

Meeting EXECUTIVE
Portfolio Area Resources
Date 13 MARCH 2018



3RD QUARTER MONITORING REPORT GENERAL FUND AND HOUSING REVENUE

KEY DECISION

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1. PURPOSE

- 1.1 The Council undertakes a review of all revenue and associated budgets on a quarterly basis. This is the 3rd quarter monitoring report for 2017/18.
1.2 To update Members on the General Fund and Housing Revenue Account (HRA) projected 2017/18 net expenditure and seek approval for the revisions to the 2017/18 revenue budgets.
1.3 To update Members on the General Fund and HRA savings and growth items approved for 2017/18.
1.4 To update Members on the Council’s reserves and balances available to support revenue expenditure and to seek approval for revisions to the allocated reserves.
1.5 To update Members on any financial security savings that contribute to the General Fund and Housing Revenue Account savings target.

2. RECOMMENDATIONS

General Fund

- 2.1 That the 2017/18 3rd quarter General Fund projected net decrease in expenditure of £367,280 be approved.
2.2 That it be noted that the cumulative changes made to the General Fund net budget remain within the £400,000 (increase) variation limit delegated to Executive.

- 2.3 That the progress of the 2017/18 approved savings, growth bids and carry forwards be noted.
- 2.4 That the 2018/19 ongoing net savings of £56,800 that will contribute to the General Fund Financial Security target for future years be approved.
- 2.5 That the transfer of £4,730 to the town centre allocated reserve be approved.
- 2.6 That the new carry forward requests (£405,000) be approved.

Housing Revenue Account

- 2.7 That the 2017/8 3rd quarter increase in the net HRA surplus of £230,370 be approved.
- 2.8 That the progress of the 2017/18 approved savings, growth bids and carry forward requests be noted.
- 2.9 That the new carry forward request of (£217,870) as listed in table six be approved.

3. BACKGROUND

3.1 General Fund Working Budget

- 3.1.1 Since the General Fund net revenue budget of £9,382,220 was approved by Council on 28 February 2017 Members have approved net budget changes as detailed in table one below.

Table One – 2017/18 General Fund Working Budget	Working Budget £
Original Budget	9,382,220
3rd Quarter 2016/17 net decrease	(60,600)
3rd Quarter Carry forwards	347,150
4th Quarter 2016/17 net decrease	(155,550)
4th Quarter Carry forwards	449,950
Compliance service (Exec 24-5-17)	6,500
Legal Services	174,870
1st Quarter 2017/18	(55,060)
Budget setting (Council 28-2-18)	404,240
Total Net Budget Approved to Date	10,493,720

3.2 Housing Revenue Account Working Budget

- 3.2.1 The HRA revenue budget of £2,790,940 surplus was approved at Council on 31 January 2017. Subsequently Members have approved 2017/18 budget changes as detailed in table two following.

Table Two – HRA Working budget	Working Budget £
Original Budget	(2,790,940)
3rd Quarter 2015/16 net decrease	(62,970)
3rd Quarter Carry forwards	317,250
4th Quarter 2015/16 net decrease	(112,600)
4th Quarter Carry forwards	273,720
Legal Shared Services	47,210
1st Quarter 2017/18	203,410
Budget setting (Council 28-2-18)	(677,330)
Total Working Budget	(2,802,250)

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS CONSIDERED

4.1 General Fund Budget Review

4.1.1 As a result of the 3rd quarter budget monitoring review the General Fund net expenditure is projected to decrease by £367,280. This includes carry forward requests of £405,000 meaning that the net change in the General Fund projected expenditure is an increase of £37,720 once carry forward requests are excluded.

