



**AGENDA ITEM:
SUMMARY**

Report for:	Cabinet
Date of meeting:	12 February 2019
PART:	1
If Part II, reason:	

Title of report:	Budget Monitoring Quarter 3 2018/19
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources Nigel Howcutt, Assistant Director (Finance & Resources) Caroline Souto, Team Leader, Financial Planning & Analysis
Purpose of report:	To provide details of the projected outturn for 2018/19 as at Quarter 3 for the: <ul style="list-style-type: none"> • General Fund • Housing Revenue Account • Capital Programme
Recommendations	<ol style="list-style-type: none"> 1. Consider the budget monitoring position for each of the above accounts; 2. Recommend to Council approval of the revised capital programme to move £11.8m slippage identified at Quarter 3 into financial year 2019/20 as detailed in Appendix C; 3. Recommend to Council approval of the one-off supplementary budgets required to deliver several service changes as set out below. Details for these supplementary budgets are set out in the body of the report and have a net nil impact on the General Fund Working Balance:

	<ul style="list-style-type: none"> • £40k to fund pension costs of staff transferring to the third party contractor under TUPE, funded from the Management of Change reserve. • A one-off increase to the Adventure Playground service employees budget of £16k to support costs of restructuring the service, funded from the Management of Change reserve. • An increase in the parks and open spaces budget of £25k to meet one-off health and safety costs, funded from the Dacorum Development reserve. • An increase in the waste services consultancy budget of £30k, funded from the Invest to Save reserve. • £25k to support one-off costs of feasibility in Strategic Planning, funded from the Planning & Regeneration Project Reserve. • Increase to the homeless hostels premises budget of £75k to support health and safety work, funded from the Dacorum Development Reserve. • As part of the Forum building developments to facilitate the CCG moving into the Forum, there is a requirement for £10k for additional IT licensing budget and £10k for Facilities Management budget, to support one-off improvement works to The Forum, to be funded from the Invest to Save reserve. <p>4. Recommend to Council approval of supplementary capital budgets.</p> <ul style="list-style-type: none"> • 2018/19 Capital budget of £15k for Tring Community Centre door upgrade • 2018/29 Capital budget of £195k to continue the improvement works to The Forum <p>5. Agree the Council's flexible use of capital receipts strategy at Appendix D of this report.</p> <ul style="list-style-type: none"> • Note the set up costs of £600k falling under this strategy and agree these be funded from capital receipts.
Corporate objectives:	Delivering an efficient and modern council.
Implications:	<p><u>Financial</u> This reports outlines the financial position for the Council for 2018/19 and so summarises the financial implications for service decisions expected to be made for the financial year.</p>

	<p><u>Value for Money</u> Regular budget monitoring and reporting supports the effective use of the financial resources available to the Council.</p>
Risk Implications	This reports outlines the financial position for the Council for 2018/19 and in so doing quantifies the financial risk associated with service decisions expected to be made for the financial year.
Community Impact Assessment	The content of this report does not require a Community Impact Assessment to be undertaken.
Health And Safety Implications	There are no Health and Safety implications arising from this report.
Statutory Officer Comments:	<p>Deputy Section 151 Officer: Comments included within the body of this report</p> <p>Monitoring Officer: No Comments to add to the report.</p>
Consultees	The position reported within this report has been reviewed and discussed with relevant Council Officers.
Glossary of acronyms and any other abbreviations used in this report:	<p>GF – General Fund HRA – Housing Revenue Account</p>

1. Introduction

1.1 The purpose of this report is to present the Council's forecast outturn for 2018/19 as at the 31st December 2018. The report covers the following budgets with associated appendices:

- General Fund - Appendix A
- Housing Revenue Account (HRA) - Appendix B
- Capital Programme - Appendix C
- Flexible Use of Capital Receipts Strategy - Appendix D

2. General Fund Revenue Account

2.1 The General Fund revenue account records the income and expenditure associated with all Council functions except management of the Council's own housing stock, which is accounted for within the Housing Revenue Account (HRA).

2.2 Appendix A provides an overview of the General Fund forecast outturn position. In summary, there are various areas of both under and overspend which broadly offset each other. The net overall pressure of £113k, less than 1% of the net cost

of services budget, is an improvement on the quarter 2 position of £249k with a reduction of £136k in the overall pressure. The most significant pressure is attributable to recycling income, following the impact on global markets of change in Chinese government policy on the amount of recyclables it will allow into the country.

