



Meeting: EXECUTIVE

Agenda Item:

Portfolio Area: Resources



Date: 20 September 2023

1ST QUARTER REVENUE MONITORING REPORT – GENERAL FUND AND HRA

KEY DECISION

Author – Veronika Mendy/Keith Reynoldson Ext. 2943
Contributor – Brian Moldon, Finance team and budget Managers
Lead Officers – Brian Moldon Ext. 2933
Contact Officer – Brian Moldon Ext.2933

1. PURPOSE

- 1.1 To update Members on the projected General Fund and Housing Revenue Account (HRA) 2023/24 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

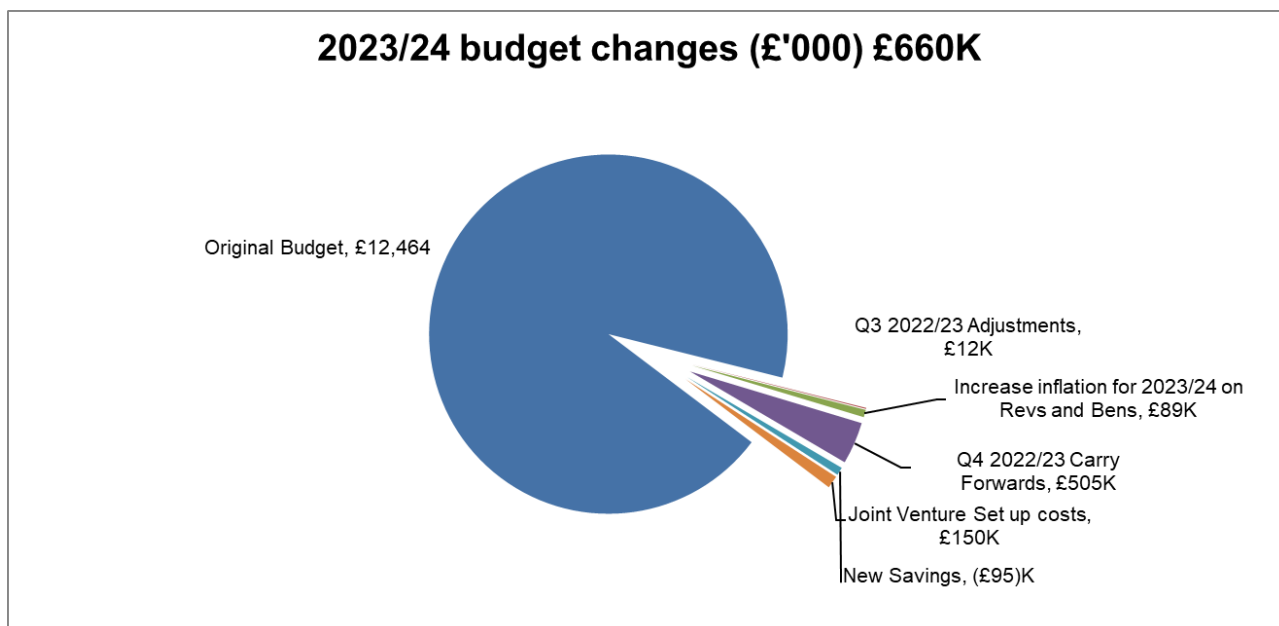
- 2.1 That the 2023/24 1st quarter projected net decrease in General Fund expenditure of £273,020 be approved.
- 2.2 That Members note the cumulative changes made to the General Fund net budget remains within the £400,000 increase variation limit delegated to the Executive.
- 2.3 That Members note the proposed movement on reserves as detailed in paragraph 4.2.1

Housing Revenue Account

- 2.3 That the 2023/24 1st quarter projected net pressure in HRA expenditure of £154,510 be approved.
- 2.4 That Members approve two budget virements totalling £450K, from planned maintenance budgets, to fund the proposed fencing works as detailed in 4.5.9.
- 2.5 That Members approve the following approach to fencing works. That the existing backlog of works are prioritised to be completed and new fencing repairs will be added to a waiting list, unless they relate to emergency repairs and those creating a health and safety risk, which will be dealt with immediately. All other repairs will be completed in order of date raised.
- 2.6 That a budget virement of £238K from revenue contributions to capital, to void property repair costs be approved, as detailed at 4.5.6.
- 2.7 That Members note the cumulative increases made to the HRA net budget remain within the £400,000 variation limit, delegated to the Executive, in the January 2023 budget report.

3. BACKGROUND - GENERAL FUND

- 3.1. Since the General Fund net budget of £12,463,780 was approved at Council, Members have approved net budget changes of £660,300 as detailed in the chart below:

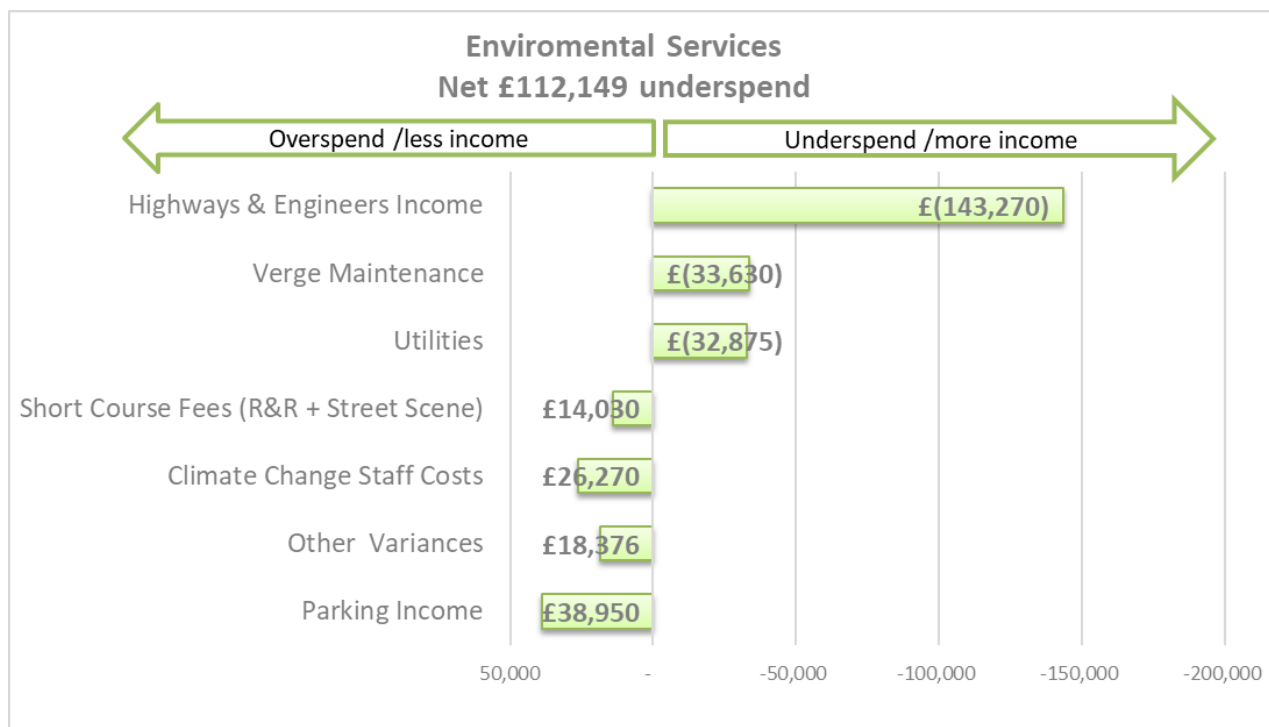


4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 General Fund – Budget Review

4.1.1 Following the 1st quarter review of the General Fund budgets officers have identified a projected reduction in the forecast budget for the year of £273,020. A detailed analysis is set out below by service area.

