

Meeting: EXECUTIVE

Agenda Item:

Portfolio Area: Resources



Date: 17 November 2021

2ND QUARTER REVENUE MONITORING REPORT – GENERAL FUND AND HRA

KEY DECISION

Author – Tim Greenwood/Keith Reynoldson Ext. 2403/2943
Contributor – Clare Fletcher, Finance team and budget Managers
Lead Officers – Clare Fletcher Ext. 2933
Contact Officer – Clare Fletcher Ext.2933

1. PURPOSE

- 1.1 To update Members on the projected General Fund and Housing Revenue Account (HRA) 2021/22 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 reserves and balances available to support revenue expenditure and seek approval for revisions to the allocated reserves.

2. RECOMMENDATIONS

General Fund

- 2.1 That Members approve the 2021/22 2nd quarter projected net decrease in General Fund expenditure of £85,600.
- 2.2 That Members note the use of the additional grant funding of £105,000 for vulnerable private renters as set out in paragraph 4.1.12 and approve a corresponding increase in expenditure to reflect the use of the grant.
- 2.3 That Members note the cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive, as set out in paragraph 4.1.23.

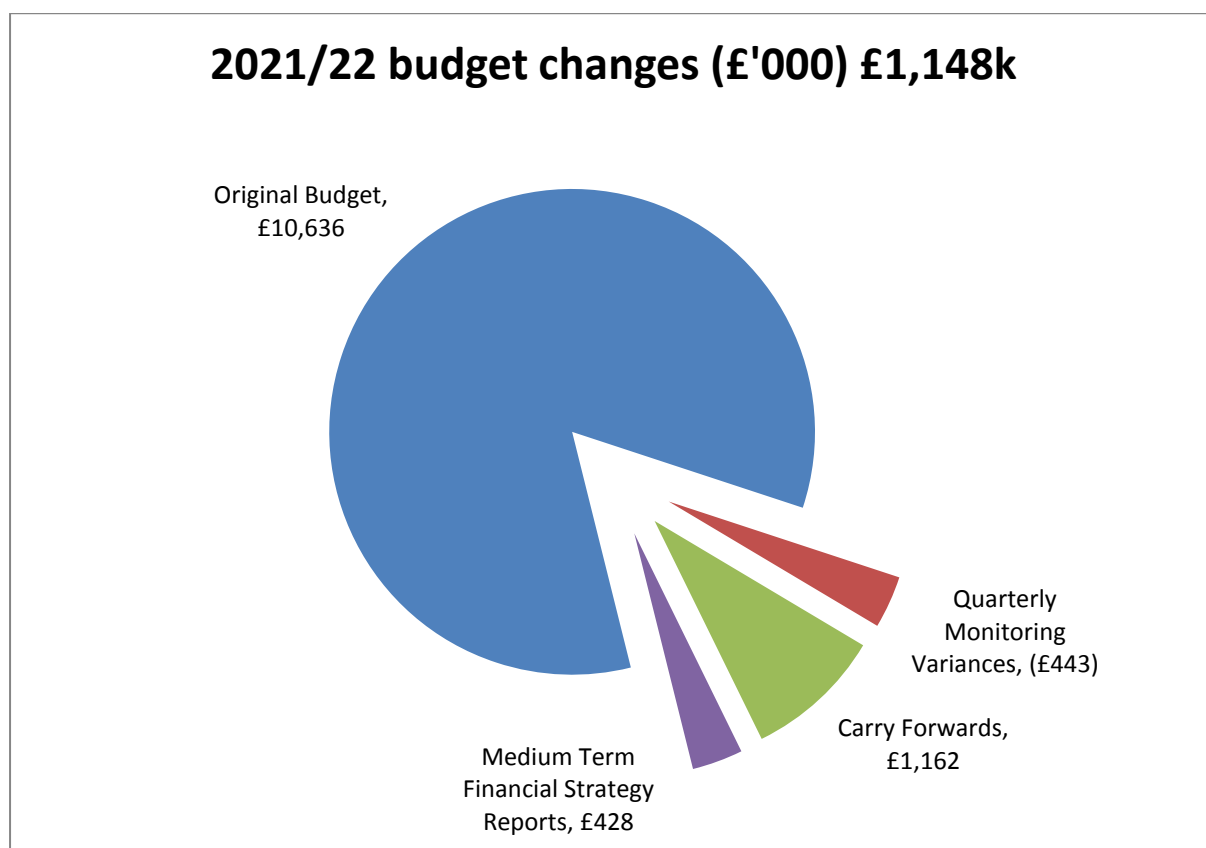
Housing Revenue Account

2.4 That the 2021/22 2nd quarter projected net increase in HRA expenditure of £231,690 be approved.

2.5 That Members note 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

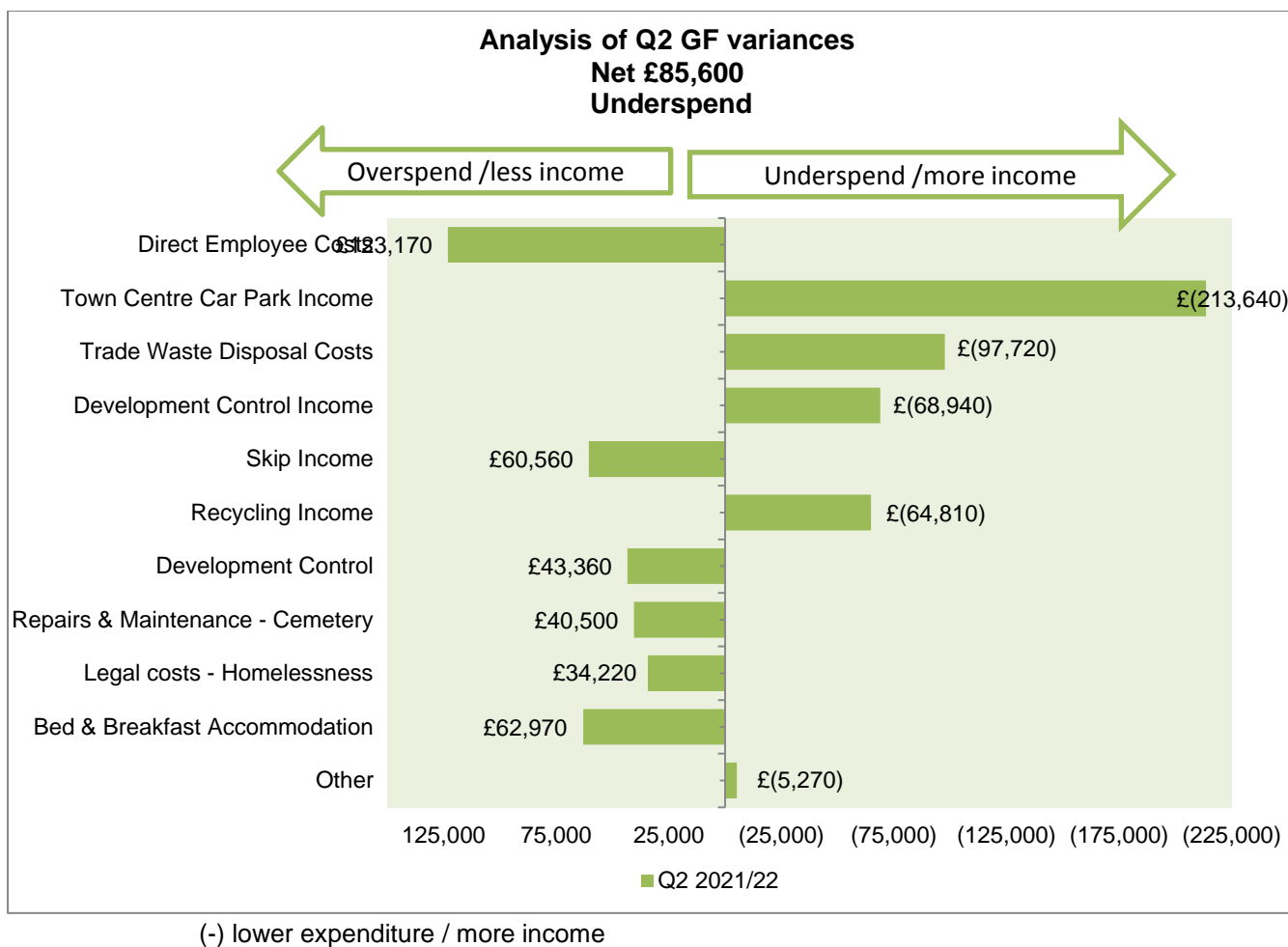
3.1. Since the General Fund net budget of £10,635,570 was approved at Council, Members have approved net budget changes of £1,147,810 as detailed in the chart below:



4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 General Fund – Budget Review

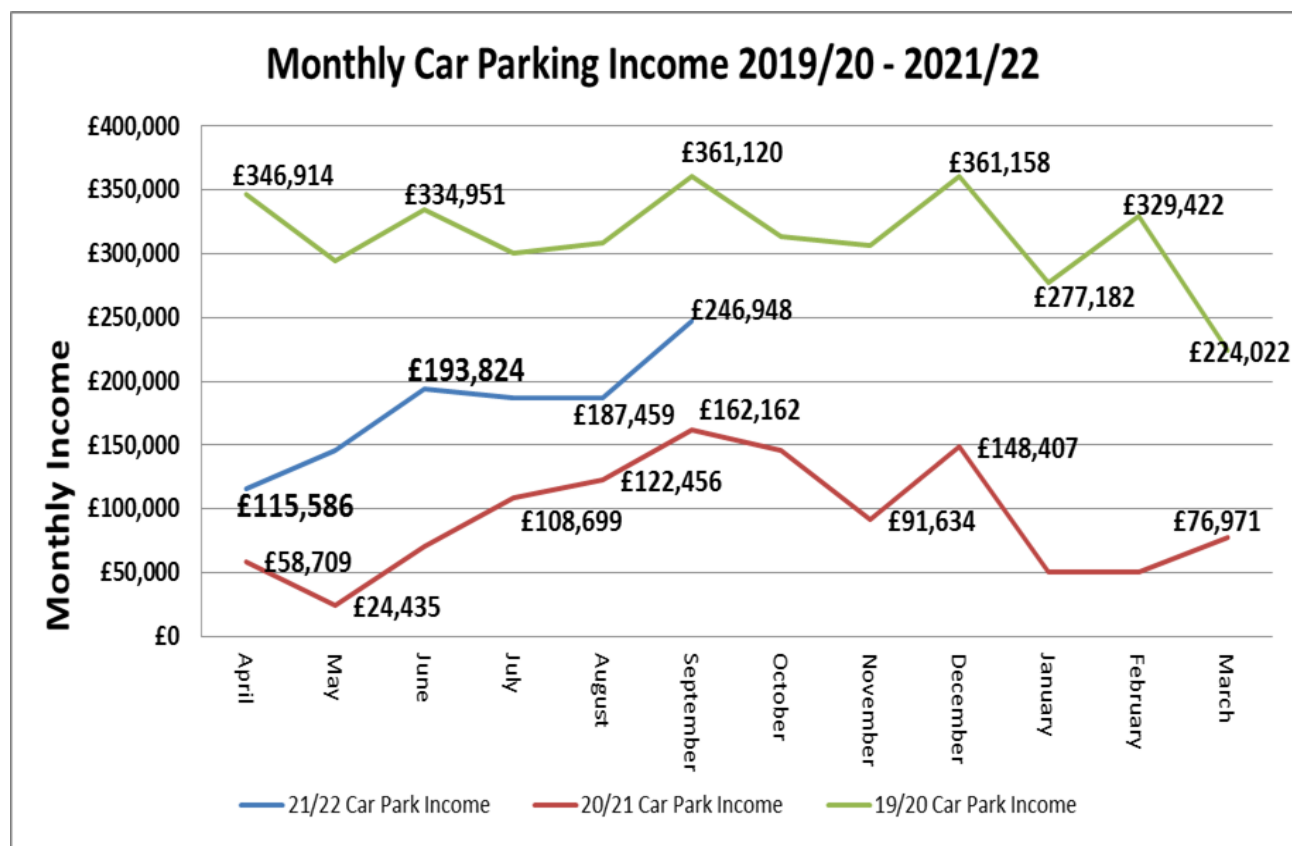
4.1.1 Following the 2nd quarter review of revenue budgets officers have identified the following budget movements.



