Report for:	**Cabinet**
Date of meeting:	**23rd November 2021**
PART:	**1**
If Part II, reason:	

Title of report:	**Budget Monitoring Quarter 2 2021/22**
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources Nigel Howcutt, Assistant Director (Finance & Resources) Fiona Jump, Group Manager Financial Services
Purpose of report:	To provide details of the projected outturn for 2021/22 as at Quarter 2 for the: • General Fund • Housing Revenue Account • Capital Programme •
Recommendations	It is recommended that Cabinet considers the budget monitoring position for each of the above accounts and: 1. Recommends to Council to draw down an additional £700k from the Economic Recovery Reserve to support Covid- related pressures on General Fund budgets. 2. Recommends to Council the approval of a supplementary revenue budget of £200k in the Waste Services employees budget, funded from the Savings Efficiencies Reserve. 3. Approves transfer of budgets to set up a new Filming trading account: • Approves a budget virement from the Car Parking income budget to a newly created Filming budget of £60k.

	• Approves a budget virement from the Old Town Hall income budget to a newly created Filming budget of £21k. 4. Recommends to Council approval of the revised capital programme to move £13.81m slippage identified at Quarter 2 into financial year 2022/23 as detailed in Appendix C. 5. Recommends to Council the following supplementary capital budgets: £0.135m for Town Centre Access Improvements project, funded from a capital contribution £0.9m for Aragon Close Move-On Accommodation, 50% funded from the Department for Levelling Up, Communities and Housing (DLUHC) Rough Sleepers Accommodation Programme. £0.3m to support development of Move-On Accommodation by Hightown Housing Association at Alexandra Road
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Implications:	<u>Financial</u> This report outlines the financial position for the Council for 2021/22 and so summarises the financial implications of 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 report outlines the financial position for the Council for 2021/22 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:** This is a Deputy S.151 Officer 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 HCC – Hertfordshire County Council AFM – Alternative Financial Model DLUHC – Department for Levelling Up, Housing and Communities

1. Executive Summary

1.1 General Fund revenue outturn – General Fund revenue budgets are forecasting a deficit of c. £1m. This pressure is consistent with the Quarter 1 forecast, and is a combination of £0.7m that is attributable to the ongoing effects of Covid-19, and £0.3m which is non-Covid related. The Covid pressures of £0.7m can be funded from the Economic Recovery Reserve which was specifically set up for this purpose.

1.2 Housing Revenue Account outturn – The HRA is currently forecasting a deficit of £0.8m. At the end of the financial year, this can be funded from revenue reserves or from a reduced Revenue Contribution to Capital. This will be a decision for Members to take later in the financial year.

1.3 General Fund Capital – General Fund capital budgets are reporting slippage of £2.1m with an overspend of £0.2m at Quarter 2.

1.4 HRA Capital – there is forecast slippage of £11.7m in the HRA capital programme, which is 30% of the budget, and arises mostly in the HRA new build programme from challenges being experienced in dealing with third parties.

2. Introduction

2.1 The purpose of this report is to present the Council's forecast outturn for 2021/22 as at the 30th September 2021. The report covers the following budgets with associated appendices:

- General Fund - Appendix A. A pressure against budget of c. £1m is forecast.

- Housing Revenue Account (HRA) - Appendix B. A deficit of £0.8m is forecast.