4.1.2 **Environmental Services** is forecasting an increase in income/reduction in expenditure for 2023/24 of £112,149, analysis is reported below:



4.1.3 This is made up of the following forecast additional income and lower costs for the year as follows:

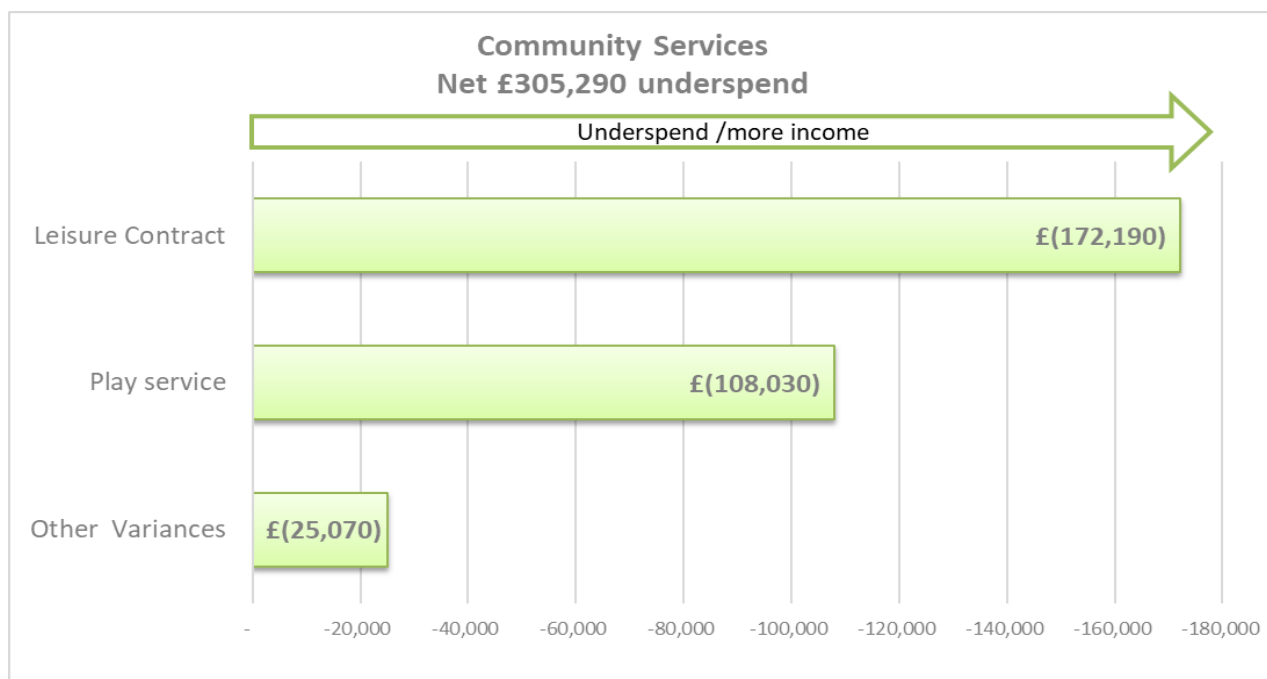
- **Highways & Engineers Fees** – this relates to two major schemes where one off fees have been obtained in relation to the design and appraisal and monitoring of the redevelopment of former Matalan site and the street development agreement fees associated with the Autolus Development (Marshgate).
- **Verge Maintenance** – following negotiations with the Hertfordshire County Council (HCC) to manage the highways verge maintenance, the Council has been able to increase income due for this work of £33,630 and this will contribute towards the Council’s 2024/25 ‘Balancing the Budget’ target, further information can be found in the Medium Term Financial Strategy report to this September Executive.

- **Utilities** – information relating to utilities is summarised under bullet point within paragraph 4.1.11.

4.1.4 The additional income/underspend are partly offset by the following pressures:

- **Short Course fees** – due to the turnover in staff within the Refuse and Recycling division, there is a need for an increase in mandatory training which has resulted in an in-year pressure on training.
- **Parking income** – there is a £38.9K pressure within on-street parking income from disruption and some reduction in spaces due to roadworks.
- **Other variances** - a combination of small variances across the service.

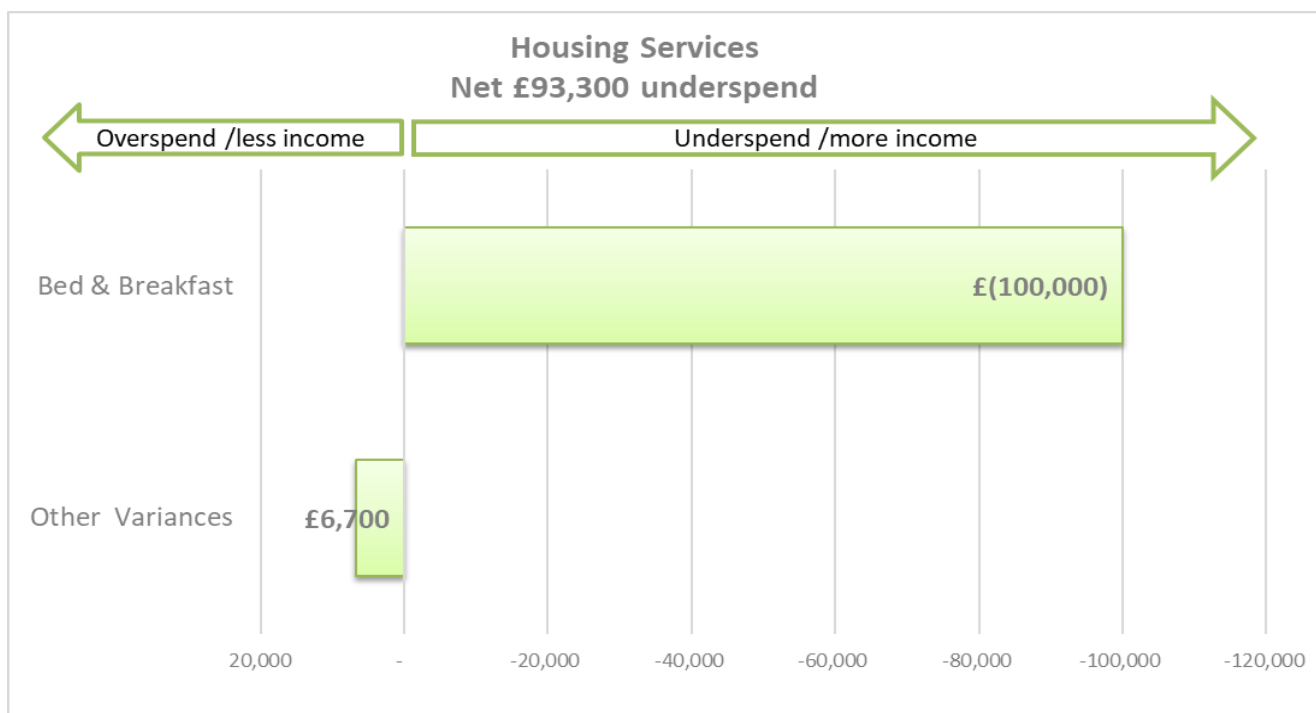
4.1.5 **Community Services** is forecasting an increase in income/reduction in expenditure for 2023/24 of £305,290, analysis is reported below:



- **Leisure contract** –The new leisure contract required capital investment of circa. £1.2Million and the 2023/24 original budget included a budget for MRP and interest. However, this charge is embedded within the management fee and therefore the MRP and interest budgets of £172K are not required and this will contribute towards the Council’s 2024/25 ‘Balancing the Budget’ target.
- **Play** – it was anticipated that closure of the Play service in 2023/24 would take around six months to implement. However, the consultation on the cessation of the service was concluded ahead of the estimated budgeted time resulting in lower costs for the year.

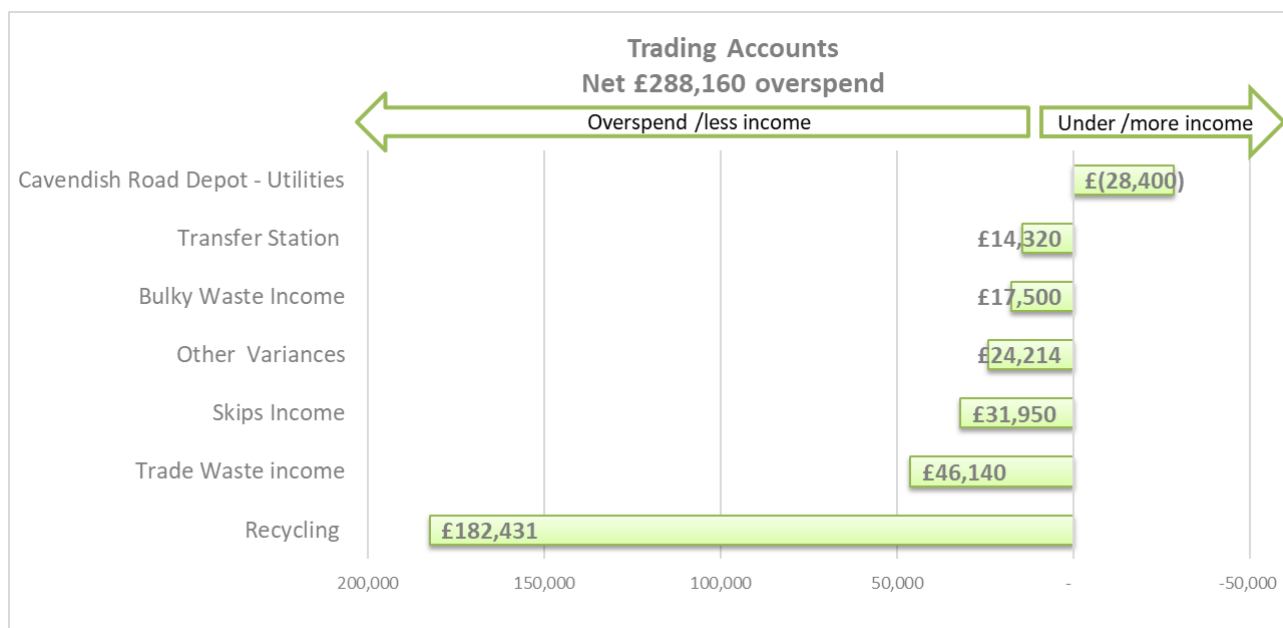
- **Other variances** - a combination of small variances across the service.

4.1.6 **Housing Services** is forecasting an increase in income/reduction in expenditure for 2023/24 of £93,300, analysis is reported below:



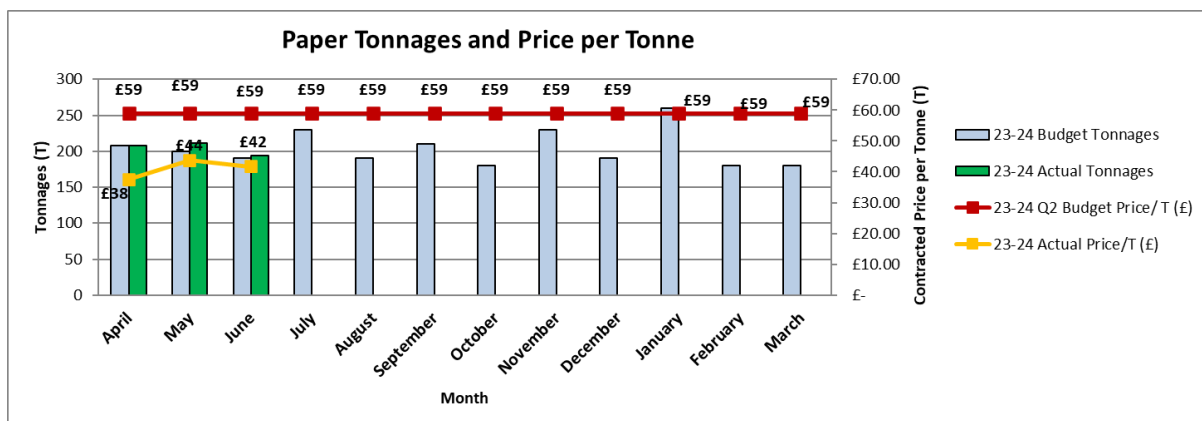
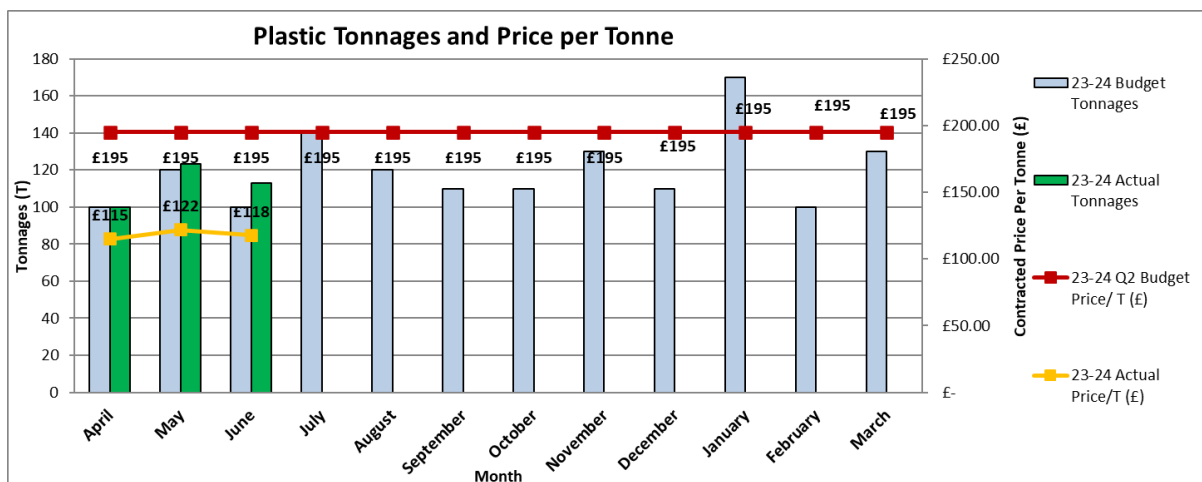
- **Bed & Breakfast** – due to the proactive approach by the Council to increase Council owned accommodation available for Bed and Breakfast spaces, through the purchasing of additional properties, the current forecast is an on-going surplus of £100K, leaving a budget of £80K. This underspend will contribute towards the Council’s 2024/25 ‘Balancing the Budget’ target, subject to no significant increase in homeless numbers.
- **Other variances** - a combination of small variances across the service.