4.1.2 **Direct Employee Expenses – pressure £123,170.** This includes a number of changes which are detailed below:

- **£62,870 Stevenage Direct Services business unit**, the Council along with other public and private sector service providers are experiencing difficulties in recruiting and retaining HGV drivers. Managers have agreed a financial retention package to ensure that key services like recycling and refuse continue to operate. This will be an on-going pressure for the Council and the additional cost has already been factored into salary assumptions for 2022/23.
- **£51,840 Planning and Regulatory** pressure, the General Fund salary budgets includes an allowance for staff turnover (4.5%), however current salary projections for this service area, indicate this will not be achieved this year
- **£29,690 Community Transport** pressure, Members approved the cessation of Community Transport in 2021/22, the service had not been able to operate as a result of COVID. The due consultation process and notice periods meant that it took longer than originally projected causing a one off in year pressure.
- **£21,230 Play Service** has been impacted by COVID and was not able to offer the normal service which has resulted in a one off in year saving.

4.1.3 **Town Centre Parking Income – in year saving £213,640.** Parking income has been significantly impacted by COVID, in 2020/21 there were losses of £2.8Million compared to budget. The 2021/22 budget setting process anticipated that there would be further losses of (£1.5Million budget setting with a further £200K quarter 1 monitoring). However, the last few months have seen an improvement in parking income and the in year deficit is now projected back to the original budget losses of £1.5Million. Members should note the 2022/23 budget assumes a further £694K of losses.



4.1.3 **Trade Disposal Costs – in year saving of £97,720.** Disposal costs have reduced for trade waste, (there has been an increase in trade recycling income). The level required going forward needs to be assessed to determine whether this is a one year only impact.

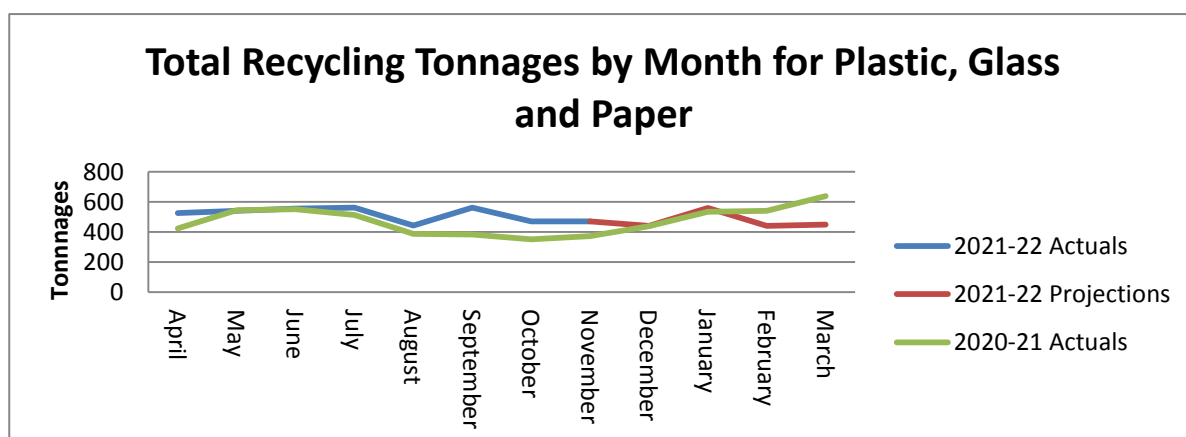
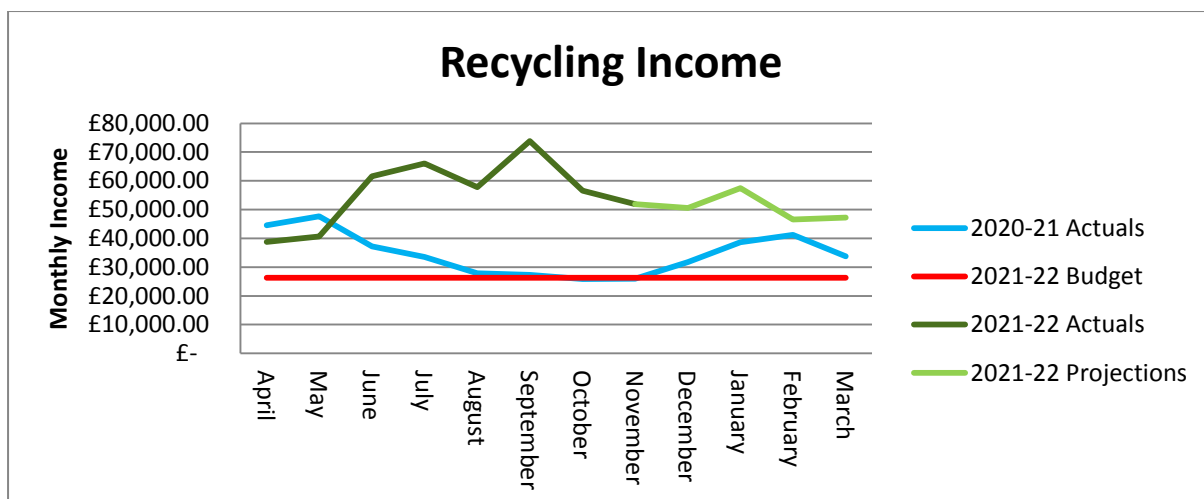
4.1.5 **Development Control Income – in year increased income £68,940.** Following the adoption of the local plan there has been an upturn in the number of planning applications received. This represents a 17% increase in the current year, the assumptions for next year will be reviewed as part of the budget setting process.

