



Report for:	Cabinet
Date of meeting:	24 November 2020
PART:	1
If Part II, reason:	

Title of report:	Budget Monitoring Quarter 2 2020/21
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources Nigel Howcutt, Assistant Director (Finance & Resources) James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To provide details of the projected outturn for 2020/21 as at Quarter 2 for the: <ul style="list-style-type: none"> • General Fund • Housing Revenue Account • Capital Programme
Recommendations	<p>It is recommended that Cabinet consider the budget monitoring position for each of the above accounts and:</p> <ol style="list-style-type: none"> 1. Recommend to Council approval of the revised capital programme to move £2.409m slippage identified at Quarter 2 into financial year 2021/22 as detailed in Appendix C. 2. Recommend to Council approval of supplementary revenue budgets as follows: <ul style="list-style-type: none"> • Supplementary budget of £300k in the Local Development Framework (LDF) budget to fund the costs of producing the Local Plan, to be funded from the LDF reserve. • Supplementary budget of £30k in the Waste Development employees budget to fund a Recycling Officer post, to be funded from the Management of Change reserve. 3. Recommend to Council approval of supplementary capital budgets as follows:

	<ul style="list-style-type: none"> • Additional capital budget of £180k in the Commercial Assets and Property Development budget to fund the costs of completion of the new Bunkers Farm cemetery, to be funded from a contribution from West Herts Crematorium Joint Committee. • Additional capital budget of £210k in the Leisure service to fund a Multi-Use Games Area at The Hemel Hempstead School. • Additional capital budget of £70k to fund audio-visual improvement works at The Forum. <p>4. Approve a budget virement following receipt of £200k New Burdens funding related to Revenues and Benefits. Increase the budget in Revenues and Benefits employees costs by £75k and decrease the income budget by £125k, with an offsetting increase in the budget for Corporate Grants of £200k.</p>
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Implications:	<p><u>Financial</u> This report outlines the financial position for the Council for 2020/21 and so summarises the financial implications of 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 2020/21 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: This is a Deputy S.151 Officer 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 LDF – Local Development Framework MHCLG – Ministry of Housing, Communities and Local Government EA – Everyone Active HCC – Herts County Council</p>

1. Executive Summary

- 1.1** General Fund revenue outturn – the Council is facing significant financial pressures as a result of the coronavirus. Overall in the General Fund a pressure of £3.1m is forecast, of which £3.0m results from the implications of coronavirus. This compares to £2.5m outlined in the Covid 19 update reported to Cabinet in September.

As every month progresses the combination of additional government guidance and a further month of actual data allow the forecasts to be refined, particularly in the Council's key income streams. Forecasting the end of year position is particularly challenging this year, as there is still a great degree of uncertainty surrounding the second half of the year, with many factors outside of the Council's control.

- 1.2** Housing Revenue Account outturn – The HRA is currently forecasting a surplus of £0.1m. This is a reduced surplus from the figure of £0.9m which was reported at Quarter 1 as a number of new pressures have been identified.
- 1.3** General Fund capital budgets are reporting slippage of £1.38m (11%) with an overspend of £0.1m (less than 1%).
- 1.4** In HRA capital budgets, slippage of £1.04m (4%) is forecast with an underspend of £1.62m (7%).

2. Introduction

- 2.1** The purpose of this report is to present the Council's forecast outturn for 2020/21 as at the 30 September 2020. The report covers the following budgets with associated appendices:

- General Fund - Appendix A. A pressure against budget of £3.1m is forecast.
- Housing Revenue Account (HRA) - Appendix B. A surplus of £0.1m is forecast.
- Capital Programme - Appendix C. General Fund capital budgets are reporting slippage of £1.38m and a budget pressure of £0.1m. Housing Revenue Account budgets are reporting slippage of £1.04m and an underspend of £1.62m against budget.

