

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 12 JULY 2016
REPORT OF THE DIRECTOR (FINANCE & OPERATIONS)

REVENUE BUDGET OUTTURN REPORT FOR THE FINANCIAL YEAR 2015-16

1 Executive Summary

- 1.1 This report presents the revenue outturn for the financial year 2015-16 and outlines the main variances from the approved budget at period 9 (31st December 2015) for both the General Fund and Housing Revenue Account Services.
- 1.2 Overall the General Fund outturn position is favourable with £1.649m being added to reserves (Refer to section 3 for details). This is an improvement of £292k on the Current Budget position of £1.357m.
- 1.3 The Housing Revenue Account is also favourable and at the yearend £1.626m is being added to balances. This is a significant change compared to the forecast reported in December, and is primarily attributable to the timing of spend on the affordable housing programme. The HRA balance at the end of the year stands at £13.9m compared to £9.9m reported in December.
- 1.4 The final position on growth & savings included in the General Fund budget for 2015/16 is, 60.9% of our growth and 89.0% of our savings have been achieved. (Refer to section 6 and appendix C of the report)
- 1.5 At the yearend outstanding debts, including rechargeable works, total £1.327m, with rolling debtor days at 36.52. (Refer to paragraphs 7 & 8 for detail).

2 Recommendation(s)

- 2.1 Cabinet are asked to note the outturn for the General Fund and the Housing Revenue Account as at 31 March 2016.
- 2.2 The Cabinet are asked to note the position on debts and rechargeable works set out in paragraphs 7 & 8 of this report.
- 2.3 Cabinet are asked to note movements on all reserves including ring-fenced & strategic reserves as highlighted in paragraph 3.13

3 General Fund Services

- 3.1 At the end of the year £1.649m will be added to its General Fund balances with a further £1.055m positive movements on ring-fenced and strategic reserves , Appendix A to this report sets out the overall financial position for the General Fund services for the year.
- 3.2 The net operating expenditure for the year is £13.527m. This is £683k less than the current budget and £1.988m less than the original budget. Throughout the

year members have received quarterly reports outlining variations and agreeing updated current budgets these figures represent the costs of running the services after reversing out all technical accounting items for capital and pensions (IAS19).

- 3.3 At period 9 the agreed current budget assumed a contribution to general balances of £1.357m (£1.261m at period nine plus £96k in other changes). This position improved at year end by £292k. The following table lists the main reasons for this and the paragraphs that follow provide further detail. (A full list of variances against the current budget is shown in appendices B (1-15)).

| | £'000 |
|--|------------|
| Increased net income – see paragraph 3.4 for commentary and app B2-B4, B6, B8 & B11-B13 for detail | 798 |
| Employee budgets- see paragraph 3.5 for commentary and app B1-B15 for detail | 379 |
| Supplies and Services - see paragraph 3.6 for commentary and app B1-B15 for detail | 297 |
| Council tax & NNDR, recovered benefit payments - see paragraph 3.7 for commentary and app B6 for detail | 285 |
| Premises related savings - see paragraph 3.8 for commentary and app B3, B6-B8, B11 & B13 for detail | 224 |
| Payment to contractors - see paragraph 3.9 for commentary and app B4, B7-B8 & B11-B13 for detail | 218 |
| Corporate Projects - see paragraph 3.10 for commentary and app A, B13 & B15 for detail | 174 |
| Grants - see paragraph 3.11 for commentary and app B2 & B6 for detail | 133 |
| Movement in provisions - see paragraph 3.12 for commentary and app B2, B6 & B12 for detail | (1,093) |
| Movements in ringfenced reserves and one-offs - see paragraph 3.13 for commentary and app A for detail | (545) |
| Campus West - see paragraph 3.14 for commentary and app B13 for detail | (381) |
| Building Control income - see paragraph 3.15 for commentary and app B12 for detail | (221) |
| Spend on existing ringfenced reserves - see paragraph 3.16 for commentary and app B4, B6, B11 & B12 for detail | (83) |
| Business rates retention scheme - see paragraph 3.17 for commentary and app A | 131 |
| Other movements - see paragraph 3.18 for commentary and app A | (24) |
| TOTAL | 292 |

3.4 **Increased net income**

- 3.4.1 The estates management property portfolio income increased by £242k. This was due to a combination of the purchase and rental of several Hatfield Town Centre properties, lower than expected vacant properties and the disposal of some freehold reversions to existing tenants during the final quarter of the year. In addition rental income for garages has surpassed its target due to lower than anticipated vacancy levels in the last quarter contributing £72k to the overall improved income position.