The table below outlines the service areas with a significant financial pressure:

Scrutiny Committee	Key Financial Pressure	Description
Strategic Planning & Environment	£450k	Waste recycling income
Strategic Planning & Environment	£100k	Building Control service
Housing & Community	£160k	Garages

2.3 The table below provides an overview by Scrutiny area of the current forecast outturn for controllable budgets within the General Fund.

	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Finance & Resources	13,376	13,467	91	0.7%
Housing & Community	345	293	(52)	-15.1%
Strategic Planning & Environment	7,717	8,168	451	5.8%
Total	21,438	21,928	490	2.3%
Investment Property	(4,103)	(4,155)	(52)	1.3%
Core Funding	(17,342)	(17,667)	(325)	1.9%
Contribution (to)/from General Fund Working Balance	(7)	106	113	

2.4 The following sections provide an analysis of the projected outturn and major budget variances shown by Scrutiny area.

3. Finance and Resources

Finance & Resources	Current Budget	Forecast	Variance	
	£000	Outturn £000	£000	%
Employees	10,054	10,094	40	0.4%
Premises	1,912	1,928	16	0.8%
Transport	215	229	14	6.5%
Supplies & Services	4,333	4,269	(64)	(1.5%)
Third-Parties	594	722	128	21.5%
Transfer Payments	47,144	47,144	0	0.0%
Income	(4,691)	(4,723)	(32)	0.7%
Other Income	(47,584)	(47,584)	0	0.0%
Earmarked Reserves	1,399	1,388	(11)	(0.8%)
	13,376	13,467	91	0.7%

3.1 Third parties - £128k over budget

Pressure of £140k – The costs of facilities management for The Forum are expected to exceed budget by £140k, due to unforeseen works to the building and changes in facilities management requirements following the first full year of occupancy. £40k of this pressure relates to a one-off additional pension liability for staff that transferred to the new provider. This will be offset by a drawdown of £40k from the Management of Change reserve.

As part of the Forum development costs to facilitate the new CCG tenant there is requirement for an additional £20k to support improvement works to The Forum. These costs are considered one off costs and any longer term impact will be assessed as part of the wider tenancy. These funds cover the cost of software licensing of the new meeting room system (£10k) and additional security costs to oversee the construction works (£10k). It is proposed that this be funded from the Invest to Save reserve.

3.2 Investment Property - £52k over achievement of budget.

Occupancy levels are greater than expected and with a number of successful rent reviews, having been carried out the commercial income is exceeding expectations.

3.3 Core Funding - £325k additional funding received.

The actual income received from government grants and treasury investments compared to core funding budgets is projected to be exceeded by £325k. This is related to;

- Increased new burdens funding of £180k, including £72k relating to the Revenues and Benefits service, and £64k relating to the Strategic Planning

service. New Homes Bonus is also £24k over the budgeted amount due to a higher volume of properties completed in 2017/18 than projected by MHCLG.

- Investment income from treasury management activities is over performing by £139k, due to higher than anticipated cash balances and a rise in the Bank of England base rate.
- A minor increase in the forecast recharge to the HRA of £6k.

4. Strategic Planning and Environment

Strategic Planning and Environment	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	9,778	9,976	198	2.0%
Premises	884	965	81	9.2%
Transport	1,201	1,361	160	13.3%
Supplies & Services	1,914	2,387	473	24.7%
Third-Parties	88	72	(16)	(18.2%)
Income	(5,918)	(6,191)	(273)	4.6%
Earmarked Reserves	(230)	(402)	(172)	74.8%
	7,717	8,168	451	5.8%

4.1 Employees - £198k over budget

Pressure of £120k - Recruitment challenges within Building Control have led to vacant posts being filled by agency staff. The service are preparing a paper to outline the options for the future delivery of Building Control within the approved budgets.

There is a forecast overspend of £80k on the employees budget for the Local Development Framework budget, due to fixed term staff being employed to support the delivery of the local plan. This will be funded from the Local Development Framework reserve if the pressure cannot be met from within the Local Development Framework revenue budgets as part of the year-end process.

4.2 Premises - £81k over budget

There is a one off pressure of £25k from geographical survey work required to maintain public health and safety. This is forecast to be offset by a drawdown of £25k from the Dacorum Development reserve.