- Capital Programme - Appendix C. General Fund budgets are reporting slippage of £2.1m with an overspend of £0.2m at Quarter 2, with HRA forecasting re-phasing to future years of £11.7m (30% of 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		**Description**

Scrutiny Committee	Key Financial Pressure	
Finance & Resources	£0.3m	Car Parking income
Housing and Community	£0.3m	Temporary Accommodation income and voids repair costs
Strategic Planning and Environment	£0.5m	Waste Services cost and income pressures

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	7,457	7,368	**(89)**	(1.2%)
Strategic Planning and Environment	10,871	11,556	**685**	6.3%
Housing & Community	1,779	2,087	**308**	17.3%
Total Operating Cost	**20,107**	**21,011**	**904**	4.5%
Core Funding	(20,107)	(20,052)	**55**	(0.3%)
Contribution (to)/ from General Fund Working Balance	**0**	**959**	**959**	

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 £0**	**Forecast Outturn £0**	**Variance £0**	**%**
Corporate and Contracted Services	2,975	3,044	**69**	2.3%
Performance, People and Innovation	3,213	3,228	**15**	0.5%
Chief Executive and Strategic Management Team	576	576	**0**	0.0%
Finance & Resources	45	(130)	**(175)**	(388.9%)
Neighbourhood Delivery	176	177	**1**	0.6%
Planning, Development and Regeneration	472	473	**1**	0.2%
Total	**7,457**	**7,368**	**(89)**	(1.2%)
	Current Budget £000	**Forecast Outturn £000**	**Variance £000**	**%**
Core Funding	(20,107)	(20,052)	**55**	(0.3%)

4.1 Corporate and Contracted Services £69k pressure against budget

The forecast pressure includes:

- £360k pressure in car parking income. The income stream has been affected by restrictions imposed by the Covid-19 pandemic, particularly in the first quarter of the year where income was 23% down on budget. Quarter 2 has improved marginally to 18% down, but the income stream is still being affected by lower footfall numbers, due to the change in behaviour of both shoppers and commuters.

  This pressure is being offset by a number of minor underspends as follows:

  - Underspend of £40k from vacant posts in Legal and Corporate Services
  - Savings in administrative budgets such as mailing and office expenses from new ways of working £30k
  - Maternity leave and vacancies in the Procurement and Contracted Services area £75k
  - Government compensation from lost income on the Leisure contract £90k
  - Additional income above budget on The Forum £40k

4.2 Finance & Resources £175k surplus against budget

This includes:

- £600k surplus in Investment Property income. Three rental quarters have now been invoiced and income invoiced is 20% up on budget. The level of void properties is higher than pre-Covid levels, and may increase as the year goes on with Business Rates relief winding down and furlough coming to an end, but collection rates have held up well and are only slightly below pre-Covid levels. This is due to the proactivity of the Commercial Assets and Accounts Receivable teams in working with tenants to agree terms of payment such as payment plans.

  This surplus is being offset by a number of overspends as follows:

  - £90k pressure in the income budget for the Bunkers Farm new crematorium site due to delays experienced.
  - £55k pressure in the budget for Civic Hall hire. Income continues to be below budget due to the effects of the Covid pandemic on social gatherings.

- £40k pressure in the Estates service due to use of agency to fund a specialist post.

- £140k pressure in Insurance costs. Following advice from the Council's insurance broker, an increase is anticipated on renewal of the insurance tender. Prices are expected to rise by 30%.

- £75k pressures across the Revenues and Benefits service and Financial Services on staffing budgets, the budget for cash processing services and other more minor expenditure lines.

4.3 Core Funding - £55k pressure against budget

- £325k of additional government grant income has been received as follows:

  £250k of support relating to the administration of Covid-19.

  £75k of new burdens funding to meet New Local Authority statutory requirements.

- Pressure of £250k in Investment Income. A pressure on the budget is anticipated, as interest rates remain very low following Bank of England base-rate reduction in March 2020.

- Pressure of £130k in additional costs incurred from the costs of repairs to void Temporary Accommodation properties. The higher than budgeted cost reflects the current high usage of properties for Temporary Accommodation. A revised schedule and scope of works is being undertaken given the current demand levels.

