**Annex 1**

**Budget Management**

**2017/18**

***Period 6 (End of September)***





**Budget Monitoring Summary**

**Revenue**

The original net direct revenue budget for 2017/18 was set at **£10.538 million**. As part of the 2016/17 outturn report in June, it was approved that unspent budgets totalling £0.289 million would be carried forward into 2017/18. This gave a 2017/18 approved working budget of **£10.827 million**.

The Period 4 budget monitoring was reported to Policy and Resources (P&R) Committee in September. P&R Committee reviewed the budget and recommended to Council some (but not all) of the budget adjustments; these were subsequently approved by Council on 17 October. This means that the latest approved working budget for 2017/18 is now **£10.681million.**

The net revenue expenditure forecast outturn at period 6 (September) provided by the services is now estimated to be **£11.062 million.** Thisgives an unfavourable variance when compared to the latest budget of **£0.381 million.**

Services have identified that the main contributors to this variance are:

|  |  |  |
| --- | --- | --- |
|  |  | £ |
| 1 | Car Park Enforcement: Income for this service is lower than anticipated due to a decrease in demand following the new charging regime and delay in the implementation of a new parking scheme in Rickmansworth which is now expected to go live in 2018. | 145,000 |
| 2 | 1. An increase in the cost of ICT Service. In October a report regarding the increase in spend was presented to Three Rivers’ and Watford's Joint Management Board. The report highlighted that this level of budget is required under the current resourcing model in order to provide a functioning service that delivers acceptable levels of performance 2. ICT savings from M3 and Proactive as these systems are no longer required. | 191,200  (40,370) |
| 3 | One-off windfall income due to business rates refunds for the period of 2010-2017 after an appeal for the Council's car parks | (151,240) |
| 4 | Surveyors fees for acting on behalf of the Council for business rate appeals on the Council's car parks (see ‘3.’ above) | 45,000 |
| 5 | Increase in cost due to implementation of a specialist document management system (IDOX). | 60,000 |
| 6 | Provision of Temporary Accommodation:   1. Target saving of £170,000 in respect of the Bury site in Rickmansworth will not materialise in the current year. This is now expected in 2018/19 2. Target saving of £103,820 in respect of the development of 34 additional units within the District will not materialise in the current year. This is now expected in 2018/19 3. Increase in cost due to the Council’s statutory obligation under the Homeless reduction Act 2017. The act represents an immense change in the support that must be given to all persons who present themselves as homeless, including those who are not deemed to be vulnerable or in priority need 4. Reduction in the cost of providing temporary accommodation as a result of securing better value accommodation which has been blocked booked in partnership with another Hertfordshire authority | 170,000  103,820  48,340  (50,000) |
| 7 | Increase in property investment income predominantly from South Oxhey | (65,000) |
| 8 | Increased income from Garden waste due to higher participation | (13,000) |
| 9 | Saving in staffing costs due to a restructure in the Revenue & Benefits shared service | (29,800) |
| 10 | Total of other minor variances | (32,900) |
|  | **Total:** | **381,050** |

**Capital**

The original budget for 2017/18 was set at **£17.605 million**. Approved budget re-phasing from 2016/17 totalling £3.974 million gives a latest budget of **£21.579 million**.

The Period 4 budget monitoring presented to Policy and Resources Committee in September recommended a net variance of £0.01 million (£10,000). This was subsequently approved by Council on 17 October, to give a latest approved capital budget of **£21.569 million**.

Services have identified a reduction in the forecasted outturn position at Period 6 of **£2.052 million**.