There are other minor pressures against the Premises category in this area.

4.3 Transport - £160k over budget

There are overspends as a result of maintaining the ageing fleet in the waste services including additional short term hire costs and repair costs. The procurement of the renewal of the waste fleet is underway and delivery is expected from midway through 2019.

4.4 Supplies and Services - £473k over budget

There is a continued pressure of £450k relating to the cost of disposal of co-mingled waste due to the recent decline in the global market for recycled material. This is an ongoing pressure and a budget realignment is proposed as part of the 2019/20 budget proposals.

A one-off pressure of £30k has been incurred in the Waste Service department from independent consultancy support to deliver service improvements going forward. This is forecast to be funded from a drawdown from the Invest to Save reserve.

A further one-off pressure of £25k has been incurred in the Strategic Planning budget for feasibility work regarding The Bury project. This is forecast to be funded from the Planning and Regeneration Project Reserve.

4.5 Income - £273k over-achievement of budget

The overachievement of income overall in the Strategic Planning division is due to various under and over achieved income in the Building Control and Planning and Waste Services.

The Waste Service overall income is in line with the budgeted levels of income, with the commercial waste service underachieving its income by £150k, but £150k of additional income forecast as a result of incentive payments from Hertfordshire County Council (HCC), to reward Dacorum for improvements in the rate of recycling. This is under the Alternative Financial Model (AFM) methodology. The commercial waste service is under review and independent advice has been sought on how to improve the financial performance of the service.

Across Building Control and Land Charges a shortfall of £100k is forecast, as a result of reduced customer numbers, in the first two quarters of 2018/19. Action is being taken to improve the quality of service delivered and the marketing of the building control service. In contrast to this, the Planning service is projecting an overachievement of income of £375k as a result of large one-off fees, with a smaller proportion of the surplus due to a high volume of applications.

There are other minor net pressures against income within Strategic Planning and Environment.

5. Housing and Community

Housing & Community	Current Budget	Forecast Outturn	Variance	
	£000	£000	£000	%
Employees	3,776	3,858	82	2.2%
Premises	869	697	(172)	(19.8%)
Transport	17	20	3	17.6%
Supplies & Services	1,318	1,280	(38)	(2.9%)
Third Parties	0	0	0	0.0%
Transfer Payments	55	55	0	0.0%
Income	(5,064)	(4,951)	113	2.2%
Earmarked Reserves	(626)	(666)	(40)	(6.4%)
	345	293	(52)	(15.1%)

5.1 Employees - £82k over budget

Pressure of £16k - This pressure relates to the one-off pension strain costs arising from the restructure of the Adventure Playground service. This pressure is forecast to be offset by a drawdown of £16k from the Management of Change reserve.

Pressure of £66k - This pressure consists of minor overspends against the remaining £3m plus employee budgets within the rest of Housing and Community division.

5.2 Premises - £172k under budget

An underspend of £200k on garage premises expenditure is offsetting a pressure of £350k in income forecasts. A review of the business model for garages is currently underway.

A pressure of £75k relates to one-off health and safety work required to homeless hostels. This includes fire risk assessment work and installation of CCTV at key sites. This is forecast to be offset by a drawdown from the Dacorum Development Reserve.

5.3 Income - £113k shortfall

Pressure of £350k - There is a shortfall against income targets relating to garages rental income of £350k. The level of garage voids has been higher than was expected and budgeted growth in this area has not been achieved.

Overachievement of income £190k - The pressure above is offset by net additional income over budget relating to Temporary Accommodation of £190k. The Council's own properties are being used to house tenants on a temporary basis rather than more expensive bed and breakfast accommodation.

Income of £30k is forecast from Private Sector Housing licensing of HMOs. This increased income follows a change in legislation around the licensing of HMOs and is calculated on a cost recovery basis. Additional income has been factored into the draft budget for 2019/20.

6. Housing Revenue Account (HRA)

6.1 The HRA is a ring-fenced account relating to the Council's Landlord functions. A guiding principle of the HRA is that revenue raised from rents and service charges must be sufficient to fund expenditure incurred. The forecast outturn position for the HRA is shown at Appendix B.

6.2 The projected HRA balance at the end of 2018/19 is £115k over the budgeted balance of £2.9m.

6.3 Dwelling rents - £146k underachievement of income

Pressure of c. £60k – The void rate was running at approx. 1% in the first 6 months of the year, but has improved to be in line with the budgeted expectation of 0.8%.

