



**AGENDA ITEM:
SUMMARY**

Report for:	Cabinet
Date of meeting:	11 February 2020
PART:	1
If Part II, reason:	

Title of report:	Budget Monitoring Quarter 3 2019/20
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 2019/20 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 £4.956m slippage identified at Quarter 3 into financial year 2020/21 as detailed in Appendix C; 3. Recommend to Council approval of supplementary revenue budgets funded from reserves: <ul style="list-style-type: none"> • Supplementary budget of £40k in the Neighbourhood Delivery service, funded from the Management of Change reserve, to fund interim resource to support delivery of new service initiatives • Additional budget of £30k in the Elections service, funded from drawdown of £30k from the Election reserve • Supplementary budget in the Planning service of £103k to fund the revenue costs of implementation of new Planning software, funded from the Planning & Regeneration reserve

	<ul style="list-style-type: none"> • Supplementary budget of £170k to fund costs relating to the Hand Arm Vibration legal case, to be funded from the Litigation Reserve. • Supplementary budget of £28k in Waste Services to fund consultancy work to support service improvements, funded from the Management of Change reserve • Supplementary budget of £80k in the garages employees budget to fund interim resource, funded from the Invest to Save reserve • Supplementary budget of £60k to fund one-off expenditure for a garage stock condition survey, funded from the Invest to Save reserve <p>4. Recommend to Council approval of supplementary capital budgets required to deliver several service changes as set out below:</p> <ul style="list-style-type: none"> • A capital budget of £66k to fund replacement boilers at Berkhamsted Leisure Centre • A capital budget of £55k to fund new poolside flooring at Berkhamsted Leisure Centre • Additional capital budget of £598k in the Affordable Housing Development fund, funded from Housing one-for-one ('1-4-1') receipts <p>5. Recommend to Council additional reserves drawdowns as set out below:</p> <ul style="list-style-type: none"> • Drawdown of £1,750k from the Vehicle Replacement Reserve to fund capital investment in the Council's waste fleet • Drawdown of £8k from Tring Swimming Pool reserve to fund capital works at the site. <p>6. Approve a capital virement of £900k to reallocate budget for the acquisition of Eastwick Row from the HRA New Build General budget to the Eastwick Row budget</p> <p>7. Agree the annual update of the Council's flexible use of capital receipts strategy at Appendix D of this report.</p>
Corporate objectives:	Delivering an efficient and modern council.
Implications:	<p><u>Financial</u> This report outlines the financial position for the Council for 2019/20 and so summarises the financial implications for service decisions expected to be made for the financial year.</p> <p><u>Value for Money</u></p>

	Regular budget monitoring and reporting supports the effective use of the financial resources available to the Council.
Risk Implications	This reports outlines the financial position for the Council for 2019/20 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:	Deputy Section 151 Officer: Comments included within the body of this report. Monitoring Officer: No comments to add to the report.
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:	GF – General Fund HRA – Housing Revenue Account MRP- Minimum Revenue Provision

1. Executive Summary

- 1.1 The projected outturn against budget as at Quarter 3 is a general fund pressure of £148k which is a small increase of £22k quarter on quarter.
- 1.2 The HRA surplus reported at Quarter 2 has reduced slightly by £40k to £393k.
- 1.3 There has been an increase in the capital budget pressure of £600k quarter on quarter, predominantly as a result of an increase in the affordable housing grants paid to housing associations to provide affordable homes.

2. Introduction

- 2.1 The purpose of this report is to present the Council's forecast outturn for 2019/20 as at the 31 December 2019. The report covers the following budgets with associated appendices:
 - General Fund - Appendix A. A pressure against budget of £148k is forecast.
 - Housing Revenue Account (HRA) - Appendix B. A surplus of £393k is forecast.
 - Capital Programme - Appendix C. Budget re-phasing to future years of £4.9m is forecast, which is 8% of the overall programme. £2.9m is HRA and £2m is General Fund. An in year pressure on capital budgets of £1.2m is forecast.
 - Flexible Use of Capital Receipts Strategy- Appendix D.

3. General Fund Revenue Account

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

3.2 Appendix A provides an overview of the General Fund forecast outturn position. The forecast position includes areas of both under and overspend. There is a net overall pressure of £148k, less than 1% of the net cost of services budget.