4.1.6 **Skip Income – pressure £60,560.** The skip service is a competitive market, combined with the pressures for HGV drivers have resulted in lower income - a drop of 50%. The service is reviewing the pricing structure, service provision and the need for a review of the O Licence. The level of income

assumed going forward needs to be reviewed and if lower will offset any on-going gains identified for trade waste and recycling income.

4.1.7 **Recycling Income – saving £64,810.** Included in the 2021/22 budget was a pressure of £120,000 as the market price had dropped for recycling plastics. At the time income for recyclates dropped from £140 per tonne to just £10 - £20 per tonne with the added haulage costs..

4.1.8 In 2021/22 tonnages and prices have improved and at the 1st quarter a £193,740 increased income was reported with now a further £64,810 projected for recycled materials. Recyclate prices have been volatile and an assessment of 2022/23 income is currently underway. Any improvement in the budgeted amount would require an increase in the income equalisation reserve due to the price volatility. Detail of the projected income from recycling and tonnage recycled are shown in the charts below.



4.1.8 **Development Control – pressure £43,360.** There is an in year financial pressure as a result of a planning proposal challenge (judicial review) which is a Council responsibility to fund.

4.1.9 **Repairs and Maintenance at the Cemetery – pressure £40,500.** Works of a health and safety nature have been identified at the cemetery, which requires funding.

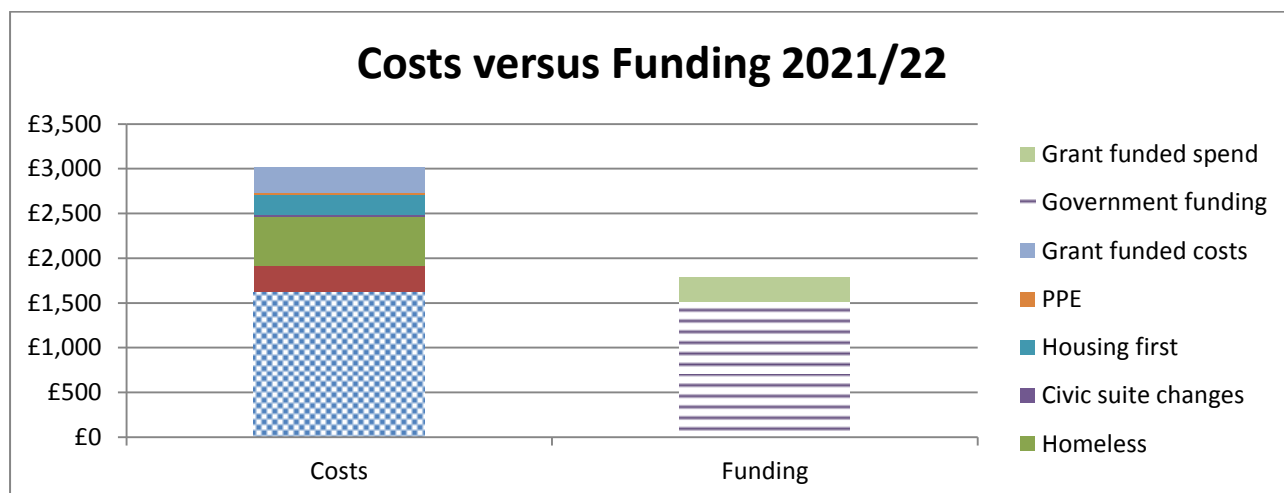
4.1.10 Homeless Legal Costs – pressure £34,220. This pressure relates to one off court costs and legal payments regarding homelessness decisions. The timing and size of these awards are sporadic and difficult to predict leading to this in year pressure.

4.1.11 Bed and Breakfast – pressure £62,870. Since the pandemic, homelessness presentations and the need to use bed and breakfast accommodation has increased dramatically. The latest projection shows an increased budget pressure of £62,870, giving a total of £568,790 for 2021/22. It should be noted that these projections are dependent on an assumed recovery of housing benefits and the service is demand led, making it difficult to predict. The area will continue to be monitored and management action will be focussed on maximising in-house resources and reducing the use of B&B where possible. The 2022/23 budget is being reviewed and the base level will be insufficient based on current trends.

