



Report for:	Cabinet
Date of meeting:	19 May 2020
PART:	1
If Part II, reason:	

Title of report:	Provisional Financial Outturn 2019/20
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources Nigel Howcutt, Assistant Director (Finance & Resources) James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To provide details of the outturn position for the: <ul style="list-style-type: none"> • General Fund • Housing Revenue Account • Capital Programme
Recommendations	It is recommended that Cabinet consider the Outturn Report and: <ol style="list-style-type: none"> 1. Approve movements on earmarked reserves as set out in section 9. 2. Review and approve the capital slippage into financial year 2020/21 as set out in Appendix C. 3. Recommend to Council approval of a supplementary capital budget of £300k in 2020/21 to complete works to the Berkhamsted multi-storey car park.
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Implications:	<u>Financial</u> This report outlines the financial position for the Council for 2019/20 and so summarises the financial implications of service decisions 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 2019/20 and in so doing quantifies the financial risk associated with service decisions 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 MRP- Minimum Revenue Provision

1. Executive Summary

- 1.1** The provisional year-end financial outturn is showing a balanced budget on the General Fund. There are variances across different service areas as highlighted in sections 4 to 6, but the overall budget is showing a balanced position. It should be noted that the recharge to the HRA and Collection Fund adjustments are yet to be finalised, and the outturn position may be subject to change as a result of these.
- 1.2** This year's outturn position has been analysed as part of the normal year-end review, to ensure that any one-off items have been challenged and any new savings have been identified and will be captured in the base budgets going forward. In addition, ongoing pressures have been reviewed to ensure the budget for 2020/21 has been realigned to a suitable level.
- 1.3** The HRA has seen an operating surplus of £357k. After technical adjustments to the bad debt provision of £527k, this surplus is increased to £884k. This position does not include the final movements on depreciation or corporate recharges which are yet to be finalised.
- 1.4** General Fund Capital budgets have seen slippage of £0.4m with overspend of £2.4m. More detail is provided in Section 8 of this report.
- 1.5** The HRA Capital programme is showing slippage of £0.8m and overspend of £0.6m.

2. Introduction

2.1 The purpose of this report is to present the Council's Provisional Outturn for 2019/20, prior to the production of the Statement of Accounts. Outturn is reported for the following:

- General Fund
- Housing Revenue Account (HRA)
- Capital Programme

2.2 The Council's outturn position is a primary source of information for the production of the Statement of Accounts. The outturn position detailed in this report will be subject to further amendment as work continues on the preparation of the Accounts. The Final Outturn position, along with movements in reserves, will be reported to Audit Committee for sign off on 17 September 2020, subject to confirmation of this date at Full Council.

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 provisional outturn position.

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	Provisional Outturn	Variance	
	£000	£000	£000	%
Finance & Resources	13,761	14,111	350	2.5%
Strategic Planning and Environment	10,005	10,877	872	8.7%
Housing & Community	1,620	1,700	80	4.9%
Total	25,386	26,688	1,302	5.1%
Investment Property	(4,317)	(4,325)	(8)	0.2%
Core Funding	(21,070)	(22,364)	(1,294)	6.1%
Contribution (to)/ from General Fund Working Balance	(1)	(1)	0	

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

4. Finance and Resources, Investment Property and Core Funding

Table 3 Finance & Resources	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	10,770	10,745	(25)	(0.2%)
Premises	1,997	2,223	226	11.3%
Transport	224	235	11	4.9%
Supplies & Services	4,013	4,264	251	6.3%
Third-Parties	672	678	6	0.9%
Transfer Payments	47,144	39,595	(7,549)	(16.0%)
Income	(5,512)	(5,682)	(170)	3.1%
Other Income	(50,237)	(42,613)	7,624	(15.2%)
Earmarked Reserves	4,690	4,666	(24)	(0.5%)
Total	13,761	14,111	350	2.6%

	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Investment Property	(4,317)	(4,325)	(8)	0.2%
Core Funding	(21,070)	(22,364)	(1,294)	6.1%
Total	(25,387)	(26,689)	(1,302)	5.1%

4.1 Employees - £25k underspend against budget

Although this is a minor variance overall, it includes some larger movements in the following areas:

- £92k 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. The recruitment campaign was underway by the end of the financial year and was expected to conclude in early 2020/21.
- £125k underspend in the budget for Apprentices. The budget allowed for a full financial year, but the majority of apprentices joined in November 2019 after conclusion of the recruitment process. This budget was approved to be funded through reserves, which will not now need to be drawn down (see section 9).