The main contributors to this variance are:

|  |  |  |
| --- | --- | --- |
|  |  | **£** |
| 1 | Bury Lake Young Mariners capital scheme. Loan of £1,000,000 funded from capital to be drawn down in 18/19 following approval at P&R committee on 17 October 2017 and therefore needs to be re-phased. | (1,000,000) |
| 2 | Re-phasing of Temporary Accommodation. Other sites – these are going to planning committee in December, so unlikely to commence until 2018/19 | (1,160,000) |
| 3 | Temporary Accommodation- Rickmansworth. Majority of spend by 31 March 2018, but amount held for retention to be paid in 2018/19. | (58,300) |
| 4 | Leavesden Management Plan - Council contribution towards the new café at Leavesden Country Park is to be paid to YMCA on completion – not now due to complete in current year and therefore re-phased to later years. | (200,000) |
| 5 | South Oxhey Initiative residual element of £100k to be re-phased to 2018/19 | (100,000) |
| 6 | Property Investments - Purchase of three properties as approved by the Council’s internal Property Investment Board (PIB). These purchases are funded from the £20 million investment pot identified in the Council’s capital programme. Each investment was subject to a comprehensive business case and discussion at PIB. | 670,940 |
| 7 | Saving from the Council’s contribution to capital works for Disabled Facilities. | (200,000) |
| 9 | Other variances | (4,530) |
|  | **Total Variance** | **(£2,051,890)** |

**1.0 Revenue Budget**

1.1 The Council’s latest approved budget is **£10.681million.** The forecast outturn is now estimated to be **£11.062 million** which results in an unfavourable variance of **£0.381million.**

1.2 The trend over the financial year 2017/18 is plotted on the graph below. The forecast outturn should be compared with the original budget plus the carry forwards from 2016/17 as this is essentially the starting point for the 2017/18 working budget.

1.3 The table below compares the latest budget to the forecast outturn and shows the variance against each Committee. It also shows the spend to date up to the end of September (Period 6).The figures relate to direct costs and incomes within each Committee.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2017/18 Revenue Account – General Fund Summary** | | | | | |
|
|  |  | **(A)** |  | **(B)** | **(B – A)** |
| **Committee** | **Original Budget** | **Latest Budget** | **Net**  **Spend**  **to**  **Period 6** | **Forecast**  **Outturn** | **Outturn Variance** |
| **£000** | **£000** | **£000** | **£000** | **£000** |
| Leisure, Wellbeing & Health | 2,270 | 2,278 | 702 | 2,249 | (29) |
| Sustainable Development,  Planning & Transport | 1,834 | 1,848 | 217 | 2,170 | 322 |
| General Public Services & Community Safety | 1,947 | 1,805 | 291 | 1,795 | (10) |
| Policy & Resources | 4,487 | 4,750 | 3,380 | 4,848 | 98 |
| **Net General Fund** | **10,538** | **10,681** | **4,590** | **11,062** | **381** |

1.4 Each Committee’s revenue medium term financial plan which incorporates comments by Officers is shown **Appendix 1**.

1.5 The detail of comparing latest budget to the forecast outturn together with an explanation of the variances by committee is shown in **Appendix 2.** Committee’s with significant variances are provided in the narratives below

1.6 **Leisure, Wellbeing & Health**

* Expected increase of £15,000 in income due to higher volume of ticket sales for the forthcoming pantomime

1.7 **Sustainable Development, Planning & Transport**

* There are increased costs of £60,000 within development management due to the implementation of the specialist document management system (IDOX).

* Car Park Enforcement Income

Reduced income targets totalling £145,000 this is due to lower demand relating to the new charging regime consisting of the first hour free and the second at £1. In addition there has been a delay in the implementation of the new charging scheme in Rickmansworth; this is now expected to commence January/ February 2018.

* Car Park Maintenance Income

The Council received windfall income totalling (£155,240) following the successful appeal on the 2010 valuation of the Council’s car parks.

* Temporary Accommodation

Under-achievement of savings target meant to be achieved through a reduction in cost of Temporary Accommodation due to a delay in the development of the Bury site in Rickmansworth of £170,000

Under-achievement of savings target due to delay in the development of Temporary accommodation 34 units in the district of £103,820

Both of these are anticipated to be implemented in 2018/19.

Council has received Homelessness grants totalling £162,500. There has been minimal spend against these to date, but it is expected that these will all be spent by the year end.