5. Strategic Planning and Environment

Table 4 - Strategic Planning & Environment	**Current Budget £0**	**Forecast Outturn £0**	**Variance £0**	**%**
Neighbourhood Delivery	9,954	10,572	**618**	6.2%
Planning, Development and Regeneration	899	957	**58**	6.5%
Finance & Resources	18	27	**9**	50.0%
Total	**10,871**	**11,556**	**685**	6.3%

5.1 Neighbourhood Delivery - £618k pressure against budget

- A pressure of £360k relates to Waste services employees' costs and vehicle hire costs. This is due to ongoing access issues from residents continuing to work from home and staffing challenges.

  A supplementary budget of £200k is requested to fund a salary supplement to Waste and Clean, Safe and Green drivers, to recognise the nationwide shortage of HGV drivers at the present time and ensure staff retention in order to maintain delivery of the services. This will be funded from the Savings Efficiencies Reserve.

- A pressure of £120k relates to income from the Alternative Financial Model (AFM). No income is expected from the AFM due to high levels of residual waste (loss of £260k income). This is partially offset by additional income from recycling credits which is expected to over-achieve budget by £140k from increased tonnage.

- A pressure of £50k related to the Commercial Waste service where income has not yet returned to pre-pandemic levels.

- A pressure of 40k relates to the cost of fly-tipping clearances. This carries a high cost, particularly when asbestos disposal is required.

5.2 Planning, Development and Regeneration - £58k pressure against budget

- This pressure relates to legal costs arising from the planning appeals process and staffing budgets due to agency requirement for specialist posts.

6. Housing and Community

Table 5 - Housing & Community	**Current Budget £0**	**Forecast Outturn £0**	**Variance £0**	**%**
Corporate and Contracted Services	564	542	**(22)**	(3.9%)
Performance, People and Innovation	1,427	1,402	**(25)**	(1.8%)
Communities	1,442	1,464	**22**	1.5%
Housing	(1,654)	(1,321)	**333**	(20.1%)
Total Operating Cost	**1,779**	**2,087**	**308**	17.3%

6.1 Housing - £333k overspend against budget

A pressure of £220k has arisen against the budget for Temporary Accommodation (TA) income.

£110k is arising due to void properties in the Council's hostels (£50k) and in properties used for TA (£60k). In communal hostels, it is not possible to achieve maximum capacity on all units, as it would be unsafe to do so under current circumstances. In properties being used for TA, there are a high number of void properties due to complexity of the work required to ensure the properties are fit for purpose.

A pressure of £110k relates to a project to convert new units into TA. This has taken longer than anticipated due to the extensive work that is required in converting the properties into suitable accommodation, including obtaining planning permission.

A variance of £80k arises mainly from pressures in staffing budgets in Private Sector Housing and Housing Options, as a result of staff sickness and maternity leave, and from pressures in utilities costs in the council's hostels.

A residual variance of £30k arises from minor costs in the Homelessness service, due to demand on the service.

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 2021/22 is a deficit of £0.8m. 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, or by a contribution from or to HRA revenue reserves. This will be a decision for Members to take once the final outturn position for 2021/22 is confirmed later in the financial year.

7.3 **Dwelling Rents - £279k under achievement in income**

The void rate is running slightly higher than the budgeted 0.8%, at 1.12%. This is particularly attributable to voids at sheltered schemes as a direct result of the pandemic.

7.4 **Tenants Charges - £131k under achievement in income**

In line with the Dwelling Rent variance, this variance has predominantly arisen due to the increased void level at sheltered schemes.

7.5 **Contribution towards Expenditure - £150k under achievement in income**

The income budget for minor capital receipts and rechargeable works is not expected to be fully achieved, due to lower activity as a result of the coronavirus pandemic.

7.6 **Repairs and Maintenance - £131k over budget**

This variance has arisen due to two factors: firstly, there is an underspend in the £1m budget set aside for a full stock condition survey. It has been decided to carry out a phased process, with a quarter of the council's stock being surveyed this financial year. The unspent portion of this budget will need to be carried forward into future financial years. Secondly, there is increased expenditure from addressing the backlog of work which had built up as a result of the Covid-19 pandemic following limited access to properties. There is a renewed focus on electrical works to ensure compliance and a focus on completing outstanding work while access is permitted.