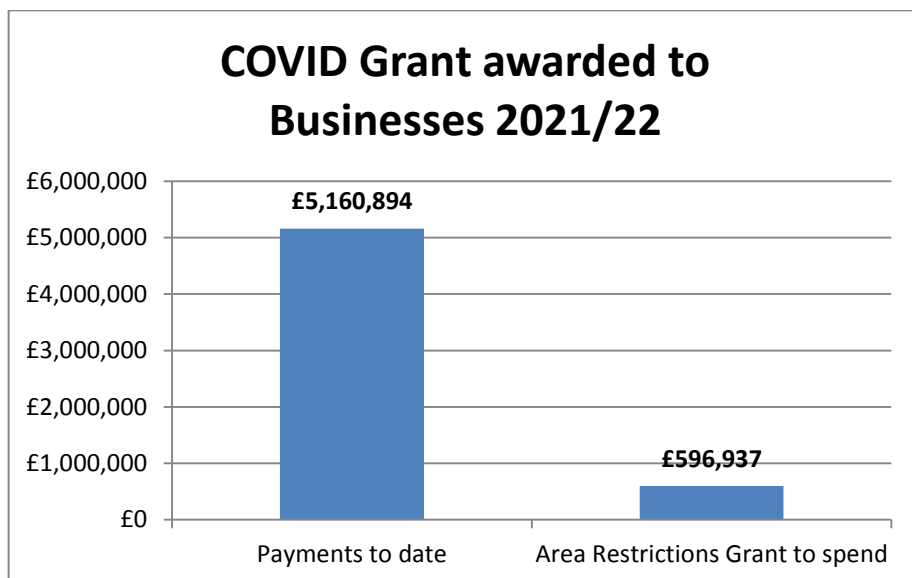
4.1.12 Homelessness Grant Received. The Council has received grant funding of £105,000 for support for vulnerable renters. This funding is specifically targeted towards preventing evictions from the private rented sector. Therefore, increased income and expenditure of £105,000 has been included in the 2nd quarter projections.

4.1.19 Other – savings £5,270. There are small net savings across General Fund Services totalling just over £5K and as such not reported separately. The budget setting process will assess whether any of in-year budget changes identified in this report have an on-going impact. However Members should note that while some of the income projections have improved (recycling), there are significant pressures around homeless and skip hire income.

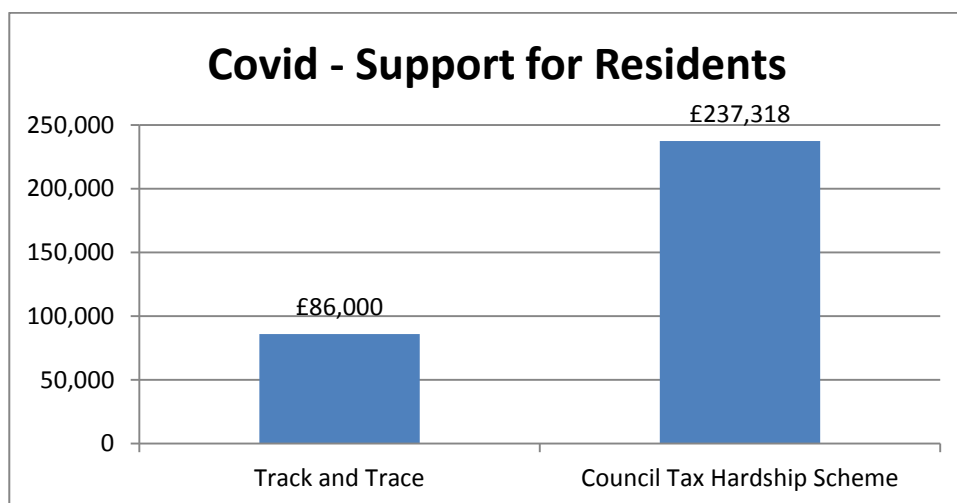
4.1.20 COVID. Total net COVID losses for 2020/21 were projected as £2.48million. The net projected costs for 2021/22 are estimated to be £1.29million as illustrated in the chart below.



4.1.21 The council continues to distribute support grants to business and a further £596K still to distribute, relating to the Area Restrictions grant (ARG) to be spent by 31 March 2022. Details of grants paid to date are shown below.



4.2.22 Payments are also made to support residents through the track and trace payments and support for payment of council tax.



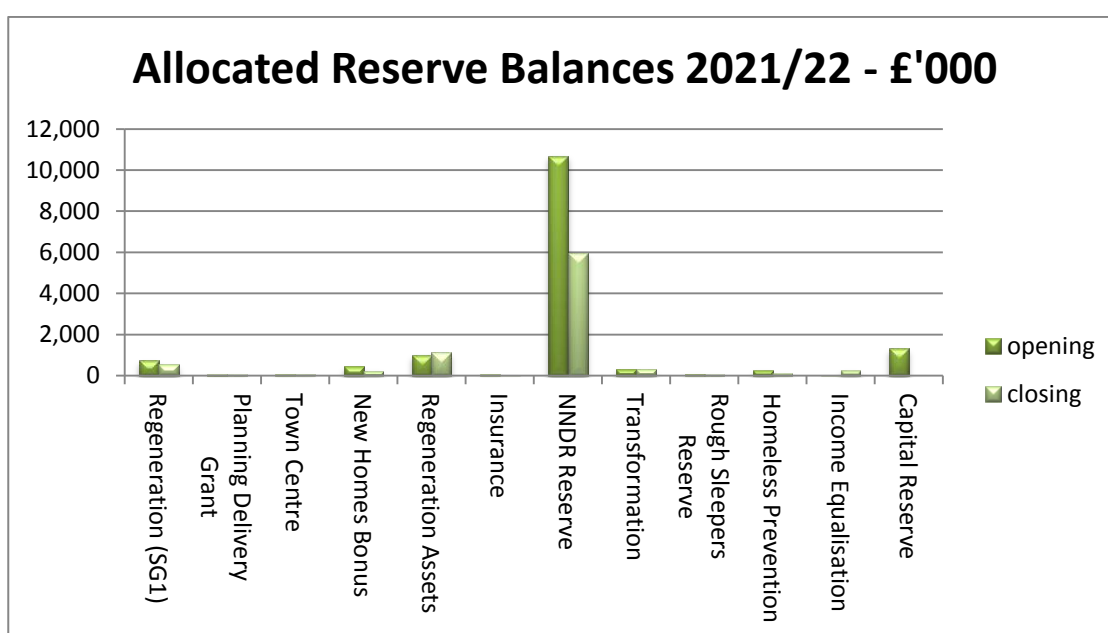
4.1.23 The cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive. The total value of changes is (£528,570).