4.1.2 Pressures and savings identified during the 3rd Quarter are listed in table three below.

Table Three - Budget Alerts - General Fund		Status	Budget change £	Carry forward request £	Ongoing impact on 2018/19 budget £
	Service Area:				
Income	Commercial rent	GREEN	(78,330)		(71,500)
	Other Income	RED	(2,100)		10,000
Expenditure	Employee training programme	GREEN	(20,000)	20,000	
	Employee costs and transitional vacancy	RED	62,780		
	CSC event and workforce planning	GREEN	(64,710)	60,000	
	Apprentices & Domestic abuse/no more project (NHB funded 2nd year)	GREEN	(325,000)	325,000	
	Compliance contract	RED	60,000		
	Telephony contract	RED	27,450		
	Vehicle & fuel cost	GREEN	(27,680)		
	Car park systems	RED	13,090		11,000
Other			310		(6,300)

Table Three - Budget Alerts - General Fund	Status	Budget change £	Carry forward request £	Ongoing impact on 2018/19 budget £
TOTAL BUDGET CHANGES REPORTED THIS QUARTER		(367,280)		
TOTAL CARRY FORWARD BUDGET REQUESTS			405,000	
TOTAL BUDGET NET OVERSPEND AFTER CARRY FORWARD REQUESTS			37,720	
TOTAL ON-GOING BUDGET CHANGES				(56,800)

(red=overspend/under recovery of income Green= underspend/over recovery of income)

4.2 3rd Quarter variances

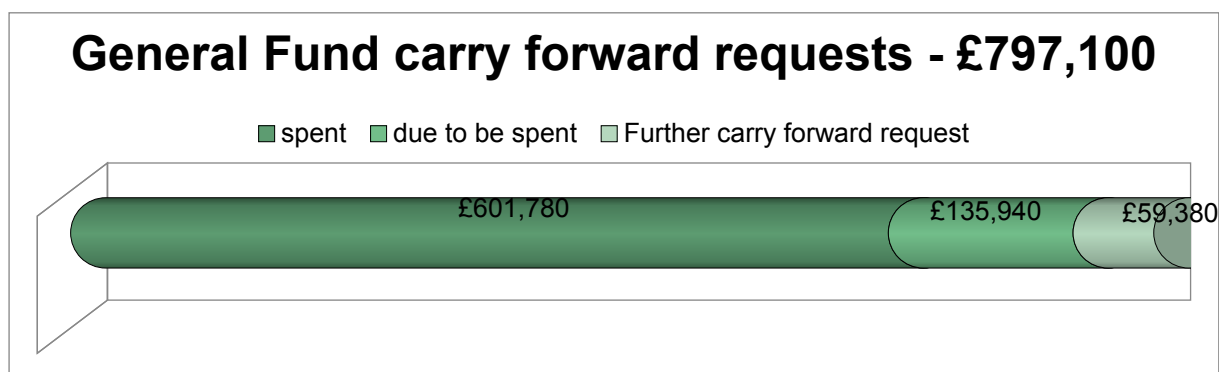
- 4.2.1 **Commercial Rent** – occupancy rates at Business Technology Centre and commercial shops and offices across the borough and reduction in bad debt provision has resulted in higher than projected rental income (£78,330). This trend is expected to continue and the income budget for 2018/19 has been increased by £71,500.
- 4.2.2 **Employee Training Programme** – a request has been made to **carry forward £20,000** to cover ongoing Senior Management training.
- 4.2.3 **Employee Costs** – In setting annual budgets a 4.5% estimate (transitional vacancy target) is made to allow for salary savings arising from vacancies, recognising the time it takes for the recruitment process. The 2017/18 target for the General Fund was £558,080. During the year the target is reduced as vacancies arise and to date £337,960 has been realised. There is £157,340 (28%) still to be released in the final quarter and a further **£62,780** estimated not to be found and is reported as a pressure.
- 4.2.4 **Customer Service Centre** – a request has been made to **carry forward £60,000** to cover a one year fixed term contract for a workforce planning officer and to hold a customer services training event. Over the last few years there have been difficulties in recruiting and retaining staff in this service and this proposal seeks to help address this issue.
- 4.2.5 **New Homes Bonus projects** – some projects funded from this year's (2017/18) new homes bonus grant are scheduled to be completed over two or more years and as such some of the grant monies received in year are being requested for **carry forward** (apprentice scheme - £180,000 and domestic abuse/no more project £145,000).
- 4.2.6 **Compliance contract** – Due to both ageing building stock and plant and equipment more reactionary works are arising and being dealt with under the compliance contract. An overspend of £60,000 is projected, £34,000 of this is from unplanned essential works required to keep buildings operational. This has included roof repairs, plumbing, heating and electrical systems and flooring repairs. Also a greater number of security works have been required this year to sites prone

to vandalism and damage. In addition, communication difficulties and delays in the provision of key data from the contractor's administration team has resulted in missed accruals at the end of 2016/17 (£26,000) contributing to the 2017/18 in year pressure and increases the complexity of budget forecasting. No impact on 2018/19 budgets has currently been identified until a review of compliance works is completed.