The rental income has also been impacted by a reduction in the volume of new build properties coming on line with the delay to Kylna court and Swing gate lane, with a small offsetting reduction in the volume of right to buy sales than expected at budget setting time.

6.4 Non Dwelling rents - £46k over-achievement of income

The HRA have undertaken rent reviews on the aerial sites and this work has produced an increased income of £46k.

6.5 Tenants Charges / Supervision and Management / Revenue Contribution to Capital - £217k net under budget

Over-achievement of income £140k - Grant income for Housing Related support has continued into 2018/19 when it was expected to cease, resulting in £56k over budgeted income targets. In addition utilities recovery has been higher than anticipated.

Underspend of £77k - There is an underspend against staffing budgets from vacancies within services, and an underspend against the budget for equipment. This is due to a combination of the inability to recruit to some posts and also the time taken to recruit to other posts.

7. Flexible Use of Capital Receipts

7.1 A Flexible Use of Capital Receipts Strategy is attached at Appendix D for review and agreement.

7.2 The key principle underpinning the strategy is stated in Government Guidance on the application of flexible receipts, i.e. that local authorities have the power to use capital receipts to fund:

'expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/ or transform service delivery to reduce costs and/ or transform service delivery in a way that reduces costs or demands for services in future years for any of the public sector delivery partners'.

7.3 In accordance with this principle, and with the approval of Council within the February 2018 Budget Report, it is proposed that the Council uses capital receipts to fund the set up and implementation costs of associated with the Council's new leisure management contract.

7.4 These set-up costs include:

- £450k for the purchase of a range of sports and other office and plant equipment, and commercial membership information from Sportspace, the previous leisure provider. The purchase of these assets enabled a smooth transition and minimized disruption for customers.
- £150k payment to Everyone Active, the new leisure provider, to meet the shortfall between the assumed membership levels for all bidders at the time the tender was released, and actual membership levels at the time of contract commencement. All bidders (including Sportspace) were required to use assumed membership levels within their bids because Sportspace did not share details of actual membership numbers.

7.5 The Council also incurred termination costs, which under the scope of the original Management Agreement, entitled Sportspace to claim certain costs incurred as a direct result of the termination of the contract. These costs were subject to a confidentiality agreement, and consequently are detailed in Appendix E 'Confidential Termination Costs', in Part 2 of this report.

8. Capital Programme

8.1 Appendix C shows the projected capital outturn in detail by scheme.

The table below summarises the overall capital outturn position by Scrutiny area.

The current budget is the original budget approved by Cabinet in February 2018, plus approved amendments. Slippage identified at Quarter 2 2018/19 has been re-phased to 2019/20.

The 'Slippage' column refers to projects where expenditure is still expected to be incurred, but it will now be in 2019/20 rather than 2018/19, or conversely, where expenditure planned initially for 2019/20 has been incurred in 2018/19.

The 'Variance' column refers to projects which are expected to come in under or over budget and projects which are no longer required.

	Current Budget £000	Slippage £000	Revised Budget £000	Forecast Outturn £000	Variance	
					£000	%
Finance & Resources	8,707	(763)	7,944	7,816	(128)	-1.5%
Strategic Planning & Environment	2,791	(1,014)	1,777	1,750	(27)	-1.0%
Housing & Community	7,702	(312)	7,390	7,440	50	0.6%
G F Total	19,200	(2,089)	17,111	17,006	(105)	-0.5%
HRA Total	36,029	(9,742)	26,287	26,287	0	0.0%
Grand Total	55,229	(11,831)	43,398	43,293	(105)	-0.2%

8.2 General Fund Major Variances

There is an overall variance on the General Fund of £2.2m. This is a combination of underspend of £105k, and slippage of £2.1m into 2019/20.

