

## HERTFORDSHIRE HIA BOARD MEETING

11 January 2018

### HHIA Budget

#### 1. Background

The HHIA Board convened a special ad-hoc meeting in November to consider the revenue position and requested an up-date and draft budget for 2018-19. The HHIA Board also designated the representative from Broxbourne BC to be the lead Board member for finance and this report has been prepared in liaison with them. It sets out the following:

1. Set-up costs;
2. Likely outturn for 2017-18;
3. Draft budget for 2018-19;
4. Contributions required from member authorities; and
5. Proposed financial contribution from Stevenage BC.

The HHIA Board has spent a considerable amount of time discussing the business case financial assumptions and projections and this report now up-dates the information contained in the business case (schedule 4 to the partnership agreement, PA).

#### 2. Business case assumptions

The business case rests on the straightforward assumption that the HHIA would operate in a way that capitalisable costs and fee income would exceed running costs and thereby generate a surplus to be either reinvested through the HHIA or returned to the member authorities, or a combination of both.

#### 3. Set up costs

Initially, it was recognised that there would be both one-off and mobilisation costs associated with the establishment of the HHIA. The business case modelled this on a *six* member partnership (schedule 4; table 8; paragraph 6.3.3) and this showed the following estimate.

<b>Item</b>	<b>Cost</b>	
Project Management	£0	(covered by HCC)
Legal support	£9,000	
Case management IT	£25,000	
IT and other costs	£25,000	
Head of service salary	£27,000	(not clear but presumed to be six months)
<b>Total</b>	<b>£86,000</b>	
<b>Partner contributions</b>	<b>£84,000</b>	(£14,000 x 6)

The business case was not clear on the time-frame for defining the set-up period as opposed to “business as usual” revenue expenditure. It also assumed that only the Head of Service would be in post during the set-up period. It was not clear how the £2,000 deficit in the business plan was to be met. Nevertheless, actual set-up costs incurred by the HHIA have been significantly below those in the business plan.

### Actual set-up costs 2016-17 and 2017-18

Staff costs ( to 30 September 2017)	£18,031
Travel (to 30 September 2017)	£1,000
IT costs (to 30 September 2017)	£62
Recruitment	£1,804
Legal fees - partnership agreement/Governance	£12,484
Legal fees - contractor framework	£6,460
Website set up	£6,000
Implementation costs - Case management system	£13,500
Consultancy	£5,000
<b>Total costs</b>	<b>£64,341</b>
Contribution from Broxbourne	-14,000
Contribution from East Herts	-14,000
Contribution from North Herts	-14,000
Contribution from Watford	-14,000
Contribution from HCC	-14,000
<b>Total contributions</b>	<b>-70,000</b>
<b>Surplus</b>	<b>-£5,659</b>

The actual set-up costs to 30 September are estimated at £64,341; considerably less than the business case but there are only five partner authorities. Assuming each authority contributes the full amount there would be a notional surplus of £5,659 in relation to set-up costs.

### 4. Running costs of the HHIA

The running costs of the HHIA (excluding one-off and mobilisation costs) were modelled on a five member partnership (schedule 4; tables 5.1 and 9.1). The tables are not entirely clear in respect of the phasing of salary costs (i.e. when it was assumed staff would be in post) but fee income was forecast for six months @£137,000. The tables showed a revenue deficit of £63,000 for six months after taking account of capitalisable costs and fee income.

<b>Item</b>	<b>Cost</b>	
HHIA running costs	£413,000	
Capitalisable costs	-£213,000	
Fee income	-£137,000	(assumed as six months)
<b>Deficit</b>	<b>£63,000</b>	

As mentioned earlier, tables 5.1. and 9.1 are not clear in terms of definitions and assumptions used. The table is described as a year 1 *revenue impact* but it’s not clear when the assumed start and end date is and as such the figures are subject to changes relating to grant activity;

staff start dates etc. This is extremely important as the assumption relating to fee income and salary costs are a critical part of the business model. In addition, it should be noted that the capitalised element of the HHIA's running costs is assumed to be 51.57%. The table below shows the anticipated outturn for the year to 31 March 2018.

### Year 1 revenue costs (excluding set-up) to 31 March 2018

Staff costs	187,191
Travel	8,100
IT costs	733
Mobiles	1,090
Equipment (digital cameras)	2,500
Website maintenance	1,000
Case management system - licences/maintenance	14,935
Printing and stationery	1,500
Marketing	10,000
<b>Total costs</b>	<b>227,049</b>
Capitalised salaries	102,243
Fee income	45,000
<b>Total income</b>	<b>147,243</b>
<b>Deficit</b>	<b>79,806</b>

Note: The deficit is before HCC overheads for office and employee-related costs as these are not included. The fee income of £45,000 is based on £300,000 of works and this is therefore an estimate with some risk it may not be achieved.