- 4.2.7 **Telephony contract** – the telephony provider has significantly increased prices for old copper line technology systems. There is a projected pressure of £27,450. In 2018/19 as part of the digital telephony improvement plan these lines will be decommissioned reducing the cost of telephony and generating a net saving. Therefore this has not been treated as an ongoing pressure.
- 4.2.8 **Vehicle and Fuel costs** – Within the Cavendish depot site is a licenced transfer station that enables waste to be held prior to onward transportation to recycling centres and/or landfill. Officers have negotiated with Hertfordshire County Council (the disposal authority) the use of this transfer station for trade and domestic waste instead of taking waste directly to the disposal site. This has enabled savings to be made on vehicle and fuel costs for the trade waste service (£27,680).
- 4.2.9 **Car Park Systems** – a new software system to run monthly health checks on car park statistics has been purchased and has resulted in most of the £13,090 pressure, the associated ongoing pressure is £11,000.

4.3 Approved Carry forwards 2017/18 (General Fund)

4.3.1 Members have already approved total carry forwards request of £797,100



4.3.2 Two carry forward projects are due to be completed in 2018/19 and are requested for a further carry forward:

- £20,000 (original carry forward £33,930) Senior Officer training (para 4.2.2)
- £39,380 (original Carry forward £68,740) No more project (para 4.2.5)

4.4 Financial Security Options and growth proposals approved for 2017/18

4.4.1 As part of the 2017/18 budget setting process Financial Security savings of £226,190 were approved and implemented. Of these options two were

implemented later than estimated so the full saving was not achieved in year (£24,790) – 11% of the total financial security options approved.

- Recovery of running costs from the Arts Centre has now been agreed but due to the delays in the negotiation with the Arts Centre the saving will commence from April 2018 £3,790
- The £21,000 Engineering Services saving has been delayed by one year and will commence from April 2018.

4.4.2 Growth proposals totalling £143,700 were approved for the General Fund in 2017/18 and these are on target to be spent.

4.5 2017/18 General Fund Out turn position

4.5.1 Following the 3rd quarter review the General Fund balance as at 31 March 2018 is projected to be **£5,250,668** as detailed in table four.

Table Four: General Fund Balances	£
Original Net General Fund Budget	9,382,220
Approved budget changes	1,111,500
Net Working budget approved to Date	10,493,720
3rd Quarter review	(367,280)
Total Net Expenditure post Q3 review	10,126,440
less core resources	(8,950,125)
Transfer (to)/from General Fund balances	1,176,315
General Fund balance 31/3/17	(6,426,983)
Transfer (to)/from General Fund balances	1,176,315
Projected General Fund balance 31/3/18	(5,250,668)
Allocated Revenue Reserves 31/3/18	(1,801,386)
Allocated Capital Reserves 31/3/18	0
Total General Fund balances (estimated 31/3/18)	(7,052,054)

4.6 2018/19 General Fund Budget

4.6.1 The 3rd quarter General Fund review has identified a net ongoing saving of £56,800 which will contribute to the Financial Security target which is £1.5Million over the next four years (2018/19 ongoing net changes are listed in table three)

