parking – in year saving £45,100.** Income from On-Street Penalty Notice Charges (PCN's) is higher than previously anticipated and is due to a combination of factors:
- implementation of Broadwater restrictions,
  - increased coverage (early mornings and evenings), and the
  - unpredictable nature of this income source.
- 3.2.9 **Bed and Breakfast – in year pressure £164,100.** There has been a significant increase in Bed and Breakfast (B&B) costs. One of the main reasons for this increase has been a change to the homelessness legislation that has extended the time that clients are in temporary accommodation to 56 days. There has also been a considerable increase in the number of cases presenting (peaking at 26 cases). Officers continue to mitigate the cost to the General Fund by seeking to maximise recovery of Housing Benefit. In the medium term officers are seeking to provide more temporary accommodation from within the Council's own housing stock, expecting to have eight more spaces available than the highest level of need experienced this year. Officers are also working on securing best value by setting up a contract for lower cost private accommodation. The latter solution would be used as a last resort if the Council's increased capacity failed to meet future demand.
- 3.2.10 **Transport Subsidy (Fuel) – pressure £40,000.** The assumption in the Transport Subsidy savings option, in relation to fuel element of the saving, over-estimated the saving on mileage and fuel consumption and this will be built into the 2020/21 budget.

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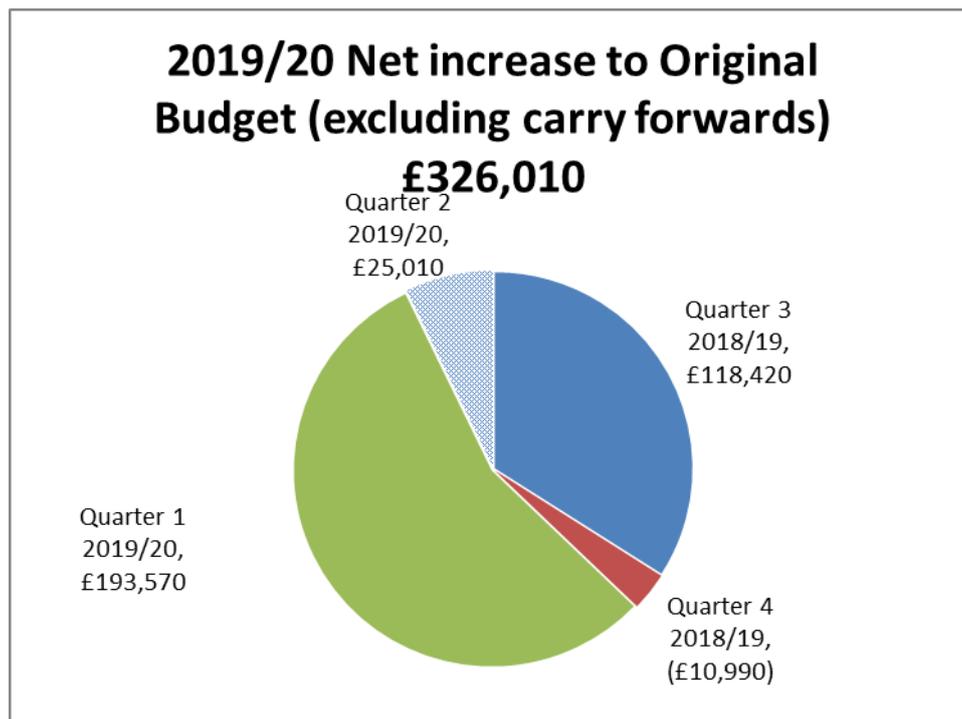
3.2.11 **Trade Waste Disposal – ongoing saving £22,340.** The cost of disposing of trade waste is now based on actual tonnages, whereas in the past average weights were used.

3.2.12 **Insurance Provision – in year saving £131,440.** A review of the Insurance Provision has projected lower public liability costs leading to a one off saving.

3.2.13 **Telephony costs – in year saving £10,000.** The General Fund share of the telephony saving is a result of contract changes on rentals, future years savings relate to 2020/21 Financial Security Options.

3.2.14 **Other – in year pressure £460.** These are smaller net costs across General Fund Services.