7.7 **Supervision and Management - £230k over budget**

This variance is comprised of a number of items including the following:

- £300k underspend on vacancies to be filled later in the financial year and underspend on general budgets where activity is lower due to Covid
- £220k share of the Transformation programme costs, funded from a reduced revenue contribution to capital (as agreed by Cabinet in June 2021)
- £100k of expenditure required to ensure asbestos compliance
- £140k in additional insurance costs in line with the pressure expected in General Fund budgets as a result of increased insurance premiums.

7.8 **Rent, Rates and Taxes - £139k over budget**

This pressure has arisen due to Council Tax liability from the change in empty homes discount from 3 months to 1 month. This pressure was seen in 2020/21 and is expected to continue into 2021/22. The budget will be corrected for 2022/23.

7.9 **Technical and Accounting Adjustments**

In addition to the service-related variances above, the following technical adjustments have arisen. These surpluses and deficits better reflect the position in the HRA that was seen last financial year and is expected again for this financial year. They can be balanced by a reduction in the revenue contribution to capital.

7.10 **Interest and Investment Income - £117k under achievement in income**

This pressure is expected due to interest rates remaining very low following the Bank of England base-rate reduction in March 2020.

7.11 **Interest Payable - £201k surplus**

A revised forecast outturn is reported based on an updated interest schedule and interest charges are lower than budgeted.

7.12 **Provision for Bad Debts - £500k surplus**

Although it is expected that tenants will need the support of the service during a challenging year, the budget allocation is not expected to be required in full. Arrears are down 10% year on year and collection rates are up, therefore the bad provision is estimated to be lower than budgeted. The projected impact of Covid and Universal Credit on bad debt has not been realised to date, with an underspend realised in the last financial year as well.

7.13 **Depreciation - £2.3m increase to the forecast**

The forecast reflects a more likely outturn position. On completion of the production of the 2020/21 financial statements, the impact of the re-valuations of dwellings that was undertaken has been factored into this year's projections. This increase is in line with the 2020/21 audited financial outturn

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 2021, plus approved amendments.

The 'rephasing' column refers to projects where expenditure is still expected to be incurred but will now be in 2022/23 rather than 2021/22 ('slippage'), or conversely, where expenditure planned initially for 2022/23 has been incurred in 2021/22 ('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	Variance %
Finance & Resources	4,186	(304)	3,881	4,056	**175**	**4.2%**
Strategic Planning and Environment	4,665	(1,700)	2,965	2,972	**7**	**0.1%**
Housing & Community	2,849	(105)	2,744	2,744	**0**	**0.0%**
GF Total	**11,700**	**(2,110)**	**9,590**	**9,772**	**182**	**1.6%**
HRA Total	**38,413**	**(11,699)**	**26,714**	**26,716**	**2**	**0.0%**
Grand Total	**50,113**	**(13,809)**	**36,304**	**36,487**	**183**	**0.4%**

8.2 General Fund Major Variances

General Fund capital budgets are reporting slippage of £2.1m with an overspend of £0.2m. The slippage of £2.1m includes the following items:

- Line 56 and 63: Slippage of £0.15m on Bennettsgate Shopping precinct window and façade renewal. For longer term economies of scale, the budget is being slipped and work will be undertaken during 2023/24 financial year. The current budget figure was based on an estimate for one wing of the property only, however on further investigation and review, it is proposed to undertake improvement works to all 3 wings of the property at the same time in 2023/24. A capital bid for a further £210k will be submitted during the next budget round to complete the proposed improvement works which will greatly improve the shopping centre.

- Line 108: Slippage of £105k in the Verge Hardening Programme. The number of suitable sites has reduced and the budget is being re-focussed to align with the climate change agenda and maximise any carbon neutral and green initiatives.