4.1.7 **Trading Account** is forecasting a reduction in income/increase in expenditure for 2023/24 of £288,160, analysis is reported below:



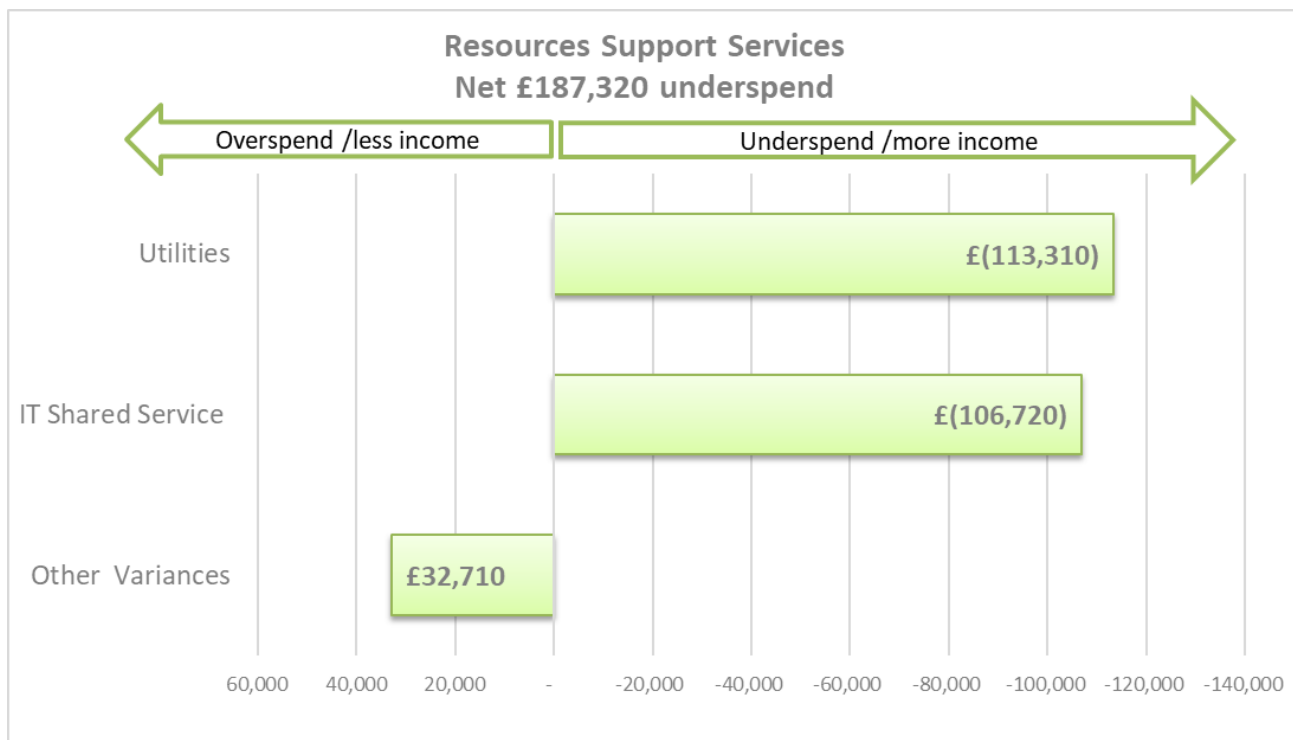
- **Utilities (Cavendish Road depot)** – please see utilities bullet point within paragraph 4.1.11 below for more information.
- **Transfer Station** – this pressure relates to a delay in opening up to the public the transfer station where it was anticipated that income would start from April. Latest start date is 2023/24 quarter three.
- **Bulky Waste** – this service is continuing to receive lower demands than originally considered, although is in line with the previous year. Work is ongoing to look at the opportunities to promote the service with the Commercial team.
- **Other variances** - a combination of small variances across the service.
- **Skips** – demand for this service in year has remained lower than budgeted for. However, there has been a recent “pay by weight” offer to commercial customers with anticipation to start delivering results shortly. The Commercial Team will continue to promote this service throughout the year, and this includes being more proactive in the market.
- **Trade Waste** – demand for this service in year has remained lower than budgeted for. Although, there is an improvement on the previous year numbers following the increased promotion of the service by the Commercial Team, with further implementation of marketing plan going forward. A comprehensive review of the service has been carried out including a full market segmentation exercise.
- **Recycling** –the recycling pressure of £182K has arisen as a result of three main areas as follows:
 - I. Recycle income reduction of £79K – this relates to income the Council receive from recycling the paper and plastics collected. Although the tonnage collected is slightly up on last years, the price per tonnage the

Council receives is lower than anticipated when the budget was set. It should be noted that this market is very volatile from global demand as well as energy prices.