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

Table 1	Key Financial Pressure	Description
Scrutiny Committee		
Finance & Resources	£1.4m	Investment Property income
Finance & Resources	£1m	Car Parking income
Housing and Community	£0.6m	Garages Income
Strategic Planning and Environment	£1.2m	Waste Services (cost pressures and income pressures in Domestic Waste; income pressure in Commercial Waste)

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	7,806	12,085	4,279	54.8%
Strategic Planning and Environment	10,906	12,919	2,013	18.5%
Housing & Community	1,686	2,076	390	23.1%
Total Operating Cost	20,398	27,080	6,682	32.8%
Core Funding	(20,399)	(23,937)	(3,538)	17.3%
Contribution (to)/ from General Fund Working Balance	(1)	3,143	3,144	

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

4. Finance and Resources and Core Funding

Table 3 Finance & Resources	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	14,113	14,393	280	2.0%
Premises	2,946	3,193	247	8.4%
Transport	296	295	(1)	(0.3%)
Supplies & Services	3,974	4,524	550	13.8%
Third-Parties	739	745	6	0.8%
Transfer Payments	47,144	47,144	0	0.0%
Income	(11,262)	(8,065)	3,197	(28.4%)
Other Income	(50,237)	(50,237)	0	0.0%
Earmarked Reserves	93	93	0	0.0%
Total	7,806	12,085	4,279	54.8%

	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Core Funding	(20,399)	(23,937)	(3,538)	17.3%

4.1 Employees - £280k pressure against budget

The forecast pressure against employee budgets includes:

- £100k expected pressure due to increased demand for services as a result of Covid-19. Increased staffing requirements are expected in areas such as Revenues and Benefits and Environmental Protection as a result of service pressures brought about by Covid-19.

New Burdens grant funding has been received to fund additional pressures in Revenues and Benefits as a result of Covid-19. A virement of £75k to increase the staffing budget in this area is proposed to Cabinet in this report.

- £80k 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.
- £60k pressure within Neighbourhood Delivery due to interim resource to support the Covid response and delivery of new initiatives within the service.
- £75k additional staffing costs in Financial Services due to a requirement for temporary staff to cover maternity leave and support the closure of accounts process.
- £50k underspend in the Cemeteries service, which is a combination of a short term vacancy that has now been filled and a reduced requirement for temporary staff over the busy summer period.

4.2 Premises - £247k pressure against budget

The forecast pressure in premises costs includes:

Additional costs of £60k have been incurred to ensure that The Forum remains Covid-secure for staff and residents to use. These are costs such as temperature checking equipment, automated door entry system and perspex screening.

Pressure of £140k – a pressure of £140k is expected in Insurance costs. These relate to an increase in the value of claims relating to HRA properties including those arising from significant wet weather over the summer. These charges will be passed back through the recharge to the HRA.

4.3 Supplies & Services - £550k pressure against budget

A pressure of £525k relates to support payments made to the Council's leisure provider Everyone Active (EA) to support their losses during the period of closure of the leisure centres. An initial payment of £205k was made to allow EA to top up the furlough pay for their staff to 100% of salary in the first 3 months of closure. A second support payment of £320k has been agreed relating to July to September to support reopening of leisure services across Dacorum, as soon as restrictions were lifted. There are ongoing discussions in regards to the future support provided to Everyone Active in the second half of 2020/21.

4.4 Income - £3.2m pressure

The forecast pressure against income budgets includes:

- £1.4m pressure in Investment Property income. This estimated pressure arises from the potential deficit in rental income from commercial assets. The level of rental arrears has increased year on year in the first 6 months of the year, and is expected to grow as commercial tenants have exhausted their reserves, utilised government grants and are still limited by trading restrictions linked to Covid. The forecast is very much dependent on the extent of the expected economic downturn, which will dictate how badly businesses are affected and for how long. The service are being very proactive with tenants and arranging payment plans to support these businesses in the short term.
- £1.1m pressure in car parking income. This income stream has been severely affected by the coronavirus pandemic, particularly in the lockdown period during Q1 where income was 85% down on budget. The income has improved during Quarter 2 as restrictions have been lifted, but it is currently still 55% below target year to date.
- £0.5m pressure in the management fee income due from the Council's leisure provider. As part of the support package to EA, the management fee has been waived for the first 7 months of the year and is unlikely to be achieved in the remainder of the financial year. Around 72% of the lost

income will be reimbursed via central government income losses reimbursement scheme.

- £0.13m pressure in the Revenues budget for Court Costs recovered. This relates to the extra charges applied to council tax and business rates accounts when court action is taken in respect of non-payment. Due to the financial uncertainty for residents and local businesses caused by the Covid pandemic, formal recovery action was suspended during March. Additionally, the courts determined that liability order hearings were not a high priority, and so no hearings can be booked until late in 2020.

A virement to utilise New Burdens grant funding relating to the Revenues and Benefits service to offset this pressure is proposed.

- £90k pressure in facilities hire at Civic Buildings. These buildings could not open during the period of lockdown. Subsequently income has been affected due to ongoing social distancing requirements.
- £55k pressure in Legal Expenditure recovered. There has been a decline in the number of commercial property transactions during first half of the year. Litigation work has also declined as courts are only dealing with urgent criminal work.

