



Report for:	Finance and Resources Overview and Scrutiny Committee
Date of meeting:	9 March 2021
PART:	1
If Part II, reason:	

Title of report:	Budget Monitoring Quarter 3 2020/21
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 2020/21 as at Quarter 3 for the: <ul style="list-style-type: none"> • General Fund • Housing Revenue Account • Capital Programme
Recommendations	That Committee note the financial position for the Council for 2020/21 as at Quarter 3.
Corporate objectives:	Delivering an efficient and modern council.
Implications:	<u>Financial</u> This report outlines the financial position for the Council for 2020/21 and so summarises the financial implications for service decisions expected to be made for the financial year. <u>Value for Money</u> 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 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.
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 MHCLG – Ministry of Housing, Communities and Local Government EA – Everyone Active HCC – Herts County Council AFM – Alternative Financial Model PAM – Parking Access and Movement

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 £3.2m is forecast, of which £2.9m results from the implications of coronavirus.
- 1.2 Housing Revenue Account outturn – The HRA is currently forecasting a surplus of £2.5m, an increase of £2.4m on the forecast surplus of £0.1m reported at Q2, due to a significant reduction in the anticipated spend on Repairs and Maintenance following new restrictions on access to properties and supply chain issues.
- 1.3 General Fund capital budgets are reporting slippage of £0.8m with an underspend of £60k.
- 1.4 In HRA capital budgets, slippage of £1m is forecast with an underspend of £1.8m.

2. Introduction

- 2.1 The purpose of this report is to present the Council's forecast outturn for 2020/21 as at the 31 December 2020. The report covers the following budgets with associated appendices:
 - General Fund - Appendix A. A pressure against budget of £3.2m is forecast.
 - Housing Revenue Account (HRA) - Appendix B. A surplus of £2.5m is forecast.
 - Capital Programme - Appendix C. General Fund capital budgets are reporting slippage of £0.8m and a budget underspend of £60k. Housing Revenue Account budgets are reporting slippage of £1m and an underspend of £1.8m 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	£1m	Commercial Property income
Finance & Resources	£1.4m	Car Parking income
Finance & Resources	£1m	Leisure support costs
Housing and Community	£0.4m	Garages Income
Strategic Planning and Environment	£1.2m	Waste Services (Waste cost pressure and income pressures for Domestic Waste and 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	8,006	12,710	4,704	58.8%
Strategic Planning and Environment	10,906	12,921	2,015	18.5%
Housing & Community	1,686	1,792	106	6.3%
Total Operating Cost	20,598	27,423	6,825	33.1%
Core Funding	(20,599)	(24,183)	(3,584)	17.4%
Contribution (to)/ from General Fund Working Balance	(1)	3,240	3,241	

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	14,187	14,425	238	1.7%
Premises	2,946	3,241	295	10.0%
Transport	296	293	(3)	(1.0%)

Supplies & Services	3,974	5,125	1,151	29.0%
Third-Parties	739	739	0	0.0%
Transfer Payments	47,144	47,144	0	0.0%
Income	(11,136)	(8,113)	3,023	(27.1%)
Other Income	(50,237)	(50,237)	0	0.0%
Earmarked Reserves	93	93	0	0.0%
Total	8,006	12,710	4,704	58.8%

	Current Budget £000	Forecast Outturn £000	Variance	
			£000	%
Core Funding	(20,599)	(24,183)	(3,584)	17.4%

4.1 Employees - £238k pressure against budget

The forecast pressure against employee budgets includes:

- £90k 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. As of the start of 21/22, the service will have a permanent staffed up workforce for the first time in over 5 years.
- £85k pressure within Neighbourhood Delivery due to interim resource to support 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.

4.2 Premises - £295k pressure against budget

The forecast pressure in premises costs includes:

Costs of £80k have been incurred to ensure that The Forum is Covid-secure for staff and residents. These include temperature checking equipment, automated door entry system and perspex screening.

Pressure of £140k in Insurance costs. These relate to the HRA properties and are a result of significant weather events over the summer. These charges will be passed back through the recharge to the HRA.

Pressure of £65k – there is a pressure of £65k in repairs and maintenance costs in the budgets for income generating assets such as the shopping centres, to ensure the assets are maintained to an acceptable standard.