- II. Recycle costs of £21K – this relates to hiring of some vehicles each year to manage the green waste that is collected during spring and summer.
- III. HCC Alternative Financial Model (AFM) income reduction of £82K– the Council assumed income from HCC based on tonnage of residual waste collected (the less collected in residual, the more income received). Since closing the 2022/23 accounts, the calculation from HCC shows a higher level of residual waste collected than projected for 2022/23, reducing the income due to the Council, the scheme ended in 2022/23.

4.1.8 **Resources – Support Services** is forecasting an underspend/additional income for 2023/24 of £187,320, the analysis is reported below:



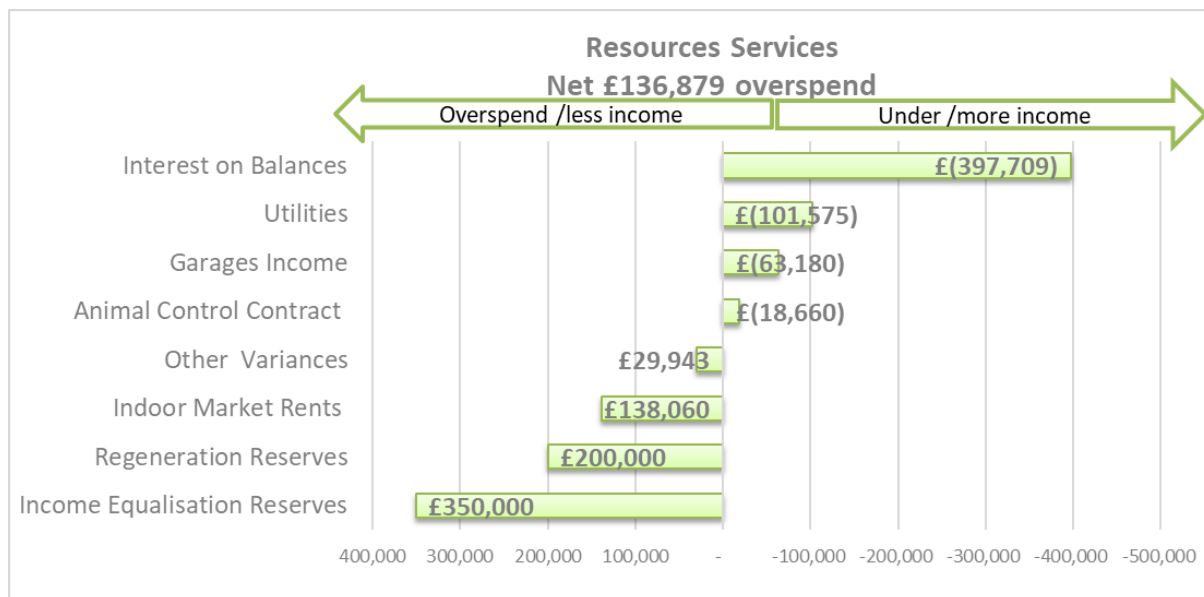
4.1.9 The areas relating to the Quarter one variances are made up of the following:

- **Utilities** – please see utilities bullet point within paragraph 4.1.11 below for more information.
- **IT Shared Service** – this relates to additional income that was not included when the budget was set for 2023/24. However, this offset the increased cost pressure reported in the Quarter four 2022/23 report relating to the Shared Revenues & Benefits Shared service.

4.1.10 The above income has been offset by the following pressures:

- **Other variances** - a combination of small variances across the service.

4.1.11 **Resources Services** is forecasting a reduction in income/increase in expenditure for 2023/24 of £136,879 analysis is reported below:



- **Interest on Balances** – this relates to both the Council investment income on balances and borrowing costs associated with capital financing. The variance relates to the following:
 - I. **Investment income** – when the Council set its budget, Bank of England rate was at 3.5% (January 2023), since then there have been five increases in the bank rate, with the current rate at 5.25% (August 2023). This has resulted in an improvement on investment received (for the General Fund) of around £186K.
 - II. **Borrowing costs** – an increase in borrowing costs would mean borrowing costs would go up, however the Council is currently internally borrowing, (using its own resources) to fund capital expenditure. This has meant a reduction in the external cost of loans reducing General Fund spend by £205K. However, this has also suppressed the investment income projected albeit by a less amount. Decisions to use internal borrowing to PWLB is closely monitored with Council’s treasury advisors to ensure the Council maximises resources.
- **Utilities** – the utility contract fixes pricing on the 1 April each year and for the larger usage buildings such as Daneshill, Cavendish etc. on the 1 October annually. Since the budget was approved projected increases in utility prices have reduced and the forecast for the renewal at the 1 October is lower than budgeted and provides a forecast in-year saving.
- **Garage income** – the Council has a robust process for managing and assigning new tenants to garages following the introduction of the digital platform where all vacant garages are advertised for letting. In addition, there has been a programme of reducing void garages which has also improved income levels.
- **Animal Control Contract** – the identified saving on the reletting of the Animal Control contract will contribute to the ‘Balancing the Budget’ savings target for 2024/25.

- **Other variances** - a combination of small variances across the service.
- **Indoor Market** – there is an income pressure within the Indoor Market with the volume of voids increasing to 39% currently, up from 31% from this time last year. This represents a 30% reduction (£138K) in the 2023/24 income budget of £457K.
- **Movement to Regeneration reserve** - the £200K transfer into reserve was approved as part of the MTFs that went to Executive in September 2022 should there be a 2022/23 net General Fund underspend.
- **Movement to Income Equalisation reserve** - With the projected reduction in recycling and indoor market income, (identified in this report), the CFO recommends that £350K of Quarter one underspends are transferred to the income equalisation reserve to support the financial resilience of the General Fund, should these income pressures continue into 2024/25.

4.1.12 The cumulative changes made to the General Fund net budget as agreed at Council February 2023 remains within the £400,000 increase variation limit delegated to the Executive. The total value of changes is an underspend of £273,020 based on the first quarter.

Executive Delegation - General Fund	£'000
Original Net General Fund Budget	12,464
Changes agreed at Council July 23	661
Revised GF Budget agreed	13,124
Quarterly monitoring Q1	(273)
Updated GF Budget	12,851
Within Executive Delegated Limit	673

4.1.13 **Core Resources** – The Revenue Support Grant of £102K was included in the overall calculation for the amount of business rates or baseline assessment. However, this should have been excluded giving the following impacts:

- an increase in the levy (reported Q4 of £51K)
- an increase in grants of £102K, giving a net retained increase of £51K.

4.1.14 Other Pressures - **Pay inflation**. The budgeted pay award was based on 3% increase, however the employer side offer (not yet accepted by the unions) was higher at an average 5.4%, it is estimated that based on the current employers offer the additional cost will be in the region of £457K. This is not yet been added to the General Fund budgets projections and is for note until the pay offer is approved.

4.1.15 Cumulative analysis of variance can be found in the table below. This shows a in year underspend which will enable the Council to support future pressure of pay award which has not been incorporated in the figures.