4.5 Core Funding - £3.5m additional funding

Additional government grant income has been received as follows:

- £2.05m of Covid-19 support grant has been received from MHCLG, including a 4th allocation of £232k announced in October 2020.
- New Burdens funding of £200k, to support additional pressures in Revenues and Benefits because of increased workload through the Coronavirus pandemic. This will be applied to the budgets to offset pressures in staffing and in income as mentioned above.
- £72k of New Burdens funding relating to welfare reform within the Revenues and Benefits service.

An additional £1.3m of funding is expected under the government's income guarantee scheme to reimburse local authorities for 75% of lost income after the first 5% of the budgeted total.

Recharge to the HRA – a surplus of £105k is forecast in the recharge to the HRA, which is predominantly due to additional premises Insurance charges being passed back to the HRA, as mentioned in paragraph 4.2 above.

Investment Income – pressure of £180k. A pressure of £180k is forecast in General Fund investment income budgets due to a combination of smaller cash balances due to Covid policies and the reduction in interest rates announced by the government in March 2020.

5. Strategic Planning and Environment

Table 4 Strategic Planning and Environment	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	10,048	10,708	660	6.6%
Premises	990	1,016	26	2.6%
Transport	1,240	1,403	163	13.1%
Supplies & Services	2,100	2,675	575	27.4%
Third-Parties	366	366	0	0.0%
Income	(5,337)	(4,418)	919	(17.2%)
Capital Charges	1,571	1,571	0	0.0%
Earmarked Reserves	(72)	(402)	(330)	458.3%
Total	10,906	12,919	2,013	18.5%

5.1 Employees - £660k pressure against budget

The pressure in employees' costs includes:

- A pressure of £545k relates to Waste services employees' costs from additional agency requirements. This is due to over 20 staff self-isolated for 12 weeks at the start of the lockdown period and continued periods of isolation. The service is still under pressure due to increased levels of waste, access issues due to more people working from home resulting in a significant increase in missed bins, and the need to maintain social distancing.
- Pressure of £50k in Planning where staffing levels have been higher than budgeted.
- Pressure of £45k in the Vehicle Repair Shop due to additional staffing requirements as a result of Covid-19.
- Pressure of £30k in Waste Development to fund the cost of an additional Recycling Officer. This is a one-off cost which is requested to be funded from the Management of Change reserve.

5.2 Transport - £163k pressure against budget

A pressure of £100k relates to the maintenance of ageing fleet vehicles in Waste Services. This pressure is expected to continue until the full fleet of waste vehicles is received later in the financial year.

A pressure of £85k relates to hire of waste vehicles to support social distancing requirements, particularly for crews on rural rounds. The two rural rounds consisting of a driver and two loaders have been split, requiring the hire of two additional vehicles.

5.3 Supplies and Services - £575k pressure against budget

A pressure of £185k is expected in Waste Services from the increased cost of disposal of comingled recycling. This is as a result of 3 factors: firstly, tonnages of recyclable waste have increased by 30% as a result of households being at home during lockdown and continuing to work from home; secondly the contractor has charged additional processing fees to fund the costs of safe working conditions under Covid; and thirdly the global market for recyclables has declined leading to a reduction in income for recyclables.

Additional budget of £300k is required in the Strategic Planning service to fund the work to produce the Local Plan. The budget for the Local Plan has been set at a smoothed annualised average, with the LDF Reserve utilised to support this smoothing process. The process of delivering the Local plan has peaks and troughs in expenditure and the increased timeline for the Local Plan has meant 2020/21 is a high spending year, due to the Local Plan being finalised for submission to the Secretary of State for Examination in Public in 2022. The additional expenditure will fund key posts and external professional services to ensure the Local Plan is robust at examination. This is requested to be funded from a drawdown from the LDF reserve.

Pressure of £50k in the Planning service for legal expenditure relating to the appeals process. Where planning decisions are appealed and the decision is not in favour of the Council, legal costs are incurred which causes a budget pressure.