Increase in cost of £48,340 due to the Council’s statutory obligation under the Homeless reduction Act 2017. The act represents an immense change in the support that must be given to all persons who present themselves as homeless, including those who are not deemed to be vulnerable or in priority need

Reduction of £50,000 in the cost of providing temporary accommodation as a result of securing better value accommodation which has been blocked booked in partnership with another Hertfordshire authority

1.8 **General Public Services & Community Safety**

* The Waste Service has offered up savings of (£13,000) for month 6: This is due to increase in income due to higher participation in Garden Waste

1.9 **Policy and Resources**

* Increase in property investment predominantly from South Oxhey (£65,000)
* Agents’ fees for acting on behalf of the Council to secure BR appeals on the 2010 valuations for car parks. £45,000
* Saving of £29,800 in staffing costs due to a restructure in the Revenue & Benefits shared service
* ICT Service

An increase in the cost of ICT Service. In October, a report on the increase in spend was presented to Three Rivers’ and Watford's Joint Management Board. The report highlighted that this level of budget is required under the current resourcing model in order to provide a functioning service that delivers acceptable levels of performance.

Additionally the budget set for 2017/18 was not revised to incorporate the fundamental change to the IT operating model, despite it being acknowledged at the point of exiting from Capita that the new mixed service model, meeting our performance requirements, would be more expensive than the fully outsourced model. The report recommended that a new establishment and budget for the ICT Shared Service. This has been developed through consideration of industry standard practice methodology for the functions that are required within an ICT Service and an understanding of the gaps in the current ICT provision.

It should be noted that the budget under the Capita model had reduced over the term of the contract and potentially this would have led to an underfunding of the ICT service when it returned to an in-house provision.

* ICT Savings from M3 and Proactive of (£40,370) as these are no longer required.

1.10 The graph below shows the 2017/18 forecast outturn compared with the outturns for 2016/17 and 2015/16.

1.11 The effect of the variances on the Council’s general fund balance over the medium term (2017/18 – 2019/20) is shown in the table below.

|  |  |  |  |
| --- | --- | --- | --- |
| **Movement on General Fund** | **2017/18** | **2018/19** | **2019/20** |
| **£000** | **£000** | **£000** |
| Balance at 1 April | (4,094) | (3,035) | (3,201) |
| (Surplus)/deficit | 1,059 | (166) | 95 |
| Balance at 31 March | (3,035) | (3,201) | (3,106) |

*The surplus/deficit shown above is adjusted for the forecasted outturn. A prudent minimum general fund balance of not less than £2 million is considered appropriate.*

**2.0 Capital Programme**

2.1The Council’s capital programme has been designed to support and enhance its core services.

2.2 The original budget for 2017/18 was **£17.605 million**. The latest budget is **£21.569** million which includes previously approved rephasing of **£3.974 million and a variance of 0.01 million (£10,000) reported in month 4.**

The forecast outturn for Capital expenditure at Period 6 is **£19.517 million**.

Services have identified a further variance of **£2.052 million** for 2017/18.

* + 1. **This includes a request to re-phase £2.523 million from 2017/18 to 2018/19.**

Main Capital Schemes with proposed re-phased budgets include:

* Bury Lake Young Mariners scheme - It is proposed that the £1,000,000 budget be fully re-phased into 2018/19 as the drawdown of the Council loan is now likely to commence contributing towards the project in early 2018/19, although no commencement date has been confirmed by BLYM at this point in time.
* Re-phasing of the Council’s (£200,000) contribution towards the café at Leavesden Country Park from 2017/18 into 2018/19. The project is due for completion in May 2018 with the Council’s contribution becoming due on completion.
* South Oxhey Initiative (£100,000) to be rephased into 2018/19.
* Temporary Accommodation Other sites: £1,160,000 million is proposed to be rephased into 2018/19 as construction of the 34 temporary accommodation units is expected to commence in Quarter 2 of 2018/19.
  + 1. Savings of (£200,000)

Disabled Facilities. The Council contributed £200,000 to the Disabled facilities capital fund. This is demand led service it is unlikely that the full budget allocation will be spent this year. It is proposed that this (£200,000) be offered up as a saving in 2017/18 only.

* + 1. Property Investment Board spend of £670,940

In accordance with the PIB delegations and following satisfactory business cases being made, there was spend on the purchase of three properties, these being The Grapevine public house, 2 Gosforth Path and 224d Gosforth Lane. This was funded by the Property Investment Board from the £20 million investment fund set aside for this purpose at the budget setting in February 2017.