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

Table 1	Key Financial Pressure	Description
Scrutiny Committee		
Housing and Community	£195k	Garage Income
Strategic Planning and Environment	£110k	Fleet Vehicle Maintenance
Strategic Planning and Environment	£200k	Planning
Strategic Planning and Environment	£170k	Commercial Waste Income

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

Table 2	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Finance & Resources	16,443	16,468	25	0.2%
Strategic Planning and Environment	8,406	9,033	627	7.5%
Housing & Community	537	514	(23)	(4.3%)
Total Operating Cost	25,386	26,015	629	2.5%
Investment Property	(4,317)	(4,308)	9	(0.2%)
Core Funding	(21,070)	(21,560)	(490)	2.3%
Contribution (to)/ from General Fund Working Balance	(1)	147	148	

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

4. Finance and Resources, Investment Property and Core Funding

Table 3 Finance & Resources	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	10,636	10,773	137	1.3%
Premises	1,970	2,035	65	3.3%
Transport	224	225	1	0.4%
Supplies & Services	3,953	4,077	124	3.1%
Third-Parties	672	687	15	2.2%
Transfer Payments	47,144	47,144	0	0.0%
Income	(5,360)	(5,599)	(239)	4.5%
Other Income	(47,584)	(47,584)	0	0.0%
Earmarked Reserves	4,788	4,710	(78)	(1.6%)
Total	16,443	16,468	25	0.2%

	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Investment Property	(4,317)	(4,308)	9	(0.2%)
Core Funding	(21,070)	(21,560)	(490)	2.3%
Total	(25,387)	(25,868)	(481)	1.9%

4.1 Employees - £137k pressure against budget

The forecast pressure against employee budgets includes:

- £60k agency cost within the Estates service. Agency staff have been required to fill professional property roles in the short term while recruitment to vacant posts takes place.
- £40k pressure within Neighbourhood Delivery due to interim resource to support delivery of new initiatives within the service. A drawdown from the Management of Change reserve is requested to fund this expenditure.
- £30k additional staffing cost relating to the borough election. A drawdown of £30k from the Election reserve is requested to meet this additional expenditure.

4.2 Supplies & Services - £124k pressure against budget

The forecast includes a number of relatively small pressures including:

- £25k of professional fees incurred in the Estates service in order to expediate property transactions
- £35k of additional car parking transaction fees related to income collection.
- £25k cost of professional services to assist the Revenues service to identify properties that are either missing from the rating list or are under-valued, which will lead to a higher future returns in business rates.

4.3 Income - £239k over achievement of budget

The forecast overachievement of income against budget includes:

- £120k additional income relating to the Council's leisure management contract, arising from a reduction in business rates costs to the contractor.
- £80k of additional Insurance income. This relates to Insurance costs being recovered from Housing leaseholder properties and will be passed back to the Housing Revenue Account via internal recharges.

4.4 Core Funding - £490k additional funding / reduction in expenditure

There is a combination of additional government grant income and a reduction in expenditure forecast, to yield a benefit of £490k against core funding budgets. These include:

- Increased new burdens funding of £155k, including £100k relating to the Revenues and Benefits service. This funding is not ring-fenced for a specific use and has therefore been treated as core funding. In addition £35k of Brexit funding has been received in order to prepare for withdrawal from the European Union.
- The Minimum Revenue Provision (MRP) is a minimum amount which a Council must charge against its revenue budget each year for the financing of capital expenditure which has been initially funded by borrowing. The MRP is £165k lower than budgeted for 2019/20, resulting from below-budget capital expenditure in 2018/19.
- Investment Income is forecast to exceed budget by £200k as balances of cash reserves are higher than had been anticipated due to lower than budgeted capital expenditure.
- Additional income from the HRA of £50k. This arises from work on void garden clearances previously carried out by Osborne and now undertaken by Clean, Safe and Green. As such, there is no resulting additional cost to the HRA.
- Insurance recharges to the HRA will be reduced by £80k due to additional income from Leaseholders' charges.