Description	£'000
On going budget reductions to support MTFS Balancing the Budgets for 2024/25	(388)
Projected utility price changes	(276)
Income stream pressures	234
Transfer to reserves	550
Interest on Balances	(398)
Other	5
Total	(273)

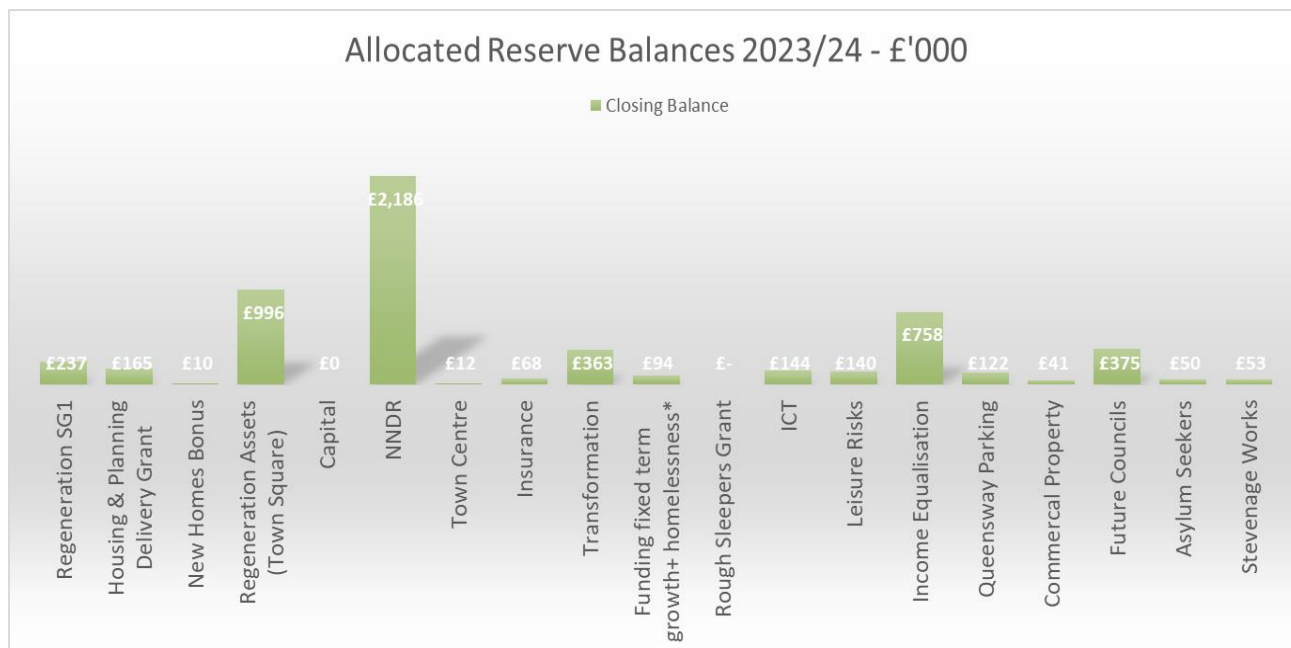
4.2 Review of General Fund Balances

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 2024 is **£5,812,229**, (31 March 2023, £5,556,446). During Quarter one, the following movement between reserves have been recommended.

Reserves	Previously Approved	Q1 To Be Approved
Regeneration reserve	200,000	(159,020)
Leisure reserve	-	(10,000)
Rough Sleepers reserve	-	(192,960)
Homelessness reserve	-	(141,800)
Transformation reserve	-	(74,250)
NNDR earmarked reserve	(38,650)	
ICT reserve	-	(183,410)
Future Council reserve	-	(375,000)
Income Equalisation reserve		350,000
Total	161,350	(786,440)

- Regeneration – the drawdown on the reserve is the latest phasing of expenditure for the year, based on Regeneration teams current work activity.
- Leisure - drawdown relates to a final legal invoice relating to the new leisure contract.
- Rough Sleepers and Homelessness reserves – shows the latest phasing of expenditure for the year against those reserves where Government funding was provided.
- Transformation – forecast drawdown for the year, for the delivery of projects to assist the Council in the 2024/25 'Balancing the Budget'.
- ICT reserve drawdown relates to the additional Cyber Security works and licences for the year and is matched by additional spend.
- Future Council reserve which is Government funding the Council received to support digital resilience and cyber work is the latest estimated phasing of expenditure for the year.

4.2.2 Below shows the current forecast closing balances on the allocated reserves after taking into account the above movement.



4.2.3 General Fund Balance – Following the 1st quarter review the General Fund balance as at the 31 March 2024 is now forecast to be £5,045,568.

General Fund Balances	£'000
Original Net General Fund Budget	12,464
Approved budget changes	660
Net Working budget approved to Date	13,124
1st Quarter Review	(273)
Total Net Expenditure post Q1 review	12,851
less core resources	(11,841)
Movement in core resources at Q1	(102)
Transfer (to)/from General Fund balances	908
General Fund balance 31/3/23	(5,954)
Transfer (to)/from General Fund balances	908
Projected General Fund balance 31/3/24	(5,046)
Allocated Revenue Reserves (Paragraph 4.2)	(5,812)
Total General Fund Revenue balances (estimated 31/3/24)	(10,858)

4.3 **Review of Savings** – As part of the 2023/24 budget setting, the Council agreed savings of £1.342Million. The table below represents the RAG rated delivery those schemes.

Target	RAG	% of Target
1,172,076	Delivered	87%
167,025	Delay in saving delivery	12%
2,916	Not achieving	0%
1,342,017		

4.3.1 **Green schemes:** The Council is successfully achieving a full delivery on majority of schemes. There is also a potential to achieve further income on Fees and Charges based on reported favourable variance of £190K in Quarter one.

4.3.2 **Amber schemes:** The projected achievement for the year is £52K (31% of £167K target).

- The letting of Shephalbury depot (£64K), Bandle Hill and Pin Green play centres (£65K) are still being negotiated with anticipated delivery of income from January 2024. The shortfall in income is in year only with full delivery anticipated from next year.
- The commercial income from filming (£10K target) is proving to be hard to achieve. The ongoing writers and actors strike in America have impacted this income scheme.
- Indoor Market's increase in rents (from the fees and charges) are suffering from reduced occupancy and further six terminations in Quarter one, mean the projected rent increases for 2023/24 will not be achieved.
- Advertising in Chronicles had a low take up for the Summer issue. Work is progressing to establish more advertising for the next edition. The total projected income for the year is £4.4K leaving £13K gap.

4.3.3 **Red schemes:** The saving scheme on decommissioning of eBase software application (£3K) is being delayed due to the contract extension for another year.