- 3.4.2 Reductions in the recycling waste subsidy from HCC (Hertfordshire County Council), assumed in the budget, did not materialise resulting in a saving of £147k. There will be reductions in future years that will be built into the budget strategy.
- 3.4.3 Car parking income has performed well with no snow affecting operations during the Christmas period. The current budget income target was exceeded by £144k. The Campus West car park stands out as performing very well since the redevelopment works with the number of transactions increasing from 122 to 143 thousand compared to 2014/15.
- 3.4.4 Due to improved market conditions the Planning team's income has exceeded the target set in the current budget by £129k. When comparing the 2014/15 and 2015/16 outturns income levels have increased by £196k from £659k to £855k.

3.5 **Employee budgets**

- 3.5.1 Employee budgets, including car allowances, contributed £188k towards the overall under spend. Over half of this saving falls within the Strategy & Development Director. Other services with under spends included Public Health and Protection (£36k), Legal (£21k) & Museums (£19k).
- 3.5.2 The corporate budget for redundancies of £100k was not spent during the year.
- 3.5.3 A review of officer time spent working on capital schemes has identified that a further £91k can be legitimately charged to those projects

3.6 **Supplies and Services**

- 3.6.1 Work is ongoing on the council's Local Plan. The complexities of the strategy and the public response during the consultation period has resulted in a re-profiling of the budget and an under spend of £85k in this year. This money will be needed during 2016-17 as the completion of the Local Plan moves forward. In addition, the amount of external consultancy assistance required on planning appeals was £41k less than budgeted due to a reduction in public enquiries.
- 3.6.2 There has been a reduction in IT costs of £66k mainly due to less additional work outside the scope of our contract with Sopra-Steria, together with stringent budget management controls on hardware and software purchases.
- 3.6.3 Corporate Property under spent by £43k on supplies and services. This is made up of £15k on IT/telephone costs at Weltech, £15k of IT costs in the Premises team and £13k on the reduced need of contractors' assistance within the Estates team.
- 3.6.4 The new Economic Development officer was not appointed until January 2016 and the entire project expenditure budget was not spent generating a saving of £26k.
- 3.6.5 Other supplies and services under spends across the council include; District Council Elections (£22k) and Members Administration (£14k).

3.7 Recovered benefit payments

3.7.1 The Council paid out in excess of £40m in benefit payments during 2015-16 and receives the majority of this sum back in subsidy from the DWP. However, it is the responsibility of the authority to collect the overpayments (benefits fraudulently claimed or paid incorrectly) it has made to benefit recipients; the DWP only pays a partial subsidy towards unrecovered amounts. The Authority exceeded its budgeted level of recovered overpaid benefits and as a result benefit payments cost the Authority £285k less than expected.

3.8 Premises related savings

3.8.1 Net savings of £82k have been realised in responsive and planned maintenance, this is mainly due reduced demand of responsive maintenance during the last quarter. The Executive Board were made aware of this under spend in the period ten monitoring report.

3.8.2 As part of the Council's risk management processes the utility budgets are continually assessed. At the end of the financial year an exercise is carried out to review the utility bills that we have paid on behalf of Finesse to calculate if any money is owed to either party. This exercise has resulted in a budgetary saving of £51k plus further utility savings across the council have been identified of £25k

3.8.3 Across the Council's commercially let and own properties cleaning, general maintenance and refuse collection charges have reduced. Resulting in a total saving of £66k.

3.9 Payment to contractors

3.9.1 Environmental services produced savings of £85k with the majority relating to contract negotiations and lower payments due to lower tonnages collected from our various recycling partners.

3.9.2 Homelessness and Housing Advice are services that the Council has asked the Housing Trust to carry out on our behalf. Savings within the Trust have been passed onto the Council creating a reduction in the expected recharge of £51k.