5.4 Income – £919k pressure against budget

The forecast pressures in income budgets are all Covid-19 related:

- Pressure of £250k related to Waste Services income. A pressure of £250k is expected in income from the Alternative Financial Model (AFM) payment from Herts County Council (HCC). This is due to the increase in residual waste particularly during the lockdown period. An increase in residual waste pushes up the cost of disposal to HCC, which is then passed back to local authorities via a lower AFM income payment.
- Pressure of £200k in Planning Income. This income stream has performed well in the first 6 months of the year and is just slightly below budget. However, the income remains exposed to fluctuations in the property market and a variance of £200k is anticipated.
- Pressure of £200k in Commercial Waste Income. This variance arises from the anticipated pressure on income from businesses no longer operating and increase in bad debtors. This will be dependent on the extent of the economic downturn and will be monitored through the broader economic recovery.

- Pressure of £90k in Land Charges. The Housing market is likely to stagnate for a period as households await a more clearly emerging economic picture, however the temporary relaxation of stamp duty levels is helping to lessen this impact.
- Pressure of £65k in Maylands Business Centre income. A pressure is expected in rental income, dependent upon how businesses are affected by the potential economic recession.
- There are other pressures in income streams such as Bulky Waste £45k and Cesspool emptying £12k as a result of Covid-19.

6. Housing and Community

Table 5 Housing and Community	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Employees	4,131	4,130	(1)	(0.0%)
Premises	1,003	767	(236)	(23.5%)
Transport	14	14	0	0.0%
Supplies & Services	1,148	1,095	(53)	(4.6%)
Transfer Payments	5	2	(3)	(60.0%)
Income	(5,680)	(4,997)	683	(12.0%)
Capital Charges	1,083	1,083	0	0.0%
Earmarked Reserves	(18)	(18)	0	0.0%
Total	1,686	2,076	390	23.1%

6.1 Premises - £236k underspend against budget

An underspend of £350k is expected in the garages maintenance budget. An investment strategy is being prepared to evaluate how these revenue budgets can be best utilised in order to maximise the income stream. It is now unlikely that a significant amount of expenditure will be spent this financial year.

Pressure of £65k from the cost of providing emergency Bed and Breakfast Accommodation to those at risk of sleeping rough during the Covid-19 pandemic.

6.2 Income - £683k pressure against budget

Pressure of £600k in Garages income. Although the current void level is at 30.5%, it is envisaged that the void level will increase, as will the level of bad debt, as a result of any economic downturn. There is a risk that garages may represent an early cost saving for a household in financial difficulties.

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 2020/21 is a surplus of £129k. This is a reduction on the forecast position expected at Quarter 1, which was £887k, as some new pressures have arisen which are detailed below. 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 2020/21 is confirmed later in the financial year.

7.3 Tenants' Charges – pressure of £0.2m

This variance has arisen in service charges income. Service charges are recalculated each year to ensure that the charge received by the tenant accurately reflects the service received. Where there are variations in cost to the tenant from one year to the next, the Council has committed to only pass on an increase of CPI +1% (in line with current rental policy).

7.4 Interest and Investment Income – pressure of £0.1m

A pressure of £100k is forecast against investment income budgets due to the reduction in interest rates announced by the government in March 2020.

7.5 Contribution Towards Expenditure – pressure of £0.1m

This income relates to property transactions such as the granting of lease extensions and easements. The budgeted target is not being achieved due to a lower volume of transactions.

7.6 Repairs and Maintenance - £2.1m under budget

This variance has arisen due to the Covid-19 pandemic, as internal or intrusive works cannot take place under the prevailing circumstances. Workstreams have been re-prioritised and non-essential internal works will be reduced for the first 6 months of year. At this stage, it is not expected that contractors will have the capacity to catch up later in the year with planned works.

7.7 Supervision and Management – pressure of £0.2m

This pressure has predominantly arisen due to higher than expected insurance costs, specifically related to Uninsured Losses claims due to weather events over the summer months.

7.8 Rent, Rates and Taxes – pressure of £0.1m

This pressure is due to Council Tax charges on empty HRA properties. Currently the level of voids in sheltered schemes is higher than anticipated which is leading to an additional cost.

7.9 Provision for Bad Debts - £1.1m over budget

It is expected that an increase in arrears of rental income will be seen this financial year, due to an increasing number of tenants in financial hardship. At this stage, it is very difficult to predict the level of arrears, as more tenants are moving on to Universal Credit, which may cause an initial delay in rental income being received. The Income team are working very closely with tenants to support them during this time, to arrange payment terms and assist with accessing benefits if appropriate.

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 committee area.

The current budget is the original budget approved by Cabinet in February 2020, plus approved amendments.