Executive Delegation - General Fund	£
Original Net General Fund Budget	10,635,570
Q4 Carry Forwards	1,162,400
Reserves and RCCO	428,380
Total	12,226,350

Executive Delegation - General Fund	£
Quarterly monitoring (1&2)	(528,570)
Within Executive Delegated Limit	(528,570)

4.2 Review of General Fund Balances

4.2.1 **Allocated Reserves** – these balances are ‘ring fenced’ and have been set aside for specific purposes. The estimated total value of (revenue) allocated reserves as at 31 March 2022 is **£8,435,073**, (31 March 2021, £15,192,788). Reserve balances are projected to decrease by £6,757,715 during this year, the majority of this reduction relates to NNDR repayments to the Collection Fund (£4,180,512), regeneration and new build projects.



4.2.3 General Fund Balance – Following the 2nd quarter review and MTFs to the September Executive the General Fund balance as at the 31 March 2022 is now forecast to be **£4,999,959** excluding the impact of changes in the Financial Savings Options report to this Executive.

General Fund Balances	£
Original Net General Fund Budget	10,635,570
Approved budget changes	(1,147,810)
Net Working budget approved to Date	11,783,380
2nd Quarter review	(85,600)
Total Net Expenditure post Q2 review	11,697,780
less core resources	(10,296,870)
Transfer (to)/from General Fund balances	1,400,910
General Fund balance 31/3/21	(6,400,869)
Transfer (to)/from General Fund balances	1,400,910

General Fund Balances	£
Projected General Fund balance 31/3/22	(4,999,959)
Allocated Revenue Reserves –repayment to Collection Fund	(4,878,851)
Other Allocated Revenue Reserves	(3,556,222)
Total General Fund Revenue balances (estimated 31/3/22)	(13,435,032)

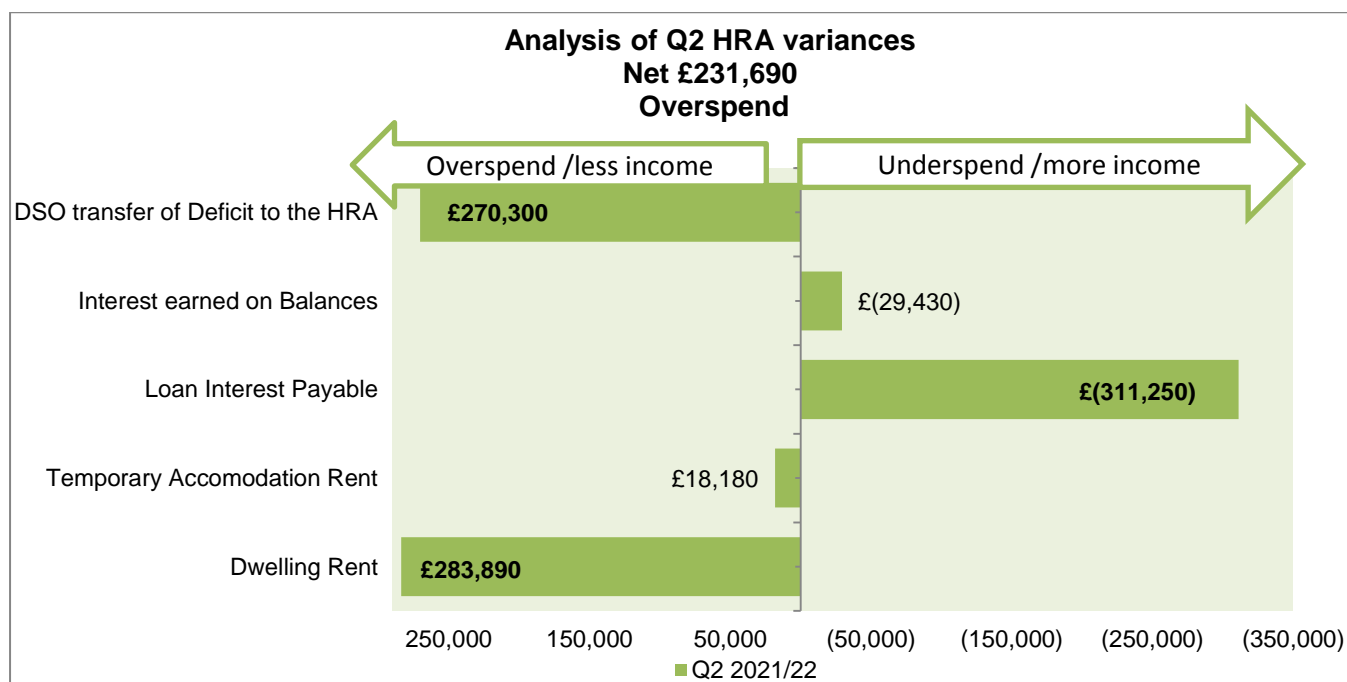
4.3 Housing Revenue Account

4.3.1 Since the Housing Revenue Account (HRA) net budget surplus of £2,719,960 was approved at Council, Members have further approved net costs of £1,211,490, as detailed in the following table.