3.9.3 Proposed increases in payments to East Herts (our Civil Parking Enforcement partner) were not as high as first anticipated resulting in a saving of £37k.

3.10 Corporate Projects

3.10.1 As part of the 2015/16 budget setting process a new corporate projects budget was setup for £700k. At period 9 members agreed that this was reduced to £350k and that sum was rolled into the 2016/17 budget. Of the remainder £174k has been spent with £176k falling into the Strategic reserves.

3.10.2 The projects that this money funded include the mausoleum (£86k), Housing Trust business appraisal (£30k), IT equipment for members (£23k) and legal advice for setting up the arrangement with Broxbourne Borough council also using Steria (£18k).

3.11 Grants

3.11.1 During the year Cabinet agreed a budget and an approach to support private business in those properties the council acquired from St Modwen in Hatfield

Town Centre who were subject to significant rent increases. Only £4k of this support has been requested by businesses resulting in a saving of £77k.

3.11.2 The Council received a grant of £56k from the Electoral Commission to facilitate the implementation of Individual Electoral Registration. Some has been used to fund additional staffing costs with the remainder falling into earmarked reserves..

3.12 **Movement in provisions**

3.12.1 As part of reviewing benefits overpayments it was considered prudent to make a bad debt provision for £891k to recognise the uncertain nature of collecting benefit overpayments. The total outstanding debt is currently £1.948m with a provision of 35% used for debts one year old rising to 90% for debts 10-14 years old. This approach is consistent with other local authorities.

3.12.2 The MMI Scheme of Arrangement was established in January 1994 to offer financial provision for insurance claim settlements under policies incepted with MMI. In previous years this liability has been viewed as a contingent liability (a possible obligation arising from past events), but more recently has changed status to a provision. Several levy payments have been made into the scheme and the likelihood of further payments is more certain. To reflect this, the overall provision within the accounts is now for £316k.

3.12.3 In early 2011 claims were made by a number of Property Search Companies against central government and local authorities that fees for certain Local Land Charge searches from 1 January 2005 were unlawful. Based on the amount claimed the council set aside a provision. Part of the claim has now been paid however an unexpected grant was received by DCLG to help fund payment. This has meant the provision has been reduced by £85k.

3.12.4 Due to the lower level of insurance claims received and the subsequent lower settlements negotiated it has been possible to refund the General Fund £29k from the Insurance Provision Account for contributions made in respect of general and tree root claims.

3.13 Movements in ringfenced reserves and one-offs

3.13.1 There has been a net contribution to ring fenced reserves and the Strategic Initiatives reserve of £1.055m. To mitigate the volatile nature of the Business Retention Scheme a separate reserve has been set up

| | 2015/16 Year End Balance to / (from) £'000 | 2015/16 adverse / (favourable) movement £'000 | Notes |
|---|---|---|---|
| Building Control | 0 | (10) | There has been a change in accounting policy for Building Control income meaning this reserve will not be used in 2015/16 |
| Hackney Carriages | (7) | (12) | This has been used to fund a trading loss |
| Funds for one-offs | 126 | (278) | For use on one-off specific general fund projects across the range of services |
| Growth Fund Determination Grant | (18) | 18 | This has been used to fund elements of planning policy work |
| Performance Reward Grant | 0 | 0 | This has been used to fund elements of Local Strategic Partnership work |
| Resources earmarked reserves | 842 | (132) | This will be used to mitigate the impact of the Business Rates Retention scheme |
| Planning earmarked reserves | 165 | (165) | This will be used to fund future planning projects |
| Policy and Culture earmarked reserves | (13) | 13 | This has been used to fund the Herts Disability Sports Hub |
| Housing and Community earmarked reserves | 1 | (1) | This will be used to fund future housing projects |
| Law and Admin earmarked reserves | 24 | (42) | This will be used to fund future Individual Electoral Registration expenditure |
| Public Health and Protection earmarked reserves | (65) | 65 | This has been used to fund a number of public health projects. |
| TOTAL | 1,055 | (544) | |

3.14 **Campus West**

3.14.1 This was the first full financial year that the new facilities and services have been in operation at Campus West. Overall the service shows a net adverse variance of £381k at the end of the year. This reflects a shortfall in income of £133k, of which £100k was highlighted at period six. The remainder relates to additional expenditure of £248k. Due to the seasonal nature of the income profile at Campus West this variance could not be highlighted at the period nine report.