The 'rephasing' column refers to projects where expenditure is still expected to be incurred, but will now be in 2021/22 rather than 2020/21 ('slippage'), or conversely, where expenditure planned initially for 2021/22 has been incurred in 2020/21 ('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	4,774	(1,154)	3,621	3,762	141	2.95%
Strategic Planning and Environment	3,207	(229)	2,978	2,981	3	0.10%
Housing & Community	4,654	10	4,664	4,608	(56)	-1.20%
GF Total	12,635	(1,373)	11,262	11,351	88	0.70%
HRA Total	23,276	(1,036)	22,240	20,624	(1,615)	-6.94%
Grand Total	35,911	(2,409)	33,502	31,975	(1,527)	-4.25%

8.2 General Fund Major Variances

There is forecast slippage of £1.38m in the General Fund with a forecast overspend of £0.1m.

The slippage of £1.38m includes the following items:

- Line 80 and 88: Slippage of £0.88m on the Parking Access and Movement (PAM) project and refurbishment of Water Gardens North and South Car Parks. These schemes have been unavoidably delayed due to the

coronavirus pandemic, as an essential part of the project is a survey to review traffic levels. This is required before planning permission can be granted. The traffic survey is now programmed in for later this financial year with construction commencement anticipated in early summer 2021.

The new access road that is being installed as part of the PAM project will enter the Water Gardens South car park, so it would be unwise to resurface this car park prior to part of it being excavated for the new access road.

The Water Gardens lower deck resurfacing will be carried out by the same contractor as the Water Gardens South resurfacing and the PAM project, so these works have been programmed in consecutively to achieve efficiencies in construction costs.

- Line 155: slippage of £0.13m on the Durrant's Lake project. Negotiations to conclude this project have been delayed due to the coronavirus pandemic.

The additional expenditure of £0.1m includes:

- Line 68: additional expenditure of £0.18m on the Bunkers Farm project to construct a new cemetery site. This expenditure will be fully met from a contribution to be received from West Herts Crematorium Joint Committee. A supplementary budget funded from capital contribution is requested.
- Lines 76-78: underspend of £0.11m on works to install new air handling units at Hemel Hempstead Leisure Centre. These works were undertaken during the period of closure of the leisure centre in Spring 2020, which allowed the works to be carried out at a lower cost.

8.3 Additional Capital Budgets

Supplementary capital budgets are requested for the following schemes:

- A supplementary budget of £210k is requested to replace the existing Astro turf pitch, fencing and floodlighting and install a second pitch at The Hemel Hempstead School which will create a multi-use games area for football, tennis, hockey and netball use. A new 25 year dual use agreement will also be agreed which will make the facility available for the public outside of normal school times and therefore benefit both the school and residents.
- A supplementary budget of £70k is requested to fund audio-visual improvement works to The Forum. This will new support new ways of working under Covid-19 by allowing for hybrid meetings.

8.4 Housing Revenue Account Major Variances

There is estimated slippage of £1.04m in the HRA capital programme, and forecast underspend of £1.62m. This includes the following items:

- Line 179: £1.32m under budget on Martindale. This scheme is expected to complete in Autumn 2020, and it is now possible to release the full contingency (c. £0.9m) as this has not been required. In addition, at Quarter 1 it was expected that additional costs could arise due to Covid-19. These costs have not been as significant as expected.
- Line 180: underspend of £0.44m on Stationers Place. The project is at the completion stage and contingency within the budget can now be released.
- Line 183 Coniston Road: £0.36m of slippage. The tender period for award of the main contract was extended due to Covid-19, as a number of contractors had furloughed key staff. The contract has now been awarded and a start on site is expected for Quarter 4 of 2020/21.
- Line 184 Eastwick Row: slippage of £0.65m. The tender process for this scheme was also impacted by Covid-19. The contract has now been awarded and a start on site anticipated for Quarter 4 2020/21.

9. Conclusions and recommendations

9.1 As at Quarter 2 2020/21, there is a forecast pressure of £3.1m against General Fund budgets and a forecast surplus of £0.1m against Housing Revenue Account budgets.

9.2 As at Quarter 2 2020/21, against General Fund capital there is forecast slippage of £1.38m and a budget pressure of £0.1m. Against Housing Revenue Account capital schemes, budget rephasing of £1.04m is forecast and outturn is expected to be £1.62m under budget.

9.3 Members are asked to:

- note the forecast outturn position as at Quarter 2;
- recommend to Council the approval of the revised capital programme to move slippage identified at Quarter 2 into financial year 2021/22;
- 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;
- approve the virement set out in the report.