3.2.15 The cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive. The total value of changes (excluding carry forwards) is £326,010. This is 81.5% of the delegated limit.



3.2.16 The impact of the 2<sup>nd</sup> quarter review is an ongoing pressure of £5,180 (see table three below). These have been reflected in the Financial Security Options 2020/21-2022/23 report to November Executive.

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| Table Three - Q2 Ongoing - General Fund           |                                   | Budget change<br>2020/21<br>£ |
|---|-----------------------------------|-------------------------------|
|   | <b>Service Area:</b>              |                               |
| Income  | Trade Waste disposals             | (22,340)                      |
|   | S106 - Hertford Rd & Meredith Rd  | (13,350)                      |
|   | SDS - Minor changes               | (1,730)                       |
|   |                                   |                               |
| Expenditure                                       | Planning                          | 2,600                         |
|   | Fuel - Transport subsidy pressure | 40,000                        |
| Other   |                                   |                               |
| <b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b> |                                   | <b>5,180</b>                  |

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

3.3.1 Included in the 2019/20 General Fund budgets are Financial Security options totalling £798,552. Progress on the Financial Security options is included in the update to this Executive in the Financial Security Options 2020/21-2022/23 report. Updates are also included in paragraphs 3.2.7 and 3.2.10 in this report.

3.3.2 The carry forwards requested at 3<sup>rd</sup> and 4<sup>th</sup> quarter 2018/19 of £671,770 are predominantly projected to be spent. One carry forward to fund membership to a new business portal £5,780 is no longer required and has been returned to balances in the 2<sup>nd</sup> quarter.