Overall in its first full financial year the net cost is £881k. However experiences of this will be fed into a review with a focus on changes in procedures, pricing, staffing and offerings to help maximise income and reduce expenditure in 2016/17 and ongoing.

3.15 **Building Control Income**

3.15.1 As part of the year end process a review of the Building Control income has been carried out. This has identified income received in 2015/16 that relates to work in future years. After accounting for this a shortfall in income of £221k has occurred on the service.

3.16 **Spend on existing earmarked reserves**

3.16.1 There has been a net spend on existing earmarked reserves of £83k. These include expenditure on the Public Health projects and Growth Fund Determination Grant all of which have been funded from reserves (see 3.13)

3.17 **Business Rates Retention Scheme**

3.17.1 During the Autumn Statement 2013, the Chancellor announced a number of additional reliefs and exemptions to business rate payers designed to support business growth. The council received grants from Central Government to compensate for the share of lost income as a result of granting these additional reliefs. The total amount received was £32k less than expected.

As part of the changes to Business Rate Retention introduced in 2013/14, the Council now has to pay over a levy to Central Government equal to half its expected growth in Business Rate income. In 2015/16 the Council is paying £163k less than forecast. This is because the council benefitted from being part of a business rates pool.

3.18 **Other movements**

3.18.1 Other movements include a net £24k adverse variance.

4 **General Fund - Budget Monitoring Process and Risk Management**

4.1 Appendix D highlights the budgets identified as risk budgets where the outturn can vary due to demand. Variances to the forecast outturn in these areas can contribute significantly to outturn variances which can be both adverse and favourable.

4.2 The detailed statements in the appendix provide information on the budgets and spending to date to highlight any potential budgets that may need review. Some of the data is service specific, but some information is given at a corporate level

including spending on, external printing, car allowances, utilities and employee costs for the General Fund.

5 Ring Fenced Housing Accounts

5.1 The provisional outturn for the HRA is £4.3m better than the current budget that was last adjusted in the December reporting cycle. Income was marginally worse than the budget, but overall expenditure was significantly lower than anticipated by £4.3m. This has left balances on the ring fenced account of £13.9m and the major variances are listed below.

- Rental income was slightly below budget by £60k and this was due to the mix of properties sold and the types of voids during the last quarter of the year. However, this was compensated by increased income from services of £21k, mainly from hostel service charges and costs recovered from tenants. In addition to this there was an increase in de-minimis receipts of £36k. Leaseholder's service charges were lower by £145k, but this relates directly to the work carried out, so there are matching savings in expenditure and there were some timing issues on the planned schemes.
- There was a further reduction in the trust management fee to the HRA of £691k and this was spread across supervision and management (£299k), special services (£97k) and repairs and maintenance (£295k). The savings in the fee comprised of employee costs and supplies and services. In repairs and maintenance, of the £295k saving from the fee, £337k was derived from the various repairs and maintenance budgets, with an adverse variance on support service costs of £42k, linked to the technical planning of works and the asset management programme.
- In supervision and management there was an overall positive variance of £771k. Apart from the £299k trust fee saving, the most significant under spend of £374k was on the office move budget, as originally an estimate had been included for possible dilapidation costs on the Bridge Road office building. These did not materialise and the only expenditure was on the move itself. There were savings of £29k on external legal and professional costs and £25k on contributions to the pension fund.
- Special services were also under the current budget by £171k, with the main variances relating to the trust fee of £97k and aids and adaptations of £82k, which are demand led.
- Repairs and Maintenance was also under the current budget by £643k. A large proportion of the saving came from the Mears contract, arising from under spends and efficiency gains amounting to £366k. Other non-Mears budgets had savings amounting to £11k in addition to savings on the trust fee of £295k.
- There was also a £24k saving on Rents, Rates, Taxes and other Charges. This related to both lower premiums than originally estimated and less excess payments than originally projected.
- In 2015/16 a provisional sum of £50k was put in the budget to supplement the government's discretionary housing payments. This could only be used when the original grant was exhausted. Last year the majority of claims were covered by the initial grant and only £8k was required from the HRA to cover awards to council tenants.