2.3 The table below shows the 2017/18 Capital Programme budget, forecast outturn, spend to date and variance for each service committee for period 6.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Committee** | **Original Budget**  **£000** | **Latest Budget £000** | **Spend to P6 £000** | **Forecast**  **Outturn**  **£000** | **Outturn Variance**  **£000** |
| Leisure, Wellbeing & Health | 1,946 | 2,883 | 447 | 1,671 | (1,212) |
| Sustainable Development, Planning & Transport | 3,761 | 4,576 | 287 | 3,058 | (1,518) |
| General Public Services & Community Safety | 395 | 950 | 359 | 945 | (5) |
| Policy & Resources | 736 | 1,883 | 1,003 | 2,536 | 682 |
| **Total Service** | **6,839** | **10,292** | **2,096** | **8,210** | **(2,082)** |
| *South Oxhey Initiative* | *10,766* | *11,277* | *6,610* | *11,277* | *0* |
| **Total Capital** | **17,605** | **21,569** | **8,706** | **19,487** | **(2,082)** |

2.4 As at the end of period 6, services have spent a total of £8,706 million against a latest budget of £21,569 million. This represents **40% of the budget**. The total spend to date includes the sum of £6.610 million which relates to the South Oxhey Initiative and if excluded from the total spend reduces the percentage spend against budget to **20%**.

2.5 Service accountants have met with budget holders who have confirmed that budgets will be spent by the end of the financial year; this will be monitored at future budget reports and any additional re-phasing will be identified as they become known.

2.6 The Council’s Medium Term Capital Investment Programme is shown by scheme by each Committee at **Appendix 3** this includes commentary from officers. The reasons for the variance on each scheme reported for this period are shown at **Appendix 4.**

2.7 The capital programme is mainly supported by three income streams; capital receipts (derived from the sales of assets), grants and contributions, and the use of reserves. Services can also make a contribution to capital from surplus revenue funds if needed. In addition the Council may borrow to fund its capital programme. Borrowing maybe required for 2018/19, although it is anticipated that this will be funded from internal cash resources. Any decision on borrowing will be taken if and when the need arises. Funding of the capital investment programme over the medium term is shown at **Appendix 5.**

**3.0 Council Income**

3.1 The Council is able to fund the provision of services from an array of income sources. The Council receives income from the Government in the form of grants, Council tax payments from residents and from customers who pay a fee or charge for using some specific council services. The budgeted income total for 2017/18 is £21.880 million. The two biggest sources of income are council tax and fees & charges. From 2019/20, the Council does not expect to receive any Revenue Support Grant from Central Government.

3.2 The chart below shows the amount of income for each source as a percentage of total income.

3.3 The table below shows the significant sources of income for chargeable services. It should be noted that the income receivable from the Regulatory Services and Parking Enforcement are not linear and are subject to peaks and troughs throughout the financial year. Under Environmental Protection services, trade waste is invoiced to customers half yearly in April and October and garden waste is charged for in one instalment at the beginning of the financial year.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Service** | **Income Stream** | **2017/18 Latest Budget**  **£** | **2017/18**  **Actual to end of September**  **£** | **%**  **of**  **Income received** | **2017/18**  **Forecast Outturn**  **£** |
| Regulatory Services | Land & Property Charges | (120,010) | (51,498) | 42% | (120,010) |
| Application Fees | (557,000) | (259,193) | 47% | (557,000) |
| Parking Enforcement | Penalty Charge Notices | (200,000) | (107,903) | 54% | (200,000) |
| Long term Pay and Display | (104,650) | (55,406) | 53% | (104,650 |
| Parking Fees | (175,000) | 0 | 0 | (30,000) |
| Environmental Protection | Trade Refuse | (578,020) | (271,363) | 47% | (600,000) |
| Garden Waste | (828,000) | (839,436) | 101% | (841,000) |
| Property Services | Property Investment Income | (300,000) | 0 | 22% | (365,000) |

3.4Further details on the Council’s key budget indicators for revenue service income streams (including volumes and trends) are shown at **Appendix 6**

**4.0 Debtors (invoicing)**

4.1 The Council charges its customers for various services by raising debtor invoices. The customer is given 21 days to pay and unless there is a dispute, a reminder is issued. If the debt remains outstanding, then a variety of recovery methods are employed including rearranging the payment terms, stopping the provision of the service or pursing the debt through legal recovery processes.