4.7 Allocated Reserves

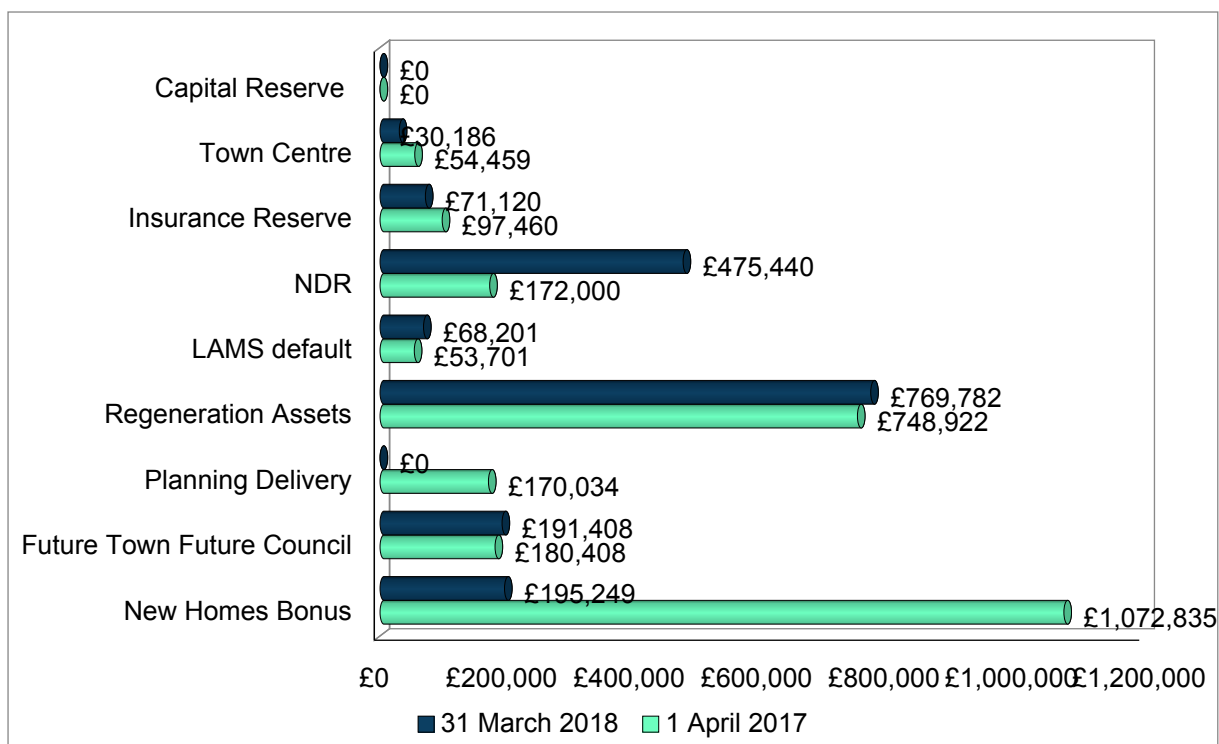
4.7.1 The total value of allocated reserves as at the 1 April 2017 was £2,549,819

4.7.2 Total allocated reserves as at the 31 March 2018 are forecast to be £1.801Million compared to £1.796Million in the 2018/19 budget report.

- Revenue £1.801Million

- Capital £0 (fully allocated to fund 2017/18 capital schemes)