HRA Working Budget	£
Original Budget 2021/22	(2,719,960)
20/21 Q3 Carry Forwards	834,380
20/21 Q4 Carry Forwards	377,110
Approved Movement	1,211,490
Total Working Budget	(1,508,470)

4.4 Housing Revenue Account - Budget Review

4.4.1 Following the 2nd quarter review of revenue budgets officers have identified the following budget movements.



- 4.4.2 **DSO Deficit transfer to the HRA £270,300.** The projected net cost of responsive and void repairs charged to the HRA from the Direct Service Organisation (DSO) has been increased for 2nd quarter. A more detailed explanation of the increase is included at 4.5 below.
- 4.4.3 **Interest Earned on Balances (£29,430).** The latest estimate of income earned on balances, using current projections of both balances and interest rates, is expected to be £29K higher than estimated in the original budgeted.
- 4.4.4 **Loan Interest Payable (£311,250).** After reviewing current and expected loans and estimated interest rates, the loan interest payable has been reduced from a budget of £7.8Million to a revised figure of £7.5Million. Financing decisions are often taken later in the financial year, when actual spend has been more firmly established, so this area will be reviewed again before the end of the financial year.
- 4.4.5 **Temporary Accommodation Rent reduction in income £18,180.** The estimated rent for temporary accommodation has been reduced at 2nd quarter, due to an increase in void loss. Part of the reason for this has been due to a significant increase in HRA properties used for temporary accommodation to avoid placements into expensive and often less suitable bed and breakfast. This has been put in place in response to rising homelessness presentations since the implementation of the Homelessness Reduction Act and the impact of the current pandemic. Void rates are generally higher in temporary accommodation due to the regular turnover of residents, but there have also been operational difficulties in void turn arounds that have also added to this loss.
- 4.4.6 **Dwelling Rent reduction in income (£283,890).** The latest rent projections for the general housing stock show a 0.7% reduction from £39.864Million to £39.579Million. This variance is made up of a number of elements within the projection calculation, shown in the table below.

Rent income variations to the budget	£
Symonds Green completion now 2022/23	62,870
Timing of RTB sales	11,420
Void Loss	171,690
Net other variances	37,910
Total	283,890

- 4.4.7 The Symonds Green development had been budgeted in 2021/22 part year. However, due to delays, mainly caused by the pandemic, these properties are not expected to be finished until the start of 2022/23. The timing of Right to Buy (RTB) sales has also had a small impact on the rent projection as more

completions happened earlier in the year. However, this could be reversed by the end of the year, as sales have slowed considerably in recent months.

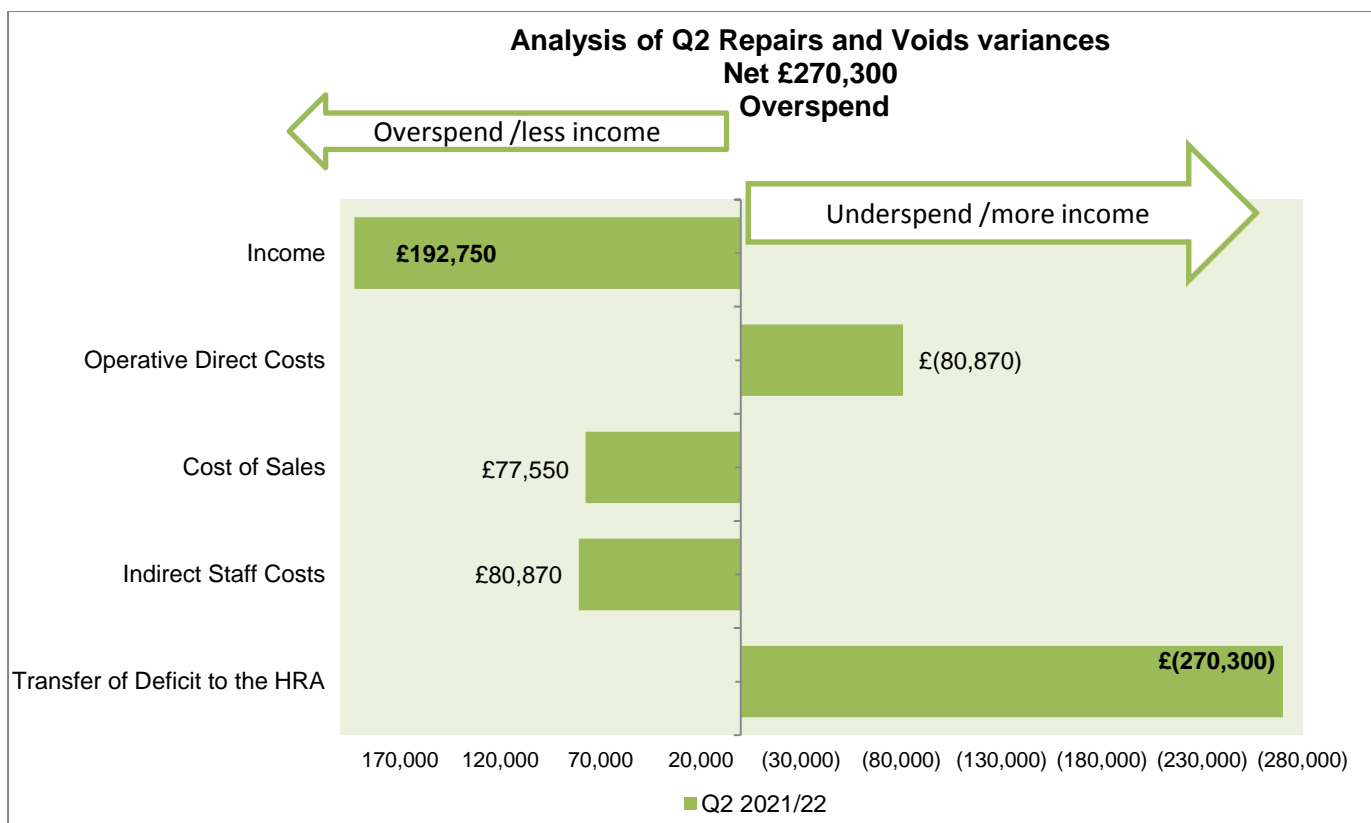
4.4.8 Void loss is higher than forecast for quarter two as there has been a significant increase in the number of tenants moving following the lifting of the national COVID-19 restrictions. The increase in void property numbers has an upward pressure on void losses and this is reflected in the increase to £171,690 at the end of quarter two. Other impacts include the delays in sourcing certain materials and contractors to complete void works, the availability of staff and the time taken to place certain prospective tenants into properties because of their specific support needs, as in the case of complex social issues and elderly clients. Some of these pressures are now easing and management actions are being taken to mitigate these problems. This has been reflected in the projection, which anticipates an improvement in performance for the rest of the year. However, this will continue to be monitored carefully and charges reported at the next quarter.