The slippage to future years is detailed in Appendix C. This includes:

- Line 8: slippage of £100k on Rossgate Shopping Centre. This project is for the renewal of windows at the front and back of the residential units, which is scheduled to be delivered in 2 phases. Phase 1 is to renew the windows at the back of the shops overlooking Fennycroft Road, which is scheduled to commence in April 2019 and to be completed by June 2019. Phase 2 will renew the windows at the front of the shops overlooking Galley Hill, to be started July 2019 and completed by October 2019.
- Line 20: slippage of £575k on Bunkers Farm. This project is for the creation of a new cemetery at Bunkers Farm. Planning permission has been obtained, and tender submissions are being reviewed, for the contract to be awarded by March 2019. Construction is expected to commence March 2019, with estimated completion in August 2019.
- Line 39: slippage of £90k on Future Vision of CRM scheme. Following an initial delay in the delivery of this project, due to difficulties in recruitment, the necessary temporary resource has now been secured and planned development is underway. A thorough review of the project has resulted in re-phasing of the budget into 2019/20 and 2020/21 to reflect the more likely pattern of work.
- Line 50 and 51: slippage of £352k on the garage development projects Westerdale and Northend. The work has been reprogrammed until the new calendar year, however completion is still expected by November 2019.
- Line 61: slippage of £200k on Gadebridge Park renovation of white bridge. The contract for this work is expected to be tendered in quarter 4 of 2018/19 with the expenditure now falling into 2019/20.
- Line 63: slippage of £779k on Fleet Replacement Programme. There have been delays in the procurement of new vehicles and equipment for the Vehicle Repair Shop. Tenders for vehicles are being closely examined to ensure that the correct vehicles are purchased. Further layout proposals and quotations have been

requested on the workshop equipment, which will push installation into the new financial year.

8.3 General Fund additional capital budget requirements

Capital budget of £15k is required to fund essential works to Tring Community Centre to improve the door entry facility. The previous doors were at end of their life and visitors to the centre such as wheelchair users, the elderly and people with pushchairs were struggling to open the doors. These improvement works will make the centre more accessible for all member of the community. A supplementary capital budget of £15k is therefore requested to fund this expenditure.

There is an additional capital requirement of £195k to continue the improvement works to the Forum including:

- Improved disabled access to the building on all floors (£23k)
- Improved heating and ventilation to the ground floor of The Forum (£58k)
- Car park improvements and introduction of self service permit process (£22k)
- Improved office workflow arrangements (£23k)
- Improved IT connectivity and meeting room system (£30k)
- Project support costs (£10k)

8.4 There is an overall underspend of £9.7m on the HRA capital programme.

- Line 76: slippage of £2.5m on DBC Commissioned Capital Works. There has been an element of slippage in Property and Place capital works, awaiting the outcome of the Grenfell enquiry. Legislative changes are yet to be confirmed which has resulted in works being deferred until a definitive solution has been found. In addition the capital programme includes a proportion of projects with leaseholder impact and subsequent service charge recovery. This work will now take place in 2019/20 once the necessary leaseholder consultation has been carried out.
- Line 77: slippage of £761k on HRA special projects. This budget is for improvement works at Supported Housing schemes. Procurement of the contractor to extend and upgrade the schemes has been concluded, however the due diligence checks have taken longer than anticipated, which has resulted in the commencement date being slipped to the next financial year.
- Line 78: slippage of £5.5m on New Build General expenditure. This budget is earmarked for the purchase of land, which is now expected to take place in 2019/20.
- Line 80: underspend of £520k on Kylina Court. The scheme will be completed in 2018/19 and the full budget has not been required.
- Line 81: slippage of £873k on Stationers Place. There has been a delay in mobilising due to enabling works around utilities. These have now been concluded and a start on site is expected in the final quarter of 2018/19.

The nature of large capital build projects is that there is often some slippage on projects due to the volume of differing variables involved. The finance team have worked closely

with project leads to re profile the 2019-23 capital programme with the expectation that capital spend will be aligned with budget expectations.

9. Conclusions and recommendations

9.1 As at Quarter 3 2018/19, there is a forecast pressure of £113k against General Fund budgets and a forecast surplus of £115k against Housing Revenue Account budgets.

9.2 As at Quarter 3 2018/19, against General Fund capital there is slippage of £2.1m and a forecast underspend of £105k. Against Housing Revenue Account capital there is slippage of £9.7m and the forecast outturn is on budget.

9.3 Members are asked to:

- Note the forecast outturn position for 2018/19;
- Recommend to Council the approval of the revised capital programme to move slippage identified at Quarter 3 into financial year 2019/20;
- Recommend to Council approval of the supplementary budgets set out in this report;
- Agree the Council's flexible use of capital receipts strategy at Appendix D of this report.