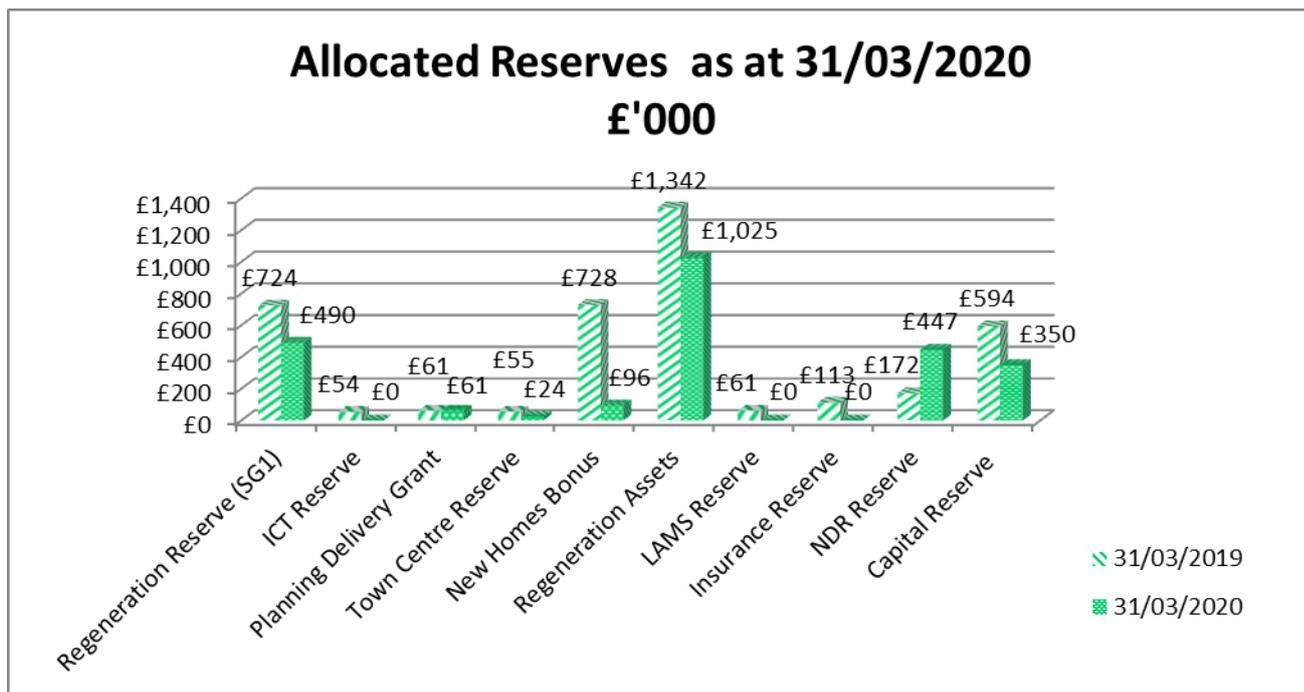
### 3.4 Review of General Fund Balances

3.4.1 **Provisions** for bad debt and known liabilities are within budgeted levels. The insurance provision was reduced in the 2<sup>nd</sup> quarter (see 3.2.12).

3.4.2 **Allocated Reserves** - Some balances are 'ring fenced' and have been set aside for specific purposes. The estimated total value of (revenue) allocated reserves available for the Council to spend at 31 March 2020 is **£2,143,142**, (31 March 2019, £3,311,142). Reserve balances are projected to decrease by £1,168,000 during this year, the majority of the allocated reserves relate to regeneration and new build projects.

3.4.3 The General Fund also has a specific reserve for capital projects funded from unbudgeted underspends at year end. The balance of the capital reserve at the start of 2019/20 was £594,000. The estimated value at 31 March 2020 is £350,000. The capital reserve is used to finance part the General Fund capital programme.

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3.4.4 General Fund Balance – Following the 2<sup>nd</sup> quarter review the General Fund balance as at the 31 March 2020 is now forecast to be **£3,747,835** excluding the impact of changes in the Financial Savings Options report to this Executive.

| Table Four:<br>General Fund Balances            | £                  |
|---|--------------------|
| <b>Original Net General Fund Budget</b>         | <b>8,802,520</b>   |
| Approved budget changes                         | 972,770            |
| <b>Net Working budget approved to Date</b>      | <b>9,775,290</b>   |
| 2nd Quarter review                              | 25,010             |
| <b>Total Net Expenditure post Q1 review</b>     | <b>9,800,300</b>   |
| less core resources                             | (8,754,074)        |
| <b>Transfer (to)/from General Fund balances</b> | <b>1,046,226</b>   |
| <b>General Fund balance 31/3/19</b>             | <b>(4,794,061)</b> |
| Transfer (to)/from General Fund balances        | 1,046,226          |
| <b>Projected General Fund balance 31/3/20</b>   | <b>(3,747,835)</b> |
| Allocated Revenue Reserves 31/3/20              | (2,143,142)        |
| Allocated Capital Reserves 31/3/20              | (350,000)          |
| <b>Total General Fund balances</b>              | <b>(6,240,977)</b> |
| <b>(estimated 31/3/20)</b>                      |                    |

3.4.5 **Core resources** used for the financing of the net General Fund expenditure comes from council tax, retained business rates. Changes in the council tax base and business rate yield now have a direct impact on Council finances. As at 31 July the council taxbase for 2019/20 is now estimated at 27,525 band D equivalents (Council Tax setting report in February estimated 27,330). The

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taxbase is higher than expected due to reductions in council tax support and more properties in the taxbase. More information relating to the taxbase can be found in the Financial Security Options 2020/21-2022/23.

3.4.6 The forecast yield from business rates remains largely unchanged from original budget. More information relating to the taxbase can be found in the Financial Security Options 2020/21-2022/23 (November Executive).

3.5.1 **General Fund Grants 2019/20** – the General Fund are forecasting the receipt of the following grants in 2019/20