4.4.9 **Building Safety and Compliance work.** The Council is currently employing a waking watch while remedial works are carried out to high rise accommodation to ensure the safety of residents. This is expected to cost just under £1Million and is due to end before the start of the next financial year. This cost has been accommodated within current budgets, as growth was included in 2021/22 for building safety works at £500K per annum. Delays in the implementation of these regulations has meant that a budget of £469K was carried forward into this year and in combination with the current budget of £500K, is sufficient to cover the waking watch expenditure.

4.4.10 the 2021/22 budget also included growth for increased electrical testing, however, in light of current regulation and best practice, Housing officers have recommended reducing the time between inspections increasing the cost. This is proposed to be funded from decent homes standard budget of £250K because the standard has not yet been agreed (by the government). However, these ongoing compliance costs will be reviewed during budget setting for next year and in the next business plan revision.

4.5 **Responsive Repairs and Voids Performance**

4.5.1 The Repairs and Voids team's financial position is included in the overall HRA. The Q2 projection expects the deficit to increase by £270K for this year.



- 4.5.2 **Income £192,750.** While revenue has increased by 19% over this time last year, it is still well below normal levels seen before the pandemic. It is anticipated that as the operational pressures caused by the pandemic ease that income and activity levels will increase, but they are not likely to fully recover in this financial year.
- 4.5.3 **Operative Direct Costs (£80,870).** Currently there is a variance on employee cost, caused by the timing of recruitment to vacant posts.
- 4.5.4 **Cost of Sales £77,550.** Projected spend on sub-contractors is expected to be higher than the current working budget based on expected demand for the rest of this year. There continue to be backlogs in fencing and roofing and this backlog existed pre the pandemic, due to fencing contractors not completing works and problems with roofing works. Materials spend is currently on budget, but with market prices for timber and other materials increasing there may be a higher pressure projected at 3rd quarter.
- 4.5.5 **Indirect Staff Costs £80,870.** Additional cover for two long term sick staff members has led to a pressure in this area. This is projected to be matched by the saving in direct operative costs shown above.
- 4.5.6 **Transfer of Deficit to HRA (£270,300).** As reported above, income has not increased back to normal since the start of the pandemic, although operations are normalising as restrictions have eased Subcontractor usage is higher, (but lower than 2019/20 levels), but income has not risen to offset this additional spend, which has led to the further £270K pressure at the 2nd quarter review. Management are currently reviewing Operative utilisation and the “end to end”

repairs project is looking into other areas for potential lost income and streamlining practices to increase the efficiency of the unit.

4.6 Housing Revenue Account Balances

- 4.6.1 Following the 2nd quarter review the HRA balance is now forecast to be a surplus of £26,670,784.

Housing Revenue Account Outturn Position	£
Working Budget	(1,508,470)
2 nd Quarter Net Projected Pressure	231,960
Projected net Surplus post 2nd Quarter review	(1,276,510)
HRA balance brought forward 1/4/21	(25,394,274)
Surplus in year	(1,276,510)
Projected HRA balance 31/3/22	(26,670,784)

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 net expenditure for 2021/22 and the impact on the General Fund 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 balances is undertaken and reported to Council as part of the General Fund Budget setting process. Both the General Fund and HRA balances are projected to be above minimum levels.

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 The Budget and Policy setting process prioritised growth for climate change as part of the 2021/22 budget setting process. The 2021/22 process should have due regard for climate change implications based on the Council's Climate Change Strategy. There are no direct climate change implications from the budget changes in this report.

6. BACKGROUND PAPERS

- BD1 – 2021/22 Council Tax Setting and General Fund Budget (Council 24 February 2021)
- BD2- 2021/22 Final HRA and Rent setting report (Council 28 January 2021)
- BD3- General Fund Medium Term Financial Strategy Update (2020/22 – 2025/26)