4.2 Premises - £226k pressure against budget

- £115k additional Insurance costs relating to Uninsured Losses claims. This is due to the unpredictable nature of uninsured losses claims, which can only be fully validated at year end. As such we maintain an earmarked insurance reserve that has funded the majority of these costs, but a residual £75k impacts on the budget bottom line (see section 9).

- £55k pressure on Leisure budgets for repairs of sports centres due to essential maintenance works required to ensure the upkeep of the buildings.

4.3 Supplies and Services - £251k pressure against budget

The outturn includes a number of relatively small pressures including:

- £35k of one-off additional car parking transaction fees related to the previous financial year.
- £45k related to an ongoing contract within Hertfordshire to provide professional services to assist the Revenues service to identify properties that are either missing from the rating list or are under-valued, which will lead to a higher future returns in business rates.

In addition £93k variance in the Performance and Projects service from the costs of the New Normal Technology Pilot Projects. This expenditure was approved at Council on 27 November 2019 and is be funded from a reserve drawdown from the Management of Change Reserve (see section 9).

4.4 Income - £170k over achievement of budget

The forecast overachievement of income against budget includes:

- £115k additional income relating to the Council's leisure management contract, arising from a reduction in business rates costs to the contractor.

4.5 Transfer Payments and Other Income

These lines broadly offset each other as they contain the budgets for Housing Benefits subsidy. Overall the net Benefits Subsidy position is in line with budgeted expectations.

4.6 Core Funding - £1,294k additional funding / reduction in expenditure

There is a combination of additional government grant income and a reduction in expenditure forecast, to yield a benefit of £1,294k against core funding budgets. These include:

- £491k expected surplus relating to retained growth in business rates. The final retained growth will be confirmed in the final outturn position.
- Increased new burdens funding of £258k across services. This funding is not ring-fenced for a specific use and has therefore been treated as core funding. The material items are £100k relating to the Revenues and Benefits service to support the implementation of welfare reform changes such as the migration from Housing Benefit to Universal Credit, and £69k relating to Private Sector Housing.
- £165k surplus relating to the Minimum Revenue Provision. The Minimum Revenue Provision (MRP) is a minimum amount which a Council must charge against its revenue budget each year for the financing of capital

expenditure which has been initially funded by borrowing. The MRP is £165k lower than budgeted for 2019/20, resulting from below-budget capital expenditure in 2018/19.

- £279k surplus on Investment Income - General Fund Investment Income has exceeded budget as balances of cash reserves are higher than had been anticipated due to lower than budgeted capital expenditure in 2018/19 and the early part of 2019/20.
- £75k additional income from the HRA for work carried out such as void garden clearances.

5. Strategic Planning and Environment

Table 4 Strategic Planning and Environment	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	10,437	10,965	528	5.1%
Premises	948	981	33	3.5%
Transport	1,187	1,361	174	14.7%
Supplies & Services	2,484	2,656	172	6.9%
Third-Parties	84	295	211	251.2%
Income	(6,164)	(6,035)	129	(2.1%)
Capital Charges	1,571	1,580	9	0.6%
Earmarked Reserves	(542)	(926)	(384)	70.8%
Total	10,005	10,877	872	8.7%

5.1 Employees - £528k pressure against budget

Material pressures against employee budgets include:

- £130k in Waste Services. The aging waste fleet has led to increasing maintenance requirements, which in turn has necessitated the hiring of additional vehicles in order to maintain the service. Replacement split-bodied vehicles are not always available for hire, in which case separate rounds have been put on for the collection of co-mingled and food waste. This pressure should reduce over the next 12 months as new vehicles are on order and have started to arrive.
- £140k pressure in Clean, Safe and Green. The service has not overspent on staffing, rather efficient recruitment has enabled vacancies to be filled quickly leading to a pressure on the vacancy provision. Across the council as a whole a vacancy factor of 5% is set against employee budgets for all but those front-line services which must replace leavers immediately in order to maintain compliant services, i.e. Waste and Adventure Playgrounds. The vacancy provision of 5% reflects the savings made from the time taken to recruit to vacant posts.

- £60k additional staff and agency backfilling within Planning. The planning service have been successful in driving new business, particularly in the previous financial year, and this income was essentially funding in advance for specific key projects. Officers have had to be realigned to these key projects and additional short term agency staff have been recruited to backfill substantive posts. In addition the Planning software has been ungraded to provide a more efficient and effective service. Agency costs have been incurred to backfill staff involved in the project team.
- £75k of expenditure on the Hemel Garden Communities project. This will be funded from a drawdown from the Local Development Framework reserve as approved by Council on 18 September 2019 (see section 9).