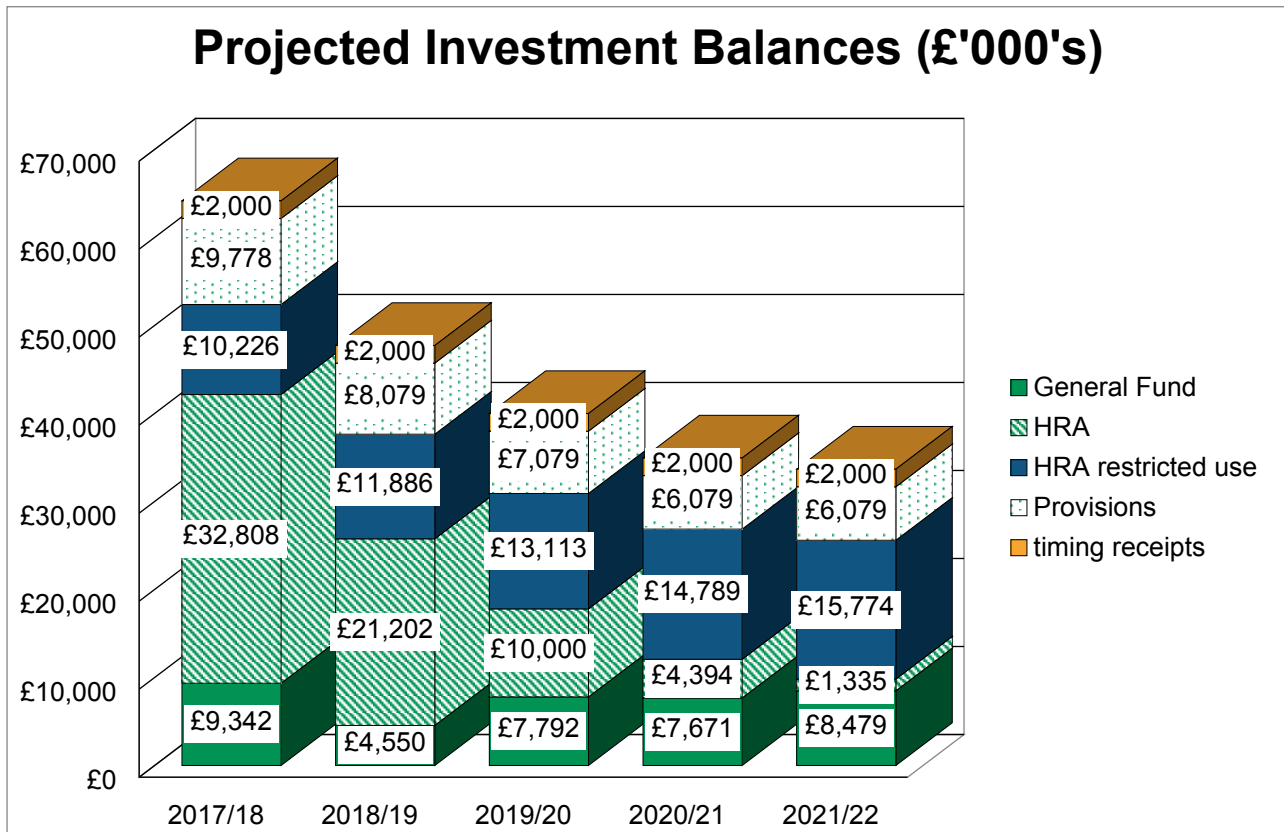
- 4.7.3 As part of 3rd quarter monitoring a surplus on the town centre management account of £4,730 is anticipated and Members are asked to approve this transfer to the town centre reserve to help fund future town centre promotional events.
- 4.7.4 As Members have previously approved General Fund underspends up to £350,000 identified at year end transfer into the capital reserve, with any in excess of this transferring into the town centre regeneration allocated reserve. This transfer will be confirmed once the actual 2017/18 spend is known and reported to Members in July.
- 4.7.5 The chart below shows the movement between opening and closing allocated reserve balances.



4.8 Investments and Loans

- 4.8.1 Cash balances as at 31 December 2017 were £73.03Million and are forecast to be £64.2Million as at 31 March 2018. The average investment rate achieved to the 3rd quarter was 0.55%. The Council's balances are made up of cash reserves e.g. HRA and General Fund balances, restricted use receipts e.g. right to buy one for one receipts and balances held for provisions such as business rate appeals.
- 4.8.2 In considering the Council's level of cash balances, Members should note that the HRA Business Plan, General Fund MTFs and the Capital Strategy have a planned use of these resources which means, while not committed in the current year, they are utilised in future years. This means that the Council's cash for investment purposes is projected to reduce from £64.2Million by 31 March 2018 to £33Million by 31 March 2022. In essence £31.2Million of investment balances is going to be

used in the next four years for revenue and capital plans approved by Members. This impact on cash available to invest is shown in the following chart.



4.8.3 The Council's loan portfolio totals £209.6Million with the majority (£207.9Million) with the public works loan board. New borrowing has not yet been taken in 2017/18 for the HRA and General Fund and borrowing is being monitored by Officers in light of projected cash balances and anticipated interest rate rises.

4.9 Housing Revenue Account – Budget review

4.9.1 As a result of the 3rd quarter budget monitoring review the HRA net surplus is projected to increase by £217,870 (reduction in expenditure). However new carry forward request also total £217,870.