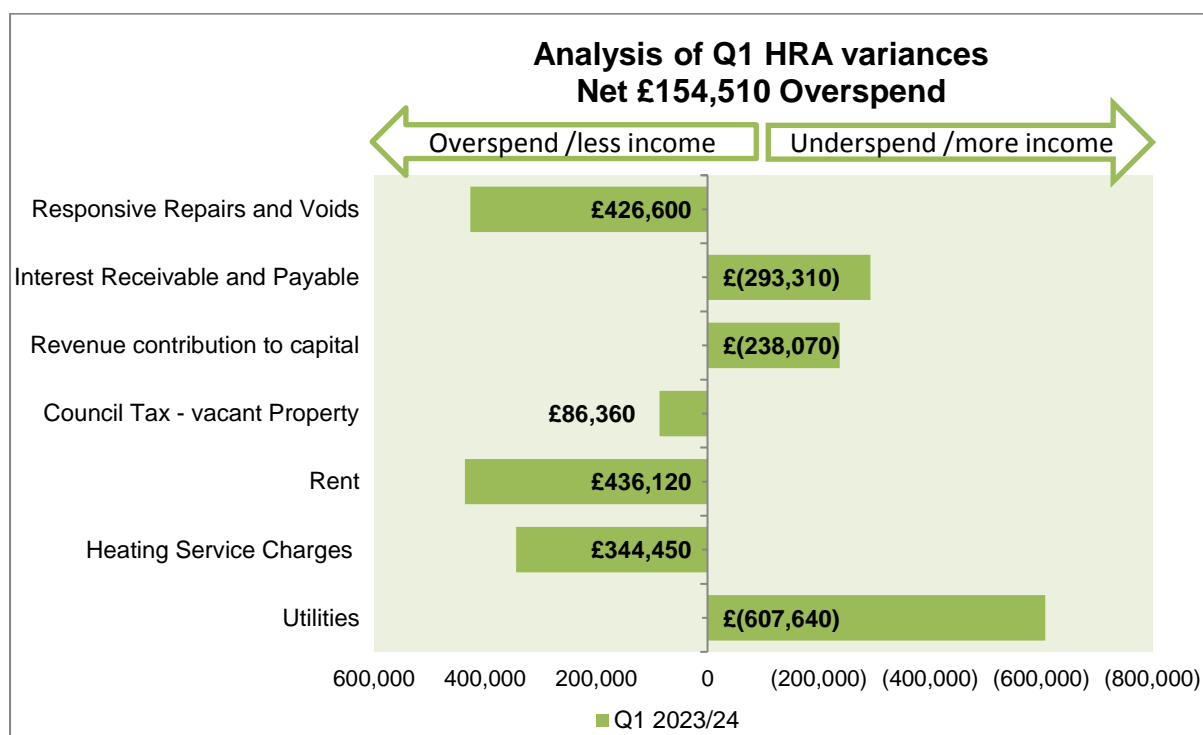
4.4 Housing Revenue Account

4.4.1 Since the Housing Revenue Account (HRA) net budget surplus of £1.792Million was approved at Council in January 2023, Members have further approved net changes of £916K as detailed in the following table.

HRA Working Budget	£'000
Original Budget 2023/24	(1,792)
22/23 Q4 Carry Forwards	922
22/23 Q4 Net Projected Saving	(6)
Total Working Budget	(876)

4.5 Housing Revenue Account - Budget Review

4.5.1 Following the 1st quarter review of revenue budgets officers have identified and projected the following budget movements.



4.5.2 **Council Tax on void properties £86,360.** Due to capacity issues in managing and turning around the current level of void properties in the stock, some properties have remained unoccupied for longer than normally anticipated. There have also been a small number of empty properties, due to the timing of re-development programmes, that have attracted the higher level of Council Tax applicable to long term empty homes. This has combined to give an estimated pressure on the budget of £86K for the year and assumes that the position will improve with the implementation of the void action plan detailed at 4.5.8.

4.5.3 **Utilities (£607,640).** Due to the current expected reduction in utility costs, there is now an anticipated saving of £608K in year. This is a reduction of £545K in gas and £30K on electricity prices. Additionally, there is a £33K saving to the HRA for a share of cost savings from utilities at Cavendish Depot and Daneshill.

- 4.5.4 **Heating Service Charges £344,450.** Due to the current uncertainty regarding utility costs for next winter, the Council assured tenants who benefit from communal heating systems that their charges would be adjusted during this year to reflect the actual cost of gas supply paid by the authority. Therefore, the level of cost recovery has been reduced in line with the expected lower costs outlined in 4.5.3 and tenant charges will be reviewed in line with these new projections.
- 4.5.5 **Rent £436,120.** The original budget for 2023/24 anticipated the addition of 85 affordable rent properties for half of this financial year. However, due to the timing of completion of the development, only 69 of these properties are expected to be operational during the end of the second half of this year. In addition, revised timetables for current developments mean that 21 homeless properties will not provide income this year and are now expected to complete in Quarter one of 2024/25. This is an in-year pressure, as rental incomes will increase when the new homes are commissioned but will lead to a reduction in income of £174k for 2023/24. This has been further compounded by a higher than anticipated level of void unoccupied property, creating a further pressure on rental revenues of £262K. However, with the current action plan in place it is projected that this will improve as the year progresses and will be closely monitored going forward.
- 4.5.6 **Revenue Contribution to Capital (£238,070).** The original budget had an allowance of £238K to fund capital works. However, officers recommend this is used to fund additional void repairs. This may have a knock-on impact on future years funding and this will be addressed in the HRA Business plan to the November 2023 Executive. (see also paragraph 4.5.8)
- 4.5.7 **Interest Receivable and Payable (£293,310).** The HRA pays interest on loans taken for two reasons firstly to support capital spending and secondly to pay for the £199Million self-financing settlement to the Government. The HRA also receives a share of the Council's investment interest, based on the HRA's reserve balances. Latest projections indicate that there will be a £37K increase in investment income earned for the year and a saving on loan interest of (£255K) for 2023/24, based on the timing of loans taken and level of internal borrowing. Both of these amounts will be reviewed in the following quarters to reflect any changes in the projections over the rest of this year.
- 4.5.8 **Responsive Repairs and Voids £426,600. (see also section 4.6)**
- Increase cost of voids.** There is currently a projected pressure of £427K for repairs and voids, due to the level of void properties. A backlog has built up due to a combination of staff shortages, specialist work required and the number of properties becoming void that has increased with higher levels of temporary accommodation (as these become void more frequently). In order to manage this backlog and return properties to use as soon as possible, the Council has engaged a partner contractor to complete these works. To help mitigate these additional costs in this year, the virement from revenue contribution to capital of £238K is recommended alongside other budget savings within the trading account, as shown below.