| General Fund Grants Receivable 2019/20           |                   |   |
|--|-------------------|---|
| Grant Description                                | £                 | Comments  |
| <b>Housing Benefit related:</b>                  |                   |   |
| Housing Subsidy - Rent Rebate & Rent Allowance   | 26,140,050        | Estimate based on Mid year claim  |
| Housing Subsidy - Hosuins Benefit Administration | 293,960           | DWP notification at beginning of year   |
| Discretionary Housing payments                   | 202,050           | Maximum claim that can be reimbursed  |
| Housing Benefit Fraud Referrals                  | 1,000             | New Burdens   |
| Ongoing Implementation of Welfare Reforms        | 31,230            |   |
| Verifying Earnings and Pension Alerts Service    | 40,370            |   |
| LADS for Capita                                  | 5,890             |   |
| Universal Credit                                 | 40,660            |   |
| <b>Total Housing Benefit Grants</b>              | <b>26,755,210</b> |   |
| <b>Homelessness related:</b>                     |                   |   |
| Homelessness Reduction Grant                     | 38,168            | New Burdens   |
| Flexible Homelessness Support Grant              | 313,089           | Hertfordshire County Council  |
| Rough Sleeper Initiative Grant                   | 53,000            |   |
| <b>Total Homelessness Grants</b>                 | <b>404,257</b>    |   |
| <b>NDR and Council Tax related:</b>              |                   |   |
| NDR - Administration                             | 110,260           | Ministry of Housing, Communities & Local Government - from NNDR 1   |
| NDR - Section 31                                 | 931,010           | Reliefs given by the government for Business Rates and this is the compensation given to LA's for the loss of business rates income |
| NNDR Retail relief                               | 9,220             | New Burdens   |
| Council Tax - Benefit Administration             | 102,690           | Ministry of Housing, Communities & Local Government   |
| <b>Total NDR and Council Tax Grants</b>          | <b>1,153,180</b>  |   |
| <b>Other:</b>                                    |                   |   |
| Individual Electoral Register                    | 27,959            |   |
| European Elections Grant Funding                 | 109,464           | Additional grant will be received following submission of costs   |
| Heritage Lottery Fund                            | 25,700            | Part of Stevenage Arts Guild awarded grant for HLF Stories from the Gordon Craig  |
| Domestic Abuse Fund                              | 57,026            | Ministry of Housing, Communities & Local Government - SADA  |
| Self Build Grant                                 | 30,000            | New Burdens. There will be a further £15,000 in 2020/21   |
| New Burdens - Bexit Funding                      | 17,480            | New Burdens   |
| Other  | 13,650            |   |
| New Homes Bonus                                  | 864,630           | Ministry of Housing, Communities & Local Government - from CTB1   |
| <b>Total Other Grants</b>                        | <b>1,145,909</b>  |   |
| <b>Total</b>                                     | <b>29,458,556</b> |   |

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### 4. HOUSING REVENUE ACCOUNT (HRA)

- 4.1 Since the Housing Revenue Account (HRA) net budget deficit of £9,076,320 was approved at Council, Members have further approved net costs of £640,810, as detailed in the following table:

| Table Five – HRA Working budget  | Working Budget<br>£ |
|----------------------------------|---------------------|
| <b>Original Budget 2019/20</b>   | <b>9,076,320</b>    |
| 3rd Quarter 2018/19 net changes  | 17,000              |
| 3rd Quarter Carry forwards       | 507,470             |
| 4th Quarter 2018/19 net decrease | (30,730)            |
| 4th Quarter Carry forwards       | 35,740              |
| 1st Quarter net increase         | 111,330             |
| <b>Approved movement</b>         | <b>640,810</b>      |
| <b>Total Working Budget</b>      | <b>9,717,130</b>    |

### 4.2 Housing Revenue Account – Budget Review

- 4.2.1 Following the 2<sup>nd</sup> quarter review of revenue budgets officers have identified the following budget alerts listed in the table below

| Table Six - Budget Alerts - Housing Revenue Account |  | Budget<br>change<br>2019/20<br>£ |
|---|--|----------------------------------|
| Income  | Rent pressure  | 334,860                          |
|   | Increase in other charges  | (11,410)                         |
|   | Interest on Balances   | (17,270)                         |
|   | Reduction in Service Charges for Caretaking                            | 67,300                           |
|   | Reduction in HCC Supporting People Grant                               | 36,190                           |
| Expenditure   | Net saving on Employee Costs   | (205,530)                        |
|   | Telephone Saving   | (10,000)                         |
|   | Reduced volume of Responsive Repairs                                   | (76,350)                         |
|   | Reduced Contract payments for Voids                                    | (61,500)                         |
|   | Increased provision for Bad Debt                                       | 41,740                           |
|   | Review of insurance provisions, lower public liability costs projected | (94,370)                         |
|   | Loan interest Payments   | (93,580)                         |
| Other   |  | 1,160                            |
| <b>TOTAL BUDGET CHANGES REPORTED THIS QUARTER</b>   |  | <b>(88,760)</b>                  |