4.9.2 Pressures and savings identified during the 3rd Quarter are listed in table five below

Table Five - Budget Alerts - HRA		Status (red=overspend/under recovery of income Green= underspend/over recovery of income)	Budget change £	Net Carry forward request £	Ongoing impact on 2018/19 budget £
	Service Area:				
Income	Rent and service charges	RED	43,570		
Expenditure	Private contractors	GREEN	(175,920)	40,000	

	FTFC Excellent Homes	GREEN	(126,940)	126,940	
	Housing Development (consultancy advice)	GREEN	(49,230)	49,320	
	Unoccupied council tax	RED	44,450		
	Employee costs and transitional vacancy	RED	39,110		
	Decant costs	RED	12,500	(12,500)	
Repairs and Voids service		GREEN	0		
Other			(5,410)	14,110	
TOTAL BUDGET CHANGES REPORTED THIS QUARTER			(217,870)		
TOTAL CARRY FORWARD BUDGET REQUESTS				217,870	
TOTAL BUDGET NET OVERSPEND AFTER CARRY FORWARD REQUESTS				0	
TOTAL ON-GOING BUDGET CHANGES					0

4.9.3 **Rent, Service Charges, and HRA Income** – Income has been revised downwards by £43,590, this is due to a combination of lower rental income (£38,390 - see table six below) due, mainly to new build delays verses budget (Twin Foxes development site), and higher void properties, partially offset by lower than forecast Right To Buy sales (reduced by four from 42 to 38), together with lower administration income associated with Right to Buys £5,200.

Table Six Reason for Rent Movement	Decrease/ (Increase) £
New Build Delays	39,620
Open Market Acquisition	2,540
Void Loss	3,870
Out of management properties – rent loss (redevelopment sites)	1,810
Lower RTBs	(9,450)
Total Rents	38,390

4.9.4 **Private Contractors** - Expenditure has reduced by **£175,920**, of that £135,920 is relates to gas and quality checks now being undertaken under a new better value contract that has resulted in a lower unit cost per repair/service. This contract is being monitored for any savings that can contribute to the financial security target for 2018/19 onwards. A further £40,000 underspend is due to the delayed start of the five year Electrical Testing contract, in order to complete the set price contract over five year the £40,000 is required to be carried forward into 2018/19.

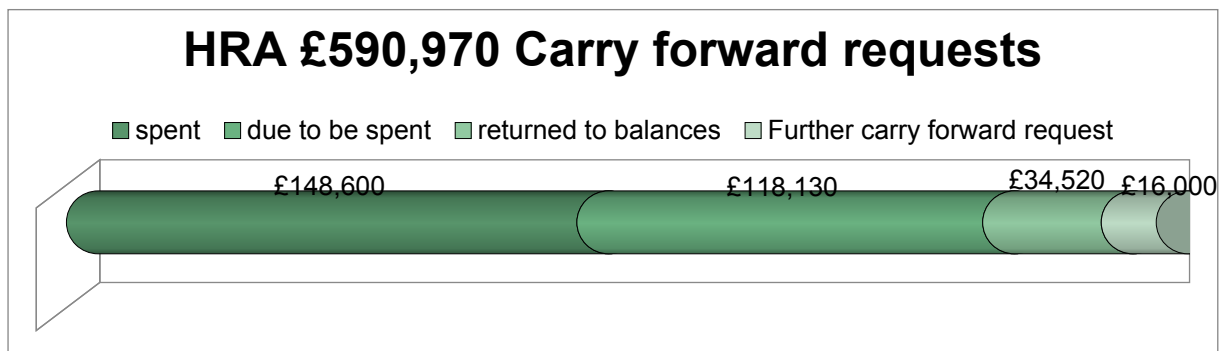
4.9.5 **FTFC Excellent Homes** – Members approved a transformation budget for the HRA service of £1,500,000 over 3 years (2017/18 to 2019/20). The phasing of the transformation has been revised to reflect the appointment of the project team. Of

the £500,000 allocation for 2017/18 the underspend of **£126,940** is requested to be carry forward to fulfil the aims of the project.