5. Strategic Planning and Environment

Table 4 Strategic Planning and Environment	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	10,334	10,737	403	3.9%
Premises	948	1,036	88	9.3%
Transport	1,187	1,338	151	12.7%
Supplies & Services	2,286	2,514	228	10.0%
Third-Parties	84	83	(1)	(1.2%)
Income	(6,164)	(6,082)	82	(1.3%)
Earmarked Reserves	(269)	(593)	(324)	120.4%
Total	8,406	10,737	627	7.5%

5.1 Employees - £403k pressure against budget

The forecast pressure against employee budgets includes:

- £200k additional staff and agency backfilling within Planning. The planning service have been very successful in driving new business, hence officers have had to be realigned to these new specific planning projects and additional short term agency staff have been recruited to backfill substantive posts. In addition the Planning software has been ungraded to provide a more efficient and effective service. Agency costs have been incurred to backfill staff involved in the project team. It is requested to fund these implementation costs from a drawdown from the Planning & Regeneration Project reserve of £103k.
- £90k in Waste Services due to the non-availability of split-bodied fleet earlier in the financial year resulting in additional separate rounds for co-mingled and food waste, with the associated crews, sometimes being required earlier in the financial year. New waste vehicles have now been delivered and are currently being put into operation. This has also given rise to a pressure in fuel costs of £50k.
- £60k pressure in Clean, Safe and Green. The full vacancy provision in this service is not currently being achieved. Across the council as a whole a vacancy factor of 5% is set against budgets, to allow for the time taken to recruit to vacant posts. This is broadly achieved across the wider council.

5.2 Transport - £151k pressure against budget

A pressure of £110k relates to the maintenance of ageing fleet vehicles in Waste Services, including additional short term hire costs and repair costs, and servicing of grounds maintenance vehicles. At Cabinet 21 May 2019, approval was granted to bring the repair and maintenance of vehicles and equipment back in house. This will mitigate the financial pressure in this area going forward.

Waste Services fuel costs are above budget by £50k as detailed in point 5.1.

5.3 Supplies and Services - £228k pressure against budget

In September 2019, the resolution of an ongoing legal case relating to the Council's management of Hand Arm Vibration risk between 2010 and 2016 resulted in £170k of legal costs and fine. The Council prepared for this eventuality by budgeting a £200k contribution to the Litigation Reserve in February 2019, which can now be draw down to fund these costs. A drawdown from the Litigation Reserve of £170k is requested to meet this expenditure.

A pressure of £28k has arisen in Waste Services from consultancy work to support service improvements in Commercial and Domestic waste. A drawdown from the Management of Change reserve is requested to fund this expenditure.

5.4 Income – £82k pressure against budget

Pressure of £170k in the Commercial Waste service. Despite Commercial Waste making a contribution overall towards corporate recharges, income for the service has not met the budgeted target due to the ongoing effect of loss of customers. A full review of the service including marketing and charging structure has been carried out, and service improvements are underway. A reduction to the income budget for 2020/21 has been proposed in the draft budget.

Surplus of £70k S106 income applied where applicable expenditure has taken place which meets the criteria of S106 agreements.

6. Housing and Community

Table 5 Housing and Community	Current Budget	Forecast Outturn	Variance	
	£000	£000	£000	%
Employees	3,920	3,980	60	1.5%
Premises	886	627	(259)	(29.2%)
Transport	18	17	(1)	(5.6%)
Supplies & Services	1,420	1,461	41	2.9%
Transfer Payments	55	5	(50)	(90.9%)
Income	(5,576)	(5,235)	341	(6.1%)
Earmarked Reserves	(186)	(341)	(155)	83.3%
Total	537	514	(23)	(4.3%)

6.1 Employees - £60k pressure against budget

The forecast includes temporary resources to support the Garages service whilst a detailed review is underway, at a cost of £80k. A drawdown from the Invest to Save reserve is requested to fund this expenditure.

6.2 Premises - £259k underspend against budget

The forecast underspend relates to the ongoing upkeep and maintenance costs for the Garages service. A full stock condition survey has been commissioned to determine the current state of the garage stock, and the results of this are expected later in the year. The stock condition survey has a one-off cost of £60k, to be funded from the Invest to Save reserve.

6.3 Income - £392k pressure against budget

The forecast pressure relates to the Garage service income not being achieved and is a continuation of 2018/19 position. Void rates continue at around 31%. A consolidated garage management strategy is being developed to improve occupancy levels, and progress will be reported back to Members in 2020.

7. Housing Revenue Account (HRA)

7.1 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.

7.2 The projected HRA balance at the end of 2019/20 is a surplus of £393k. A balanced outturn position for the HRA can be achieved by either increasing (in the case of an overall surplus) or decreasing (in the case of an overall deficit) the final revenue contribution to capital for the HRA. This will be a decision for Members to take once the final outturn position for 2019/20 is confirmed early in 2020/21.