- The original budget for the provision for bad debts at £800k was high in preparation for potential benefit changes and the roll out of universal credit. This was then reduced significantly during the year to £250k. Subsequently, in quarter 4, write offs of about £180k were made on former tenant arrears which were deemed uncollectible through a debt recovery agency. Also at year end, the bad debt provision calculation was recalculated, based on the age of debt and this resulted in a further provision of £380k. This provision relates to former tenant arrears and could be reversed if the council is successful in recovering the debt. However, this increase should be viewed in the context of excellent rent collection performance last year that has seen a collection of more than 100% of the rent raised and a reduction in the outstanding arrears of current tenants to just 1.45%.
- Interest on HRA balances came out higher than anticipated due to building up of reserves from the sale of properties. There has also been an improvement in interest rates.
- The most significant variance on the account from the report in December is in the Revenue Contribution to Capital. This mainly relates to the affordable housing programme and the variance is due to the timing of property purchases and development schemes. Although there was a saving of £3m on this heading, this will need to be re-adjusted in the 2016/17 budget in order for the Council to meet its obligations under the right to buy sales retention agreement. There was also an item for £150k relating to the purchase of a document management system that was not spent in 2015/16 and this will also be rolled forward to next year's budget.

5.2 Items that do not impact HRA balances:

- Many of the large variances on the account do not impact on HRA balances. These include the £614k variance on depreciation, which can only be confirmed when the stock valuation is completed at the year end. There is also a £6.6m variance on the Revaluation Loss/Gain and this relates to the final capital accounting entries on fixed assets. The underlying valuation was a gain of £154m, but this was reduced by prior year losses in the revaluation reserve. Loss/Gains on the Disposal of assets are also dependant on the gain from properties sold, combined with capital expenditure on new components on the remaining assets and the effect of de-recognition of the replaced components. The variance is high on this as the gain on the sale of properties is almost as high as the loss on de-recognising the components disposed. Due to the unknown mix of sales from right to buys this is difficult to predict, but is also reversed from the account and does not impact on balances.

5.3 Appendix J details the provisional closing position for the HRA including an itemised list of changes that were made to the current budget.

6 Growth and Savings 2015/16

6.1 Appendix C provides a final position statement in terms of implementing the growth and savings approved as part of the 2015/16 budget process.

6.2 Ongoing growth items agreed as part of the original budget totalled £662,610. Of this £621,240 was spent by the end of the financial year, this equates to 93.8%.

- 6.3 The areas of under spend included the Housing Benefit administration grant reduction (£15k) discussed at period six and the timing of recruitment to the new Economic Development Officer post (£14k).
- 6.4 One-off growth items were originally budgeted at £1,052,000 by the end of the year £423,418 had been spent.
- 6.5 Budgeted efficiencies of £1.654m were included in the original budget. Of these £1.471m (or 89%) were achieved by the end of the financial year. Of those not achieved the most significant is the Campus West income (£133k) as discussed in period six.

7 Outstanding Debts on Debtors System

- 7.1 The debtors system currently shows debts outstanding of £1,110,914. This is an increase on the December position of £754,774; mainly due to the cyclical nature of large quarterly rental invoices.
- 7.2 The debtors system does not include debts for housing rents, council tax and business rates.
- 7.3 Appendix E analyses the outstanding debt by age and across services.
- 7.4 The Authority currently has debts of £78,977 in the category over 365 days old. This is an increase of £13,665 on the figure outstanding at the end of December.
- 7.5 Detailed information on outstanding debts is sent to Directors and Heads of Services for action where appropriate and discussed at the regular budget monitoring meetings with the service accountants. A pro-active approach is taken in managing debts by finance, legal and services.
- 7.6 The average cost of recovering debt is estimated as follows:
- a) Loss of interest – for every £100,000 debt outstanding for a full year, costs the council £500 in interest based upon the current base rate of 0.5%. It should be noted that the position on the total and age of debt moves continuously as proactive action is taken on recovery.
 - b) Staffing costs – it is estimated that £22,000 per annum is spent on debt recovery action. This is based on elements of time spent by staff from finance, legal and corporate property. This excludes fixed charges for accommodation and IT and other support service costs.
 - c) Legal Costs – these will vary year on year and depend upon the action taken.
- 7.7 Currently, performance is being measured in debtor days; the current debtor days target is 33. At the end of March 2016 the rolling debtor days totalled 36.52 days. The formula for calculating debtor days is based on the previous 12 months and although the target is not being met this is a reduction on the 40.67 days taken for the same period last financial year.
- 7.8 Within the debtors system there is a wide range of different income streams:
- Non Housing rents for leasehold garages, shops and ground rents. These accounts are raised quarterly, the total value raised over the last year being in excess of £2.2m.