(-) lower expenditure / more income

- 4.2.2 **Rent variances – in year pressure £334,860.** The pressure represents 0.85% of total rental income budgets and the variance is made up of

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- £122,690 - Timing of some developments (Gresley Way, Burwell Court, Shephall Way and Elliot Road) are later than budgeted for
- £83,150 – Losses from void properties that were originally budgeted at 0.65% and at the 2<sup>nd</sup> quarter are projected at 0.97%
- £21,800 – Conversion works to some existing Council properties are due to be completed later than budgeted – Silkin Court, conversion of guest rooms and five other Council owned properties.
- £107,220 – Other rent variances

4.2.3 **Other charges – in year saving £11,410.** This is additional income across several non-rent budgets.

4.2.4 **Caretaking charges – in year pressure £67,300.** The budget for caretaking charges was based on an estimate. The service charge bills for 2018/19 have now been adjusted to reflect actual costs of the service and refunds given to leaseholders.

4.2.5 **Supporting People Grant – In year pressure £36,190.** This grant is made up of two elements, Flexicare Support and Homeless Hostel. There are two factors leading to the pressure:

- The Government has reduced the grant and this reduction is passed on to the Council
- The Flexicare alarm element was reduced by £13,000.

4.2.6 **Net Employee costs – in year saving £205,530.** There are a significant number of vacancies within the Housing and Investment service due to undergoing the sixth tier staff review. Some agency staff and secondments have been employed to cover the operations while the review is pending.

4.2.7 **Telephony costs – in year saving £10,000.** The HRA share of the telephony saving is a result of contract changes on rentals, future years savings relate to 2020/21 Financial Security Options.

4.2.8 **Reduced volume of responsive repairs – in year saving £76,350.** The Repairs and Voids (R&V) trend for the number of jobs raised has reduced with the overall impact to the HRA and the R&V giving an under spend of £76,350.

4.2.9 **Reduced contract payments for voids – in year saving £61,500.** This budget is used to cover void works completed by external contractors and is not anticipated to be needed in year.

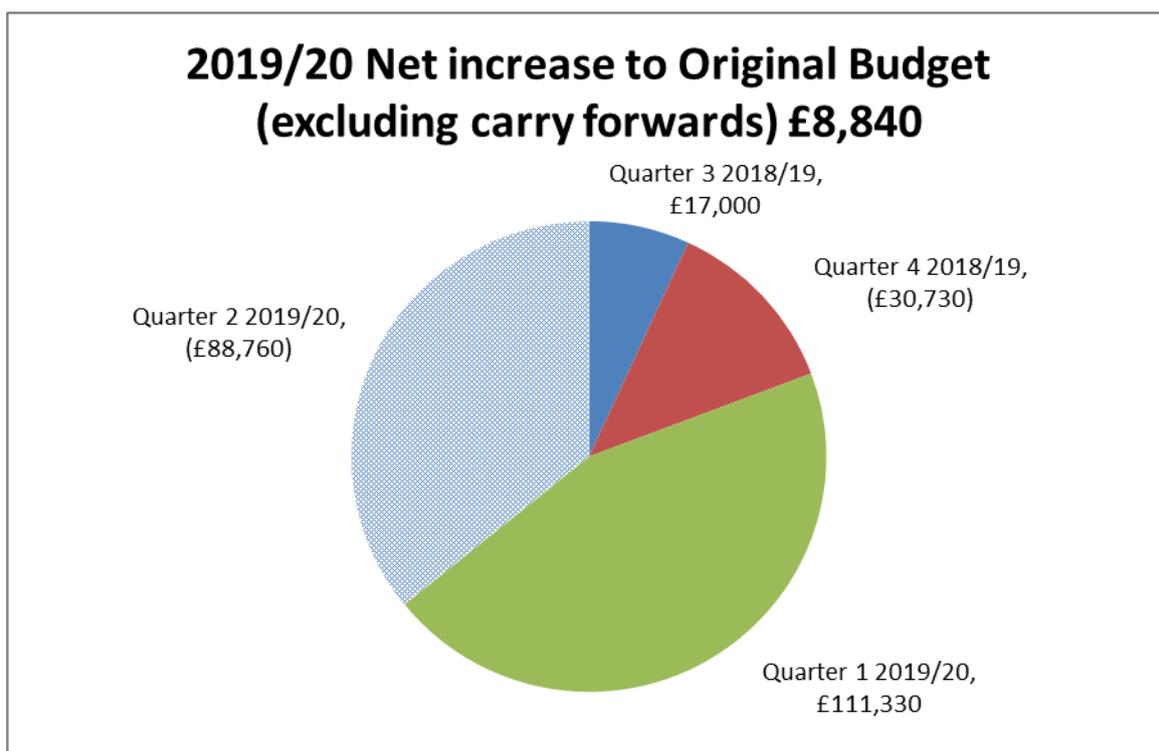
4.2.10 **Increase in Bad Debt provision – in year saving £41,740.** The increase in the debt provision relates to former tenants and the increasing age of debt.