The current outturn projection to 31 March 2018 shows an anticipated revenue deficit of £79,806 largely due to the reduced fee income projection. This has been due to a number of factors, the most important of which are set out below.

1. The Board's decision to phase the handover of cases.
2. Delays in the procurement framework.
3. Staggered recruitment of the HHIA team, including inability to recruit to some posts initially (i.e. technical officers).

It should be noted that capitalised costs equate to 50.74% of the salary costs.

The HHIA Board will need to agree how to meet the revenue deficit in 2017-18. Using the projections in the business case (tables 5.1 and 9.1) the original assumed revenue contributions are set out below.

<b>Authority</b>	<b>Revenue neutral contribution level</b>	
Broxbourne	£1,000	(+£14,000 set up)
E.Herts	£65,000	(+£14,000 set up)
N.Herts	(£19,000)	(+£14,000 set up)
Watford	£12,000	(+£14,000 set up)
<b>Total</b>	<b>£59,000</b>	

## APPENDIX 3

Assuming the level of contributions set out in table 5.1 – repeated above - for 2017-18 the total contributions would still leave a deficit of up to £21,000 below the projected outturn for 2017-18. If the £5,659 surplus on the set-up contributions is used for 2017-18 revenue expenditure HCC is prepared to consider meeting the balance on a one-off basis provided the partner authorities agree to make a contribution to achieve a balanced budget and any further contribution necessary in 2018-19.

### Year 2 running costs (2018-19)

The table below shows the draft revenue budget for the HHIA for the period 1 April 2018 to 31 March 2019. Although it is assumed that Stevenage BC will join the HHIA from the 1 April 2018 the fee figures does not take account of this. The draft revenue budget including Stevenage BC is included in Appendix 1.

#### Expenditure

Item	Cost
Staffing	£537,153
Travel	£27,225
IT/telephones etc	£8,565
Recruitment	£0
Office accommodation etc	TBC
Training etc	£4,200
Website	£1,000
Case management software	£14,935
Printing and Stationery	£5,000
Marketing	£5,000
<b>Total</b>	<b>£603,078</b>

#### Income

Capitalised salaries	£276,562	
Fee income	£229,801	(11.5% exc Stevenage)
<b>Total</b>	<b>£506,363</b>	

**Deficit** **£96,715**

Note: the expenditure figures do not include HCC office accommodation and employee related expenditure. The fee income assumes 100% of grant is spent so there is some risk around this.

The projected operating costs for 2018-19 compares with the business case assumption (Table 7; page 30) of operating costs of £570,000 excluding the occupational therapy service – this was based on five members.

### **4. Proposals to achieve a balanced budget**

In order to bridge the revenue funding gap it is proposed to use a fee % of 15%. However, this will still leave a shortfall of £47,000 before office and employee-related on-costs. In order to meet the deficit the HHIA Board needs to consider a full range of options: these are set out below for discussion.

#### **1. Reducing operating costs**

It is proposed that the full revised staffing structure agreed by the HHIA board is not progressed other than to recruit to the technical officer position currently filled by an agency member of staff. This will mean that the caseworker team leader position will be kept vacant – this saves £29,000 on the revenue budget in 2018-19 (as 41% of this position was to be capitalised).

#### **2. Increasing fee % from 11.5% to 15%**

It is proposed to have a standard fee of 15% - this will affect the figures presented early and increase the fee income to £373,329 including an assumed £82,711 of fee income relating to grant activity in Stevenage. An analysis of the impact of fee levels on the forecast outturn is provided in Appendix 1. It should be noted that increasing the fee % will reduce the overall amount of grant available; it is suggested that the fee % is reviewed in a year's time by the HHIA Board with a view to reducing it over time if possible. The other alternative is to keep the fee income at 11.5% but the partners would need to make a revenue contribution.

#### **3. Review of capitalisation costs**

A review will be commissioned of the capitalisation assumptions to ascertain if this can be increased. This will be subject to HCC resources providing advice in respect of capital compliance requirements. No increase is assumed at the present time other than the adjustment to the post proposed to keep vacant mentioned at point 1. If post responsibilities change or the proportion of time spent in each area is to change then further analysis would be needed to look at the capitalised assumptions.

#### **4. Contribution from Stevenage BC**

Clause 6 of the partnership agreement sets out the terms of admitting a new partner. The partnership agreement allows the existing partner authorities to agree a contribution and for 2018-19 it is recommended that a one-off payment is sought of £14,000 + any contribution reflecting the difference between the current cost of the service (in 2017-18) less the residual costs to Stevenage Borough Council. The benefits of Stevenage Borough Council joining are significant in terms of fee income and it is recommended that the final contribution figure be delegated to the HHIA Head of Service in consultation with the Chair of the HHIA Board.