7.3 Dwelling rents - £270k overachievement of income

The forecast overachievement of income includes the following:

- Additional income is being recovered through Housing Benefit of £140k. This relates to Housing Benefit subsidy for tenants in supported housing.
- £82k overachievement of rental income due to budget expectations on new build sites being set prudently in advance of allocations and rent levels being agreed.
- £30k surplus due to re-let properties moving to the correct rent level (known as Formula Rent).

7.4 Tenants' and Leaseholder Charges - £85k underachievement on budget

A review of tenants and leaseholder service charges has led to a forecasted deficit of £85k related to a reduction in tenants' service charges. Budgets will be realigned in the next budget setting round.

7.5 Interest and Investment Income - £102k underachievement on budget

This forecast is a more accurate reflection of the split of interest income between General Fund and HRA.

7.6 Supervision and Management - £394k underspend against budget

The forecast underspend against budget includes:

- £210k relating to vacancies across the service. Recruitment to these vacancies is currently underway.
- £80k reduction in the recharge to the HRA relating to Insurance. This relates to income from Insurance charges payable by Leaseholders.
- There are also a number of small surpluses across minor budgets in this area.

8. Flexible Use of Capital Receipts Strategy

8.1 An annual update of the Flexible Use of Capital Receipts Strategy is attached at Appendix D for review and agreement.

8.2 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'

8.3 As identified in the current approved strategy, it is proposed that the Council uses capital receipts to fund costs associated with the implementation of the leisure management contract.

9. Capital Programme

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

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

The current budget is the original budget approved by Cabinet in February 2019, plus approved amendments.

The 'rephasing' column refers to projects where expenditure is still expected to be incurred, but will now be in 2020/21 rather than 2019/20 ('slippage'), or conversely, where expenditure planned initially for 2020/21 has been incurred in 2019/20 ('accelerated spend').

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	Rephasing £000	Revised Budget £000	Forecast Outturn £000	Variance £000 %	
Finance & Resources	9,274	(489)	8,785	9,227	442	4.77%
Strategic Planning and Environment	4,648	(977)	3,671	3,846	175	3.76%
Housing & Community	5,986	(574)	5,412	5,999	587	9.80%
GF Total	19,908	(2,040)	17,868	19,072	1,204	6.05%
HRA Total	40,903	(2,916)	37,987	37,987	0	0.00%
Grand Total	60,812	(4,956)	55,855	57,059	1,204	1.98%

9.2 General Fund Major Variances

There is projected rephasing of £2m into 2020/21 on the General Fund, and a forecast overspend of £1.2m.

The projected rephasing to future years includes:

- Line 96: slippage of £170k on Car Park Refurbishment Programme. This represents budget for three sites around the borough, one of which requires only minor work, to take place this financial year. The other two schemes are Alexandra Road and Hicks Road Markyate; Alexandra Road has been delayed due to drainage work requiring utilities notification, which has taken longer than expected; Hicks Road has been delayed awaiting completion of extension works to the neighbouring doctor's surgery.
- Line 148: slippage of £245k on CCTV Equipment Refresh. Tenders have been received for this work, and are currently being evaluated. Expenditure will now take place from 2020/21.
- Line 159: slippage of £295k on Garage Development Programme. The wet weather during quarter 3 has affected the level of work completed. Completion is expected in early 2020/21.
- Line 175: slippage of £370k on Gadebridge Park White Bridge. The contract for the work has been awarded, but a bespoke permit is required from the Environment Agency. Due to the length of time to obtain this permit, the work will now take place in 2020/21.
- Line 178: accelerated spend of £162k on Fleet Replacement Programme. Budget will be brought forward from 2020/21 to fund additional spend on waste services vehicles.
- Line 185: slippage of £134k on Durrants Lakes project. Negotiations are taking place with Box Moor Trust who will be carrying out the work. The expenditure will now be in 2020/21.

- Line 187: slippage of £600k on Town Centre Access Improvements (Parking Access and Movement). In September 2018 a temporary telecommunications tower was installed on the Leighton Buzzard Road close to where the new access to the Water Gardens (South) car park will be constructed. This tower has permitted development rights for 18 months. This has resulted in a delay to the project through 2019/20. Preparation is now taking place for the main delivery works to commence after the tower's planning permission expires in spring 2020.