4.2 As at 30 September 2017, the total outstanding debt was £2.307 million of which £2.203 million is less than a month old and therefore it is anticipated that this will be recovered. Outstanding debt over a year old is £46,317 which is 2% of the total debt. The table below shows a summary of the outstanding debt by the three main aged categories.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Aged debt as at the end of July** | **Services** | **Under 1 Month** | **Over 1 Month to year** | **Over a year** | **Total** |
| **Committee** |  | **£** | **£** | **£** | **£** |
| Leisure, Wellbeing & Health | Leisure | 40,243 | 1,059 | 0 | **41,302** |
| Sustainable Development, Planning & Transport | Housing | 18,980 | 38,035 | 6,943 | **63,958** |
| Planning | 5,660 | 0 | 0 | **5,660** |
| Regeneration | 1,793,289 | 0 | 0 | **1,793,289** |
| General Public Services & Community Safety | Environmental Services | 129,549 | 2,353 | 2,292 | **134,194** |
| Policy & Resources | Legal &  Property | 194,584 | 14,238 | 15,651 | **224,472** |
| Communications | 300 | 0 | 0 | **300** |
| Corporate Services | 126 | 0 | 0 | **126** |
| Customer Services | 0 | 948 | 389 | **1,337** |
| Finance | 20,590 | 1,250 | 21,043 | **42,883** |
| **Total** |  | **2,203,320** | **57,884** | **46,317** | **2,307,521** |

4.3 The main reason for the debt over year relates to recovery of court costs in Revenues and Benefits and in Legal Services. The large figure in Regeneration is for an invoice to Countryside for the South Oxhey Initiative project.

**5.0 Council Tax and Business Rates Collection**

5.1Council Tax. The Council’s performance in the collection of Council Tax can be seen in the following chart. It shows the collection percentage to date together with the target for the year. The actual income collected as at 30 September 2017 is just below the profiled expectation for this point in the year.

5.2Business Rates. The Councils performance for business rate collection is shown in the following chart. It shows the collection percentage to date together with the target for the year. The actual income collected as at the 30 September 2017 is in line with the profiled expectation for this point in the year.

**6.0 Treasury Management**

6.1 The interest earned on the investments made by the Council supports the funding of the services it provides. The target rate for earning interest rate is set at 0.12% above the average bank rate; this currently equates to 0.37%. Up to the end of September, the average annualised interest rate earned on investments was 0.42%. It should be noted that that we have been able to invest for longer periods due to the anticipated re-phasing of the capital programme. This has been offset by having to hold large amounts of funds on call pending property investments.

6.2 The Council set a budget of **£139,000** on investment interest for 2017/18. The amount earned up to the end of September was **£114,700**.

6.3 Future returns are likely to reduce as sums previously invested will be released to support the Council’s property investment and its major capital projects.

**7.0** **Key Risk Areas**

7.1 Resources are allocated in the revenue and capital budgets to support the achievement of

the Council’s corporate plan. The Council’s budget is exposed to risks that can potentially

impact on service level provision.

7.2 A particular budget risk which the Council is exposed to is its statutory duty to provide temporary accommodation to the homeless families. The demand on this service has been increasing over the last few years and in order to meet the demand, the Council agreed to increase its expenditure budget by £0.300 million pa from 2016/17. In addition there will be additional costs of implementing the Council’s statutory obligation regarding the Homeless Reduction Act 2017. The additional cost for 2017/18 relates to implementation and set up costs which are estimated to be £ 0.104 million. £0.020 million of the additional cost is funded from government grant. The majority of this spend will occur between December and March 2018. The chart below shows the cost of providing temporary accommodation for 2017/18.