- Line 151: Slippage of £1.5m on Fleet Replacement Programme. This slippage is predominantly due to the delays in the supply of orders. The service is experiencing delays of approximately 9-12 months between order and supply. These delays are due to a shortage of raw materials which is impacting production. An element of the slippage (circa £0.25m) is related to planned purchases of fleet being slipped to future years to ensure the vehicles purchased fully meet the requirements of the service going forward.

- Line 156: Slippage of £134k on Durrants Lakes. This project has not progressed to date as further studies on the existing structures and ecological area are being undertaken.

8.3 Supplementary Capital Budgets

Additional capital budgets are requested for the following schemes:

- Line 82: Additional expenditure of £0.135m on Town Centre Access Improvements project. This is the project to improve traffic flow and access into the Water Gardens car parks in Hemel Hempstead. The additional budget requirement can be funded from a contribution from Hertfordshire County Council towards the scheme.

- Aragon Close – 8 units of Move-On Accommodation. The Council has been successful in obtaining 50% grant funding from the Department for Levelling Up, Communities and Housing (DLUHC) Rough Sleepers Accommodation Programme. This scheme will provide much-needed move-on accommodation for homeless households. A supplementary budget of £900k is requested, of which 50% is funded from grant.

- Alexandra Road - a budget of £300k is requested to support development of Move-On Accommodation by Hightown Housing Association. The Dacorum contribution is match-funded from a £300k contribution from the Rough Sleepers Accommodation Programme.

8.4 Housing Revenue Account Major Variances

There is estimated slippage of £11.7m in the HRA capital programme.

This includes the following items:

- Line 175: Slippage of £0.75m on Special Projects. This budget is for the creation of additional units in Supported Housing Schemes and the upgrade of communal facilities. The project has been temporarily put on hold awaiting a review of sheltered accommodation to ensure the resources are put to best use.

In the HRA new build budgets set in Autumn 2020, a number of factors which are largely out of control of the council have resulted in delays to the schemes. These include:

- Line 183: Slippage of £3.75m on Eastwick Row. The scheme has been delayed due to challenges in finding an agreeable pre-commencement planning condition around a drainage solution with Herts County flood authority. This will lead to a delay in the units being delivered. Planning applications are taking longer to journey through the planning process, because dealings with third parties and statutory consultees such as HCC or the Environment Agency are taking much longer than prior to the Covid pandemic.

- Line 185 and 190: Slippage of £1.0m on Paradise Fields and £2.7m on Marchmont Fields. Timing differences in purchasing the land sites have occurred due to delays in the planning process.

- Line 187 and line 191: Slippage of £1.6m on Paradise Depot and £1.1m on Randalls Ride. Following Cabinet approval to appoint contractors on these schemes, there are a number of planning pre-commencement conditions that will need to be resolved including reaching agreement with Herts CC highways department who currently have high volumes of work.

- Line 188: Slippage of £0.7m on Garage sites. This scheme has been delayed in going out to tender due to not achieving planning approval on all the schemes until August 2021.

9. Conclusions and recommendations As at Quarter 2 2021/22, there is a forecast pressure of c. £1m against General Fund budgets and a forecast deficit of £0.8m against Housing Revenue Account budgets.

9.2 As at Quarter 2 2021/22, General Fund capital budgets are reporting slippage of £2.1m with an overspend of £0.2m. Against Housing Revenue Account capital schemes, budget rephasing of £11.7m is forecast.

9.3 Members are asked to:

- note the forecast outturn position as at Quarter 2

- recommend to Council to approve the draw down from reserves set out in the report.

- approve the budget virements set out in the report.

- recommend to Council the approval of supplementary revenue budgets set out in the report.

- recommend to Council the approval of supplementary capital budgets set out in the report.

- recommend to Council the approval of the revised capital programme to move slippage identified at Quarter 2 into financial year 2022/23;