4.3 Supplies & Services - £1.1m pressure against budget

A pressure of £1.06m relates to support payments made to the Council's leisure provider Everyone Active (EA) to support their losses during the current Covid-19 pandemic. Contractual support of £520k was provided to EA in the first half of the

financial year, and due to ongoing restrictions and further lockdowns imposed from November 2020, further support has been required for the second half of the year in order to protect the ongoing financial viability of the leisure centres.

Central government have announced a support package including a ring-fenced sum of £100m to help local authorities meet the increased costs of operating Leisure Centres. This was subject to an application process, which the council has completed, and at present, the council is awaiting the outcome of that process. This has provided the opportunity for the Council to seek to recover some of the costs incurred.

4.4 Income - £3.0m pressure

The forecast pressure against income budgets includes:

- £1m 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 as commercial tenants have exhausted their reserves, utilised government grants and are still limited by trading restrictions linked to Covid. The service are being very proactive with tenants and arranging payment plans to support businesses in the short term. Investment Property rental income is not eligible for the Government's income protection scheme which limits the volatility of other, non-rental income by underwriting 72% of net losses.
- £1.4m 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 improved during Quarter 2 as restrictions were lifted, but further lockdowns from November onwards have had a detrimental effect, with income predicted to fall back to Q1 levels. Around 72% of the net losses of car parking income will be reimbursed through central government's income guarantee scheme.
- £0.5m pressure in the management fee income due from the Council's leisure provider. As part of the leisure support package, the management fee that would have been due from EA has been waived. 72% of this lost income will be reimbursed from central government.
- £0.15m pressure in the Cemeteries service. £60k of the variance is due to income from memorials and internment of ashes being below budget due to restrictions on gatherings. £90k is due to delays in contractual negotiations around the new cemetery site at Bunkers Park.
- £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 and further restrictions from November.

4.5 Core Funding - £3.6m additional funding

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.
- £100k of New Burdens funding relating to welfare reform within the Revenues and Benefits service.

An additional £1.4m 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 £72k 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, less property related costs borne by the HRA being passed back to the General Fund.

Investment Income – pressure of £180k. A pressure of £180k is forecast in General Fund investment income budgets due to 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	10,078	10,783	705	7.0%
Premises	990	984	(6)	(0.6%)
Transport	1,240	1,490	250	20.2%
Supplies & Services	2,422	2,762	340	14.0%
Third-Parties	366	365	(1)	(0.3%)
Income	(5,359)	(4,632)	727	(13.6%)
Capital Charges	1,571	1,571	0	0.0%
Earmarked Reserves	(402)	(402)	0	0.0%
Total	10,906	12,921	2,015	18.5%

5.1 Employees - £705k pressure against budget

The pressure in employees' costs includes:

- A pressure of £575k relates to Waste Services employees' costs from additional agency requirements during the Covid-19 pandemic. This is due to a combination of staff sickness and requirements to self-isolate, as well as the requirement for clinically extremely vulnerable staff to remain at home. The service is 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 which has put pressure on the rural rounds where there is increased travel in the waste vehicles.

- Pressure of £60k in Planning where staffing levels have been higher than budgeted.
- Pressure of £40k in the Vehicle Repair Shop due to additional staffing requirements as a result of Covid-19.

5.2 Transport - £250k pressure against budget

A pressure of £130k 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.

A pressure of £150k 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 - £340k pressure against budget

A pressure of £220k 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.

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 – £727k pressure against budget

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

- Pressure of £200k related to Waste Services income. A pressure of £200k 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 £75k in Planning Income. This income stream has performed well in the first 9 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 £75k 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 £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 £40k and Cesspool emptying £45k as a result of Covid-19.

6. Housing and Community

Table 5 Housing and Community	Current Budget	Forecast Outturn	Variance	
	£000	£000	£000	%
Employees	4,159	4,167	8	0.2%
Premises	1,003	648	(355)	(35.4%)
Transport	14	12	(2)	(14.3%)
Supplies & Services	1,141	1,210	69	6.0%
Transfer Payments	5	3	(2)	(40.0%)
Income	(5,701)	(5,228)	473	(8.3%)
Capital Charges	1,083	1,083	0	0.0%
Earmarked Reserves	(18)	(103)	(85)	472.2%
Total	1,686	1,792	106	6.3%

6.1 Premises - £355k underspend against budget

An underspend of £380k 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 this year's budget will be utilised.