7.3 Other key financial risks are shown at **Appendix 7** together with a risk matrix that shows the likelihood and impact of each risk if they were to materialise.

**APPENDICES**

Appendix 1 Medium term revenue budget by cost centre by Committee (2017-2020)

Appendix 2 Explanations of revenue variances reported this Period

Appendix 3 Medium term capital investment programme (2017-2020)

Appendix 4 Explanations of capital variances reported this Period

Appendix 5 Funding the capital programme (2016-2020)

Appendix 6 Key budget indicators – Income streams

Appendix 7 Budgetary risks

**APPENDIX 1**

**Medium Term Revenue Budget by Committee**















**Explanation of Variances reported in this period - Revenue** **Appendix 2**





**APPENDIX 3**

**Medium Term Capital Investment Programme**















**Explanation of Variances Reported this Period - Capital APPENDIX 4**





**APPENDIX 5 Funding the Capital Investment Programme 2017-2020**



**Key Budget Indicators – Income Streams** **Appendix 6**







**Budgetary Risk APPENDIX 7**

| **Risk No.** | **Type of Risk** | **Comment** | **Risk Impact** | **Risk Likelihood** |
| --- | --- | --- | --- | --- |
| 7 | The Medium term financial position worsens. | In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register. | IV | D |
| 8 | Revenue balances insufficient to meet estimate pay award increases | The medium term planning period takes into account a 1% increase for the period 2017/18 to 2019/20 | III | D |
| 9 | Revenue balances insufficient to meet other inflationary increases | Other than contractual agreements, budgets have been cash limited where possible. | II | D |
| 10 | Interest rates resulting in significant variations in estimated interest income | The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncer**t**ainty on the investment strategy. | III | C |
| 11 | Inaccurate estimates of fees and charges income | See Key Budget Indicators shown in the latest Budget Monitoring report | V | E |
| 12 | Revenue balances insufficient to meet loss of partial exemption for VAT | If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs*. Three Rivers House has now been given the opt to tax status which reduces this risk and means all lettings are now subject to VAT.* ***This risk has been downgraded from III/ E to II/E*** | II | E |
| 13 | The estimated cost reductions and additional income gains are not achieved | Savings identified and included in the budget will be monitored as part of the budget monitoring process | IV | E |
| 14 | The Council is faced with potential litigation and other employment related risks | The Council has no outstanding litigation cases. | III | E |
| 15 | The amount of government grant is adversely affected | The grant settlement for 2017/18 and provisional settlements for 2018/19 and 2019/20 have been factored into the MTFP. The Council decided to accept the Government’s offer of a four year settlement. | II | E |
| 16 | Localising support for council tax | The introduction of universal credits and the localising of support for Council Tax will substantially alter the administering of Housing and Council Tax Benefits | II | E |
| 17 | Right to Buy Receipts & VAT Shelter Receipts | Under the housing stock transfer with Thrive Homes Limited (THL) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on these income streams are outside the Council's control. | IV | E |
| 18 | Fluctuations in Business Rates Retention | The Council is legally obliged to cover the first 7.5% loss on its pre- determined baseline level. | IV | C |
| 19 | Failure to deliver the South Oxhey Initiative to desired outcomes and objectives | This is a key project. This appears as item no.7 in the Council's strategic risk register. | IV | D |
| 20 | Failure of ICT systems | The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime. | III | E |

*Note: The risk numbers relate to the Council’s risk register. Risk numbers 1-6 do not relate to finance or budgetary risks.*

**Matrix Key**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Impact** | | | | |  |  |
|  |  | **I** | **II** | **III** | **IV** | **V** | **Likelihood** | **Impact** |
| **Likelihood** | **A** |  |  |  |  |  | A equal to/or > 98% | V = Catastrophic |
| **B** |  |  |  |  |  | B = 75% - 97% | IV = Critical |
| **C** |  |  | **10** | **18** |  | C = 50% - 74% | III = Significant |
| **D** |  | **9** | **8** | **7,19** |  | D = 25% - 49% | II = Marginal |
| **E** |  | **12,15,16** | **14, 20** | **13,17** | **11** | E = 3% - 24% | I = Negligible |