- 4.9.6 **Housing Development (Consultancy advice)** – To help facilitate and progress housing development options an underspend of **£49,320** for specialised consultancy is requested to be carried forward. This funding is to support necessary schemes with bespoke development advice. The funding is needed over a number of years to reflect the timing of projects.
- 4.9.7 **Unoccupied Council Tax** – An overspend of **£44,450** has been reported mainly in relation to out of management properties due to decants in connection with site redevelopments.
- 4.9.8 **Employee costs and transitional vacancy** – The 2017/18 transitional target for the HRA was £252,550. During the year the target is reduced as vacancies arise, to date £183,870 has been realised. There is £68,680 (27%) still to be released in the final quarter and a further **£26,610** estimated not to be found and has been reported as a pressure.
- 4.9.9 **Decant costs** – The decant process associated with site redevelopments has been re-phased resulting in earlier than originally anticipated decant costs of £12,500 in 2017/18 thus will reduce costs in 2018/19.
- 4.9.10 **Repairs and voids services** – The Repairs and Voids services is projected to be in line with 2nd quarter projections (with only minor variations to the improvement plan as reported earlier). There are no projected variance identified at this point.

4.10 Approved Carry forwards 2017/18 (HRA)

4.10.1 Members have approved already HRA carry forwards budgets totalling £590,970



4.10.2 One carry forward project is due to be completed in 2018/19 and is requested for a further carry forward:

- Housing Development Consultancy, £16,000 (original carry forward £23,490) included in total in table five above.

4.10.3 In total £34,520 of carry forward requests can be returned to HRA balances for the following projects:

- Advertising campaign delayed whilst awaiting Housing and Planning Act guidelines - £7,555

- Appointment of a Welfare Reform worker delayed as provision is being reviewed - £4,520
- Landlord lighting (electrical) testing no longer required as part of a larger contract (see para 4.9.4) - £13,500
- Multiskilling operatives completed at a lower cost than anticipated - £9,000

4.11 HRA Financial Security Options and growth proposals approved for 2017/18

4.11.1 As part of the 2017/18 budget setting process financial security savings of £31,900 were identified all of which are on schedule to be achieved.

4.11.2 Growth proposals totalling £42,500 (in addition to the £500,000 Housing Transformation Fund) were approved for the HRA in 2017/18 and these are on target to be spent.

4.12 2017/18 HRA Outturn position

4.12.1 Following the 3rd quarter review the HRA balance as at 31 March 2018 is projected to be **£22,769,691** as detailed in table seven.

Table Seven – Housing Revenue Account Out-turn Position	£
Original Budget	(2,790,940)
Approved budget changes	(11,310)
3rd Quarter adjustments	(217,870)
Projected net surplus post 3rd Quarter review	(3,020,120)
HRA balance brought forward 1/4/17	(19,749,571)
Surplus in year	(3,020,120)
Projected HRA balance 31/3/18	(22,769,691)

4.13 2018/19 HRA Budget

4.13.1 The 3rd quarter budget review has identified no additional budget changes for 2018/19.

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 2017/18 and the impact on the General Fund and HRA balances. While there are no legal consequences at this stage Members are reminded of their duty to set a balanced budget.

5.3 Equalities and Diversity Implications

- 5.3.1 This report summarises external and internal factors that impact on approved budgets and recommends changes to those budgets in year. Budget changes identified for future years that could adversely impact on groups covered by statutory equality duties will be incorporated into the budget setting process which includes Equality Impact Assessments (EqIA). None of the budget changes reported will change any existing equalities and diversity policies.
- 5.3.2 The service department has been asked to look at the equalities and diversity implications in the increase in void re-let times and any potential impact on protected groups.

5.4 Risk Implications

- 5.4.1 A risk based assessment of General Fund balances is undertaken and reported to Council as part of the General Fund Budget setting process. The required level of 2017/18 General Fund balances was calculated at £2,656,938. This report forecasts General Fund balances of £5,250,668 and allocated reserve balances of £1,801,386 which is above the minimum balances required.
- 5.4.2 The HRA balances are projected to be £22,769,691. The level of HRA balances or revenue reserves risk assessed for 2017/18 is £1,947,740. 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.

BACKGROUND DOCUMENTS

- BD1 FINAL GENERAL FUND AND COUNCIL TAX SETTING 2018/2019 Council 28th February 2018
<http://www.stevenage.gov.uk/content/committees/182083/182095/182099/Council-28-Feb-2018-Item5A.pdf>

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

<http://www.stevenage.gov.uk/content/committees/182083/182095/182099/Special-Council-30-January-2018-Item-2.pdf>

APPENDICES

Appendix A - Investment and Loans Portfolio