6.2 Income - £473k pressure against budget

Pressure of £430k 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 £2.46m. This an increase in the forecast position expected at Quarter 2, which was £129k,

following a significant reduction in the forecast for Repairs and Maintenance expenditure due to the continued pressures imposed on the council and its supply chain partners from the Covid-19 pandemic. 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 - £4.2m under budget

This variance has increased further during the financial year, due to the ongoing restrictions imposed during the Covid-19 pandemic. It has not been possible for internal or intrusive works to take place under the prevailing circumstances. Workstreams have been re-prioritised where possible to carry out external works and to ensure that all essential, health and safety works are undertaken as required.

7.7 Supervision and Management – on budget

A pressure of £140k has arisen due to higher than expected insurance costs, specifically related to Uninsured Losses claims due to weather events over the summer months. This is being offset by savings in other budget lines, due to vacancies in the financial year, and budgets related to home-moving and decants not being spent.

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. It is difficult to

predict the level of arrears, as this is very much linked to the extent of the economic downturn. More tenants have moved on to Universal Credit, which caused an initial delay in income being received at the beginning of the year, but the Income team have been very proactive in supporting tenants, 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	4,081	(861)	3,219	3,148	(71)	-1.74%
Strategic Planning and Environment	3,055	0	3,055	3,125	70	2.28%
Housing & Community	4,843	25	4,868	4,809	(59)	-1.22%
GF Total	11,979	(836)	11,142	11,082	(60)	-0.50%
HRA Total	22,240	(998)	21,242	19,453	(1,788)	-8.04%
Grand Total	34,219	(1,835)	32,384	30,535	(1,849)	-5.40%

8.2 General Fund Major Variances

There is forecast slippage of £0.84m in the General Fund, with an underspend of £60k.

The forecast slippage of £0.84m includes the following items:

- Line 53: Slippage of £0.29m on Rossgate Shopping Centre – Structural Works. This site is a mix of residential and commercial properties, and consultation with all stakeholders has taken longer than expected. Both phases of the project, the replacement of windows at the rear of the residential block, and the replacement of the curtain wall window frame system at the front of the precinct, will now be carried out together with a start on site expected in late March 2021.

- Line 74: Slippage of £0.28m on Hemel School Astroturf renewal. The project has been unavoidably delayed due to the need for planning permission for the floodlights.
- Line 80: Slippage of £0.15m on Car Park Refurbishment scheme. Works at Canal Fields and Alexandra Road have been delayed due to capacity issues.

8.3 Housing Revenue Account Major Variances

There is estimated slippage of £1m in the HRA capital programme, and forecast underspend of £1.79m. This includes the following items:

- Line 169-174: slippage of £0.8m. In line with the revenue repairs and maintenance budgets, the capital maintenance programme is also expecting a reduction in expenditure following new restrictions announced in January.
- Line 179: £1.32m under budget on Martindale. The scheme is now complete and the full contingency (c. £0.9m) has now been released as this was not required. Potential additional costs due to Covid-19 have also not been as significant as expected.
- Line 180: underspend of £0.52m on Stationers Place. The project is now complete and contingency within the budget can now be released.
- Line 185: slippage of £0.1m on St Margaret's. The scheme is slightly delayed to due legislative changes as a result of the coronavirus pandemic.
- Lines 188-190 Randalls Ride, Garage Sites and Wilstone: these variances relate to the timing of land appropriation from the General Fund to the HRA. This can take place once planning permission has been granted. Randalls Ride and Wilstone are expected to take place earlier than previously anticipated whereas the Garage Sites are slightly more complex due to their location, and are now expected later than previously anticipated.

9. Conclusions and recommendations

- 9.1** As at Quarter 3 2020/21, there is a forecast pressure of £3.2m against General Fund budgets and a forecast surplus of £2.5m against Housing Revenue Account budgets.
- 9.2** As at Quarter 3 2020/21, against General Fund capital there is forecast slippage of £0.8m with an underspend of £60k. Against Housing Revenue Account capital schemes, budget rephasing of £1m is forecast and outturn is expected to be £1.8m under budget.
- 9.3** Members are asked to note the financial position for the Council for 2020/21 as at Quarter 3.