4.2.11 **Insurance Provision – in year saving £94,370.** A review of the Insurance Provision has identified lower insurance costs to the HRA leading to one off saving.

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4.2.12 **Other – in year pressure £1,160.** These are smaller net savings across the HRA.

4.2.7 The cumulative changes made to the HRA net budget remains within the £250,000 increase variation limit delegated to the Executive. The total value of changes (excluding carry forwards) is £8,840. This is 4% of the delegated limit.



### **4.3 Financial Security options, growth bids and carry forward requests**

4.3.1 Included in the 2019/20 Housing Revenue Account budgets are Financial Security options totalling £354,630 and carry forward budgets of £543,210. Progress on the Financial Security options is included in the update to this Executive in the Financial Security Options 2020/21-2022/23 report. There are no reported changes to carry forwards in the 2<sup>nd</sup> quarter.

### **4.4 Housing Revenue Account balances**

4.4.1 Following the 2<sup>nd</sup> quarter review the HRA balance is now forecast to be £11,673,689. The HRA Business Plan will be updated at the December Executive.

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| <b>Table Seven – Housing Revenue Account Out-turn Position</b> |                     |
|--|---------------------|
|  | <b>£</b>            |
| <b>Original Budget</b>   | <b>9,076,320</b>    |
| Approved budget changes 18/19                                  | 529,480             |
| 1st Quarter adjustments  | 111,330             |
| 2nd Quarter adjustments  | (88,760)            |
| <b>Projected net deficit post 1st Quarter review</b>           | <b>9,628,370</b>    |
| HRA balance brought forward 1/4/19                             | (21,302,059)        |
| Deficit in year  | 9,628,370           |
| <b>Projected HRA balance 31/3/20</b>                           | <b>(11,673,689)</b> |

3.5.1 **HRA Grants 2019/20** – the HRA are forecasting the receipt of the following grant in 2019/20

| <b>HRA Grants Receivable 2019/20</b> |                |                 |
|--------------------------------------|----------------|-----------------|
| <b>Grant Description</b>             | <b>£</b>       | <b>Comments</b> |
|                                      |                |                 |
| Supported People Grant               | 135,280        |                 |
|                                      |                |                 |
| <b>Total</b>                         | <b>135,280</b> |                 |

## **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 2019/20 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

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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 2019/20 General Fund balances was calculated at £2,671,410. This report forecasts General Fund balances of £3,747,835 and allocated reserve balances of £2,143,142 which is above the minimum balances required.
- 5.4.2 The HRA balances are projected to be £11,673,689. The level of HRA balances or revenue reserves risk assessed for 2019/20 is £1,945,972. 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.

### **5.6 Climate Change Implications**

- 5.6.1 There are no climate change implications from the budget changes in this report.

## **BACKGROUND PAPERS**

BD1 - HRA final budget proposals and rent setting report (Council 30<sup>th</sup> January 2019)

BD2 – 2019/20 Council Tax Setting and General Fund Budget (Council 27<sup>th</sup> February 2019)