- Weltech rents and service charges in excess of £382k
- Building Control fees invoices were raised for over £113k.
- Environmental Services invoices raised in excess of £1.24m
- General Fund Garage accounts are raised in excess of £2.1m
- Campus West invoices were raised in excess of £102k.

8 Rechargeable Works

- 8.1 Rechargeable accounts arise where the authority has provided a service and incurred a cost on behalf of a third party and the cost will be reimbursed to the Authority. Directors and Heads of Service are reminded that it is in the council's interest to ensure that rechargeable accounts are recovered efficiently and they are therefore asked to action these appropriately.
- 8.2 A debit of £120k was carried forward into this financial year, which has now increased to £216k at the end of March 2016.

Implications

9 Legal Implication(s)

- 9.1 There are no legal implications arising as a result of this report.

10 Financial Implication(s)

- 10.1 The financial implications are set out within this report.

11 Risk Management Implications

- 11.1 The risks related to this proposal are:
- 11.2 These are set out within the report.

12 Security & Terrorism Implication(s)

- 12.1 There are no security & terrorism implications arising as a result of this report.

13 Procurement Implication(s)

- 13.1 There are no procurement implications arising as a result of this report.

14 Climate Change Implication(s)

- 14.1 There are no climate change implications arising as a result of this report.

15 Link to Corporate Priorities

- 15.1 The subject of this report is linked to the Council's Corporate Priority "Engage with our communities and provide value for money", and specifically to the achievement of "Demonstrate Value for Money".

16 Equality and Diversity

16.1 As this report is for information purposes only, a formal Equality Impact Assessment on its proposals has not been necessary.

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Date *8th June 2016*

Background papers to be listed (if applicable)

N/A

Appendices to be listed

| | |
|--------------|---|
| A | General Fund revenue budget overview by Director and Head of Service |
| B1-15 | Variance analysis by Head of Service for direct and support services |
| <i>B1</i> | <i>Governance Directorate – Support Service - fully recharged</i> |
| <i>B2</i> | <i>Head of Governance – Direct Service</i> |
| <i>B3</i> | <i>Head of Governance – Support Service – fully recharged</i> |
| <i>B4</i> | <i>Head of Public Health & Protection - Direct Services</i> |
| <i>B5</i> | <i>Finance & Operations Directorate – Support Service – fully recharged</i> |
| <i>B6</i> | <i>Head of Resources – Direct Service</i> |
| <i>B7</i> | <i>Head of Resources – Support Service – fully recharged</i> |
| <i>B8</i> | <i>Head of Environment – Direct Services</i> |
| <i>B9</i> | <i>Head of Environment – Support Service – fully recharged</i> |
| <i>B10</i> | <i>Strategy & Development Directorate – Support Service – fully recharged</i> |
| <i>B11</i> | <i>Head of Housing & Community – Direct Services</i> |
| <i>B12</i> | <i>Head of Planning – Direct Services</i> |
| <i>B13</i> | <i>Head of Policy & Culture – Direct Service</i> |
| <i>B14</i> | <i>Head of Policy & Culture – Support Services – fully recharged</i> |
| <i>B15</i> | <i>Chief Executive – Direct and Support Services</i> |
| C | Position statement on budget growth and savings for 2015/16 |
| D | Activity and Risk Budgets |
| E | Age debt profile for debts outstanding at the end of March 2016 |
| F | HRA budgetary position at the end of March 2016 |