The forecast additional capital spend has increased month on month by £0.6m to £1.2m the month on month change is as a result of:

- Line 158: Affordable Housing Development Fund: additional grant expenditure of £0.6m is expected to fund Housing Association new build schemes which have been authorised by Cabinet.
- Line 170: additional expenditure of £0.1m on Waste Services wheeled bins. New bins have an estimated useful life of greater than a year and have therefore been treated as capital expenditure.

9.3 Additional Capital Budgets

Replacement Boilers for Berkhamsted Leisure Centre: to ensure efficient operating of the heating system at Berkhamsted Leisure Centre, replacement boilers are required at a cost of £66k. A supplementary capital budget of £66k is requested to fund this.

Replacement Flooring at Berkhamsted Leisure Centre: there are a number of areas of tiling around Berkhamsted Swimming Pool where the tiling has cracked and become dangerous and it is no longer possible to patch repair those areas without causing further damage. It is therefore proposed to replace all the tiles around the pool with an improved flooring surface at a cost of £55k. A supplementary capital budget of £55k is therefore requested for this purpose.

A supplementary budget for **the Affordable Housing Development Fund** of £0.6m is requested, funded from retained receipts from the sale of Right to Buy properties, 1-4-1 receipts.

9.4 Reserve Drawdowns to fund Capital Expenditure

Vehicle Replacement reserve – a drawdown of £1,750k is requested to support the Council's vehicle replacement programme, as significant investment has taken place this financial year to purchase new waste vehicles. This is line with the rationale for setting up the vehicle replacement reserve.

It is proposed that £350k is then drawn down from the Vehicle Replacement reserve on an annual basis between 2020/21 and 2023/24 inclusive.

Tring Swimming Pool reserve – a small balance of £8k remains on this reserve. It is proposed to release this balance to fund investment at Tring Swimming pool through a Revenue Contribution to Capital.

9.5 Housing Revenue Account Major Variances

There is projected rephasing on HRA of £2.9m and a forecast balanced outturn position.

- Line 201 and 205: £0.8m of slippage on Planned Fixed Expenditure. This represents 5% of the total budget across these lines, and has occurred due to an element of compliance work now taking place in 2020/21. Works are either in progress or have been awarded, but an element of the budget will now be spent in 2020/21.
- Line 206: £0.8m of slippage on Special Projects. This scheme is to create new units at three sheltered schemes. Delays have occurred in the planning process, which will push this expenditure into 2020/21. A review of revised/increased costs proposals from the contractor and possible client changes to final project outcomes will require member sign off prior to final award and commencement on site.
- Line 210 and 220: These lines offset each other, as the budgets for land acquisitions are built in to the New Build General line. A virement of £900k is requested to re-allocate budget from the New Build General line to the Eastwick Row line.
- Line 211: slippage of £0.7m on Martindale. The site is progressing well and is still expected to complete in quarter 2 of 2020/21, however the wet weather in quarter 3 has impacted on the ability to make the scheme water tight, which has delayed internal works.
- Line 214: slippage of £0.2m on Stationers Place with underspend of £0.5m. The scheme has also been impacted by the wet weather in quarter 3. Completion is expected in quarter 1 of 2020/21.
- Line 216 and 217: overspend of £0.7m on Swing Gate Lane, due to a number of factors including planning requirements, some contamination on site, archaeological issues and client changes.

10. Conclusions and recommendations

10.1 As at Quarter 3 2019/20, there is a forecast pressure of £148k against General Fund budgets and a forecast surplus of £393k against Housing Revenue Account budgets.

10.2 As at Quarter 3 2019/20, against General Fund capital there is forecast budget rephasing of £2m and a forecast pressure of £1.2m. Against Housing Revenue Account capital schemes, budget rephasing of £2.9m is forecast and outturn is expected to be on budget.

- Members are asked note the forecast outturn position for 2019/20;
- recommend to Council the approval of the revised capital programme to move slippage identified at Quarter 3 into financial year 2020/21;

- recommend to Council the approval of supplementary revenue budgets set out in the report;
- recommend to Council the approval of the supplementary capital budgets set out in this report.
- recommend to Council the approval of the additional reserve drawdowns set out in this report.
- approve the virement set out in this report.
- agree the annual update of the Council's flexible use of capital receipts strategy.