#### **5. Additional partner authority contributions**

The business plan (section 10) assumed that a surplus would be possible in year 1 and that fee income generated by the HHIA would be distributed among the partner authorities until each partner authority achieved a revenue neutral position; in other words the contribution from each would be no more than the individual partner authorities' revenue budget for DFGs in 2016-17. Conversely, clause 10.6 requires the partner authorities to indemnify HCC where the HHIA shows a deficit and this cannot be remedied over a three-year period. Clause 15 sets out the requirement of the partner authorities to indemnify HCC for any losses incurred by the HHIA – the partner authorities must meet an equal share (including HCC) – in the absence of an agreement stating otherwise.

Following consideration of this report it is recommended that should the revised budget set for 2018-19 contain a deficit that the partner authorities will each meet an equal share of the deficit in addition to any contribution made previously.

### **6. Use of DFG funding**

In order to take advantage of the HHIA and the freedoms contained in the regulatory reform order it is proposed that DFG capital funding be reviewed by the HHIA Board in order to make wider use of the freedoms. A separate report appears elsewhere on the agenda concerning the DFG grant policy.

### **7. HCC on costs**

The figures do not include the costs of operating the HHIA that currently fall to HCC. These are mainly the costs of payroll, office accommodation, HR and finance support, and other related costs. The business plan, (table 7; page 30) estimated running costs as £570,000 without the OT service of which £519,000 was for staffing. On-costs of £51,000 were included in the business plan. No on-cost figures are included in the revenue estimates for 2017-18 or 2018-19 at the present time.

### **5. Recommendations**

1. That the Board agree to use a fee of 15% for all works for 2018-19 only and review this before the end of the financial year (2018-19).
2. That the Board note the estimated set-up costs of £64,341 in 2017-18 and agree that all members should contribute the £14,000 set up contribution.
3. That the Board agree to use the surplus set-up contribution of £5,548 to reduce the projected revenue deficit of £79,806 for 2017-18.
4. That the Board note the anticipated revenue deficit of £79,806 in 2017-18 and that in order to achieve a balanced budget in 2017-18 the partner authorities agree to make a revenue contribution of £38,806 and agree how this will be apportioned.
5. That the Board note that HCC will make a one-off voluntary revenue contribution of £41,000 to achieve a balanced budget for 2017-18.
6. That the Board note that should the projected fee income for 2017-18 be below the estimated amount a further revenue contribution will be required from each partner.
7. That the Board note the projected surplus for 2018-19 and agree that the partner authorities will need to make further revenue contributions in 2018-19 once HCC on-costs are taken into account.
8. That the Board note that further work is required to identify the on-costs HCC incur in relation to hosting the HHIA and that at the moment these figures are not included in full; any additional costs will increase the revenue contributions needed from the partners to achieve a balanced budget in 2018-19.
9. That the Board instruct the Head of the HHIA to produce a three-year expenditure and income forecast (2018-19; 2019-20; and 2020-21) and Statement of Account for 2017-18 and present this to the next meeting.



Attachment: Appendix 1 – revised budget for 2018-19.

Appendix 1 – Analysis of fee levels for 5 and 6 member partnership

	5 member partnership		6 member partnership	
	Fee 11.5%	Fee 15%	Fee 11.5%	Fee 15%
<b>Expenditure</b>				
Staffing	£537,153	£537,153	£537,153	£537,153
Travel	£27,225	£27,225	£27,225	£27,225
IT/telephones etc	£8,565	£8,565	£8,565	£8,565
Recruitment	£0	£0	£0	£0
Office accommodation etc	TBC	TBC	TBC	TBC
Training etc	£4,200	£4,200	£4,200	£4,200
Website	£1,000	£1,000	£1,000	£1,000
Case management software	£14,935	£14,935	£14,935	£14,935
Printing and Stationery	£5,000	£5,000	£5,000	£5,000
Marketing	£5,000	£5,000	£5,000	£5,000
<b>Total</b>	<b>£603,078</b>	<b>£603,078</b>	<b>£603,078</b>	<b>£603,078</b>
<b>Income</b>				
Capitalised salaries	£276,562	£276,562	£276,562	£276,562
Fee income	£229,801	£290,618	£295,203	£373,329
<b>Total</b>	<b>£506,363</b>	<b>£567,180</b>	<b>£571,765</b>	<b>£649,891</b>
<b>Deficit/(surplus)</b>	<b>£96,715</b>	<b>£35,898</b>	<b>£31,313</b>	<b>(£46,813)</b>

Other income:	SBC Contribution	£14,000
	SBC Revenue	TBC
	Private fee income	£25,000 e
	Partners (balance)	£20,194

The partners balance is the £59,000 contribution less the £38,806 the partners need to pay in order to achieve a balanced budget in 2017-18. This would leave the partners in “revenue neutral” position provided the fee income and spend profile, and operating costs, are in line with the budget outlined.