Additional Void Works Funding	£'000
Increased Void Maintenance Cost	723
Funded by savings in repairs and voids (trading account)	
Indirect Staff Cost savings	(40)
Direct Operative Cost savings	(269)
Sub-total	414
Virement of RCCO budget	(238)
HRA reserve balances	(176)
Total	0

4.5.9 **Fencing Programme.** As members will be aware there has been a build up of fencing works and it was agreed that this backlog of repairs would be addressed through an increase in budgets and a planned programme of work, which commenced in Quarter four of 2022/23. Last year £437K of work was completed and there was a carry forward of £79K of unspent budget. Following the completion of surveys, the scope of works required at each property has been greater than initially anticipated and there have been higher labour and material costs to take into account. To complete the programme of works for this year, it is requested that virements from other planned maintenance budgets of £450K are made and this will give an in year programme of £779K for 2023/24. This will not address the total backlog and additional monies will be recommended as part of the revised HRA business plan for future fencing spend.

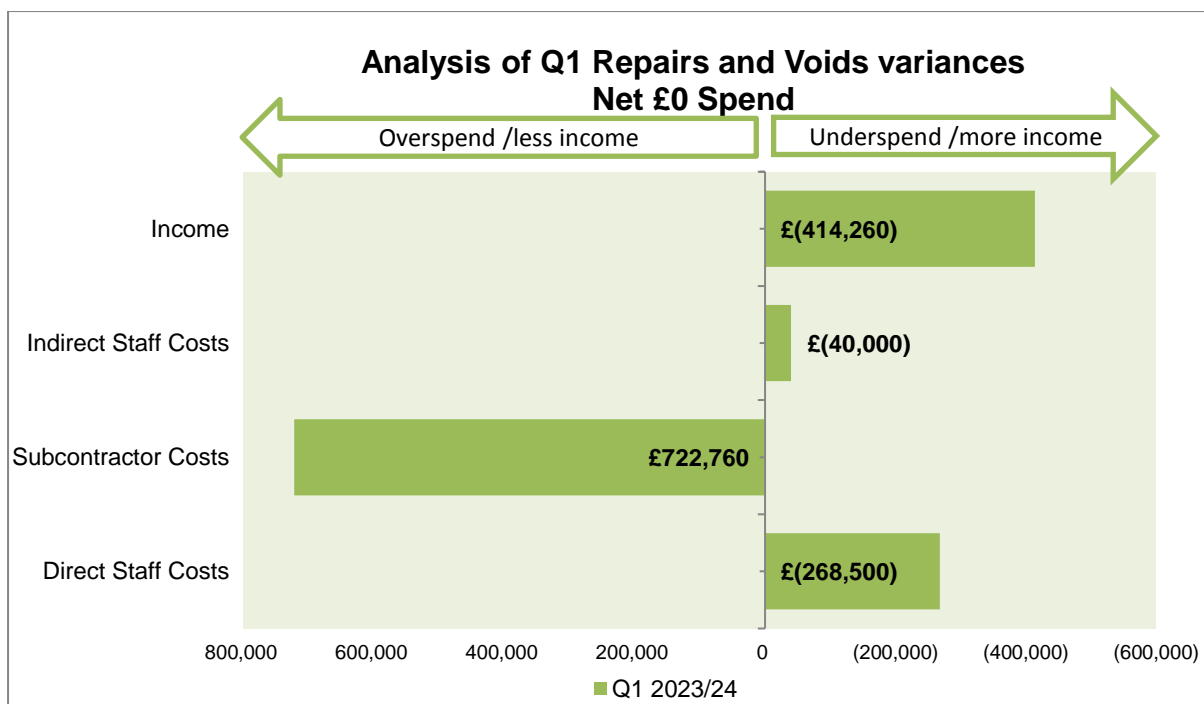
Fencing Programme – budget virements	£
Cyclical Maintenance Budget	200,000
Building Safety Budget (revenue works)	250,000
Total Transfer to Fencing Works	450,000

4.5.10 **Other Pressures -Pay inflation.** As reported for the General Fund at 4.1.14, the budgeted pay award was based on a 3% increase. However, the employer side offer (not yet accepted by the unions) was higher, at an average of 5.4% for HRA related salary budgets. It is estimated that, based on the current employers offer, the total additional cost will be in the region of £276K. This is currently not included in the projections and is included as a note item in this report, until the pay offer is approved.

4.6 Responsive Repairs and Voids Performance

4.6.1 The net Repairs and Voids trading account financial position is included in the overall HRA as a budget pressure of £426,600. As identified in paragraph 4.5.8 there's increase pressure in voids works with funding recommendation as set out above.

4.6.2 In addition, there is a small £12K adjustment to the trading deficit on the account. The variances in the trading account are detailed below.



4.6.3 **Subcontractor Costs £722,760.** To clear the current level of void properties, the Council have engaged a main supplier to carry out the work. This was not anticipated in the original budget and is currently projected to generate a budget pressure of £723K in this year.

4.6.4 **Income (£414,260).** As the quantity of void repairs will be higher than budgeted this will generate more income in the trading account (sub contracted to the partner company). However, this has generated a matching budget pressure in the HRA. Income is now expected to be £414K higher than originally calculated.

4.6.5 **Other Pressures – Responsive Repairs Jobs.** Due to an increase in responsive repair requests and cost increases on materials there is currently a potential budget pressure of £150K in this year. However, management are currently putting in place procedures to optimise operative time and reduce subcontractor costs to contain these pressures within the overall budget. This will continue to be monitored and updated in future reports.

4.7 Housing Revenue Account Balances

4.7.1 Following the 1st quarter review the HRA balance is now forecast to be £11.2Million surplus. The HRA general balance has reduced substantially from last year due to the creation of a £17.2M debt repayment reserve, needed to repay self financing loans within the next five year period.

Housing Revenue Account Outturn Position	£'000
Working Budget – Council 25 January 2024	(876)
1st Quarter Net Projected Underspend	155
Projected net Deficit post 1st Quarter review	(721)
HRA balance brought forward 1/4/23	(10,519)
Deficit in year	(721)
Projected HRA balance 31/3/2024	(11,240)
Remaining Executive Delegated Limit	245

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is financial in nature and consequently financial implications are included above. The impact of these changes for future years will be incorporated into the budget setting process.

5.2 Legal Implications

5.2.1 The objective of this report is to outline the projected General Fund net expenditure for 2023/24 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.

5.4.2 Inflationary pressures continue to be a financial risk to both the HRA and General Fund, in the form of higher borrowing, wages and material costs, these

risks will be continued to be reviewed as part of the budget monitoring and setting process.

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 2022/23 budget setting process. The 2022/23 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 – 2023/24 Council Tax Setting and General Fund Budget (Council 23 February 2023)

BD2 – Final Housing Revenue Account Budget Setting and Rent Report 2023/24 (Council 25 January 2023)

BD3 – 4th Quarter Monitoring Report General Fund and Housing Revenue Account 2022/23 (Executive 18 July 2023)