5.2 Transport - £174k pressure against budget

- A pressure of £190k relates to the maintenance of ageing fleet vehicles in Waste Services, including additional short term hire costs and repair costs. At Council 17 July 2019, approval was granted to bring the repair and maintenance of vehicles and equipment back in house. This will mitigate the financial pressure in this area going forward.
- Waste Services fuel costs are above budget by £50k due to the need for some additional hire vehicles, as detailed in point 5.1.

5.3 Supplies and Services - £172k pressure against budget

- A pressure of £130k has arisen in the Planning service for professional fees, such as statutory advertising fees, legal fees and specific consultancy services to support planning applications. £80k of this relates to legal fees relating to the defense of appealed decisions. £54k of these costs can be funded from the Planning and Enforcement Appeals reserve (see section 9).

5.4 Third Parties - £211k pressure against budget

- Set up costs of £220k have arisen in Building Control to facilitate the transfer of the service to Hertfordshire Building Control. £200k of this will be met from the Invest to Save reserve, as approved by Council on 18 September 2019 (see section 9).

5.5 Income - £129k pressure against budget

- Pressure of £200k in the Commercial Waste service. Despite Commercial Waste making a contribution overall towards corporate recharges, income for the service has not met the budgeted target due to the ongoing effect of loss of customers. A full review of the service including marketing and charging structure has been carried out, and service improvements are underway. A reduction to the income budget of £200k has been built in to the 2020/21 budget. It should be noted that budget performance in 2020/21 will be affected by the impact of coronavirus.
- Pressure of £100k in the Planning service. A number of large one-off fees which had been anticipated for 2019/20 will now be incurred in 2020/21.

- £130k of S106 income has been applied where applicable expenditure has taken place which meets the criteria of S106 agreements.
- There are a number of other areas where income has exceeded the budget, but this is offset by additional expenditure, as per paragraph 5.1.

6. Housing and Community

Table 5 Housing and Community	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	3,964	3,966	2	0.0%
Premises	946	645	(301)	(31.8%)
Transport	18	9	(9)	(50.0%)
Supplies & Services	1,455	1,516	61	4.2%
Transfer Payments	55	1	(54)	(98.2%)
Income	(5,575)	(5,223)	352	(6.3%)
Capital Charges	1,083	1,083	0	0.0%
Earmarked Reserves	(326)	(297)	29	(8.9%)
Total	1,620	1,700	80	4.9%

6.1 Premises - £301k underspend against budget

The underspend relates to the ongoing upkeep and maintenance costs for the Garages service. A full stock condition survey has been commissioned which will drive a targeted long-term investment strategy for investment in the garage stock. The results of this are expected in 2020/21 and will be reported back to Members.

6.2 Income - £352k pressure against budget

The pressure relates to the Garage service income not being achieved and is a continuation of 2018/19 position. Void rates continue at around 31%. A consolidated garage management strategy is being developed to improve occupancy levels, and progress will be reported back to Members in 2020/21.

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 2019/20 is a surplus of £884k. This position does not include the final movements on depreciation or corporate recharges which are yet to be finalised. A balanced outturn position for the HRA can be achieved by either increasing or decreasing the final revenue contribution to capital for the HRA. Alternatively an additional contribution to HRA reserves could be made, to ensure any surplus can be used flexibly in the future. This will

be a decision for Members to take once the final outturn position for 2019/20 is confirmed in 2020/21.

7.3 Dwelling rents - £357k overachievement of income

The forecast overachievement of income includes the following:

- £160k of additional income is being recovered through Housing Benefit. This relates to Housing Benefit subsidy for tenants in supported housing.
- £82k overachievement of rental income due to budget expectations on new build sites being set prudently in advance of allocations and rent levels being agreed.
- £30k surplus due to re-let properties moving to the correct rent level (known as Formula Rent).
- £65k reduction in rental income being passed back to the General Fund from General Fund properties being used by the HRA. This figure can only be validated at year end.

7.4 Tenants' and Leaseholder Charges

These lines broadly offset each other and budget have been realigned for Budget 2020/21 to reflect an increase in Leaseholder Charges following an increase number of Right to Buy sales.

7.5 Contribution towards Expenditure – underachievement in income of £171k

The budget for minor capital receipts has not met its target by £100k, and income from tenants' recharges has also been below target by £100k. In contrast additional income of £50k has been received in Feed In Tariffs from renewable energy sources.

7.6 Repairs and Maintenance - £514k underspend against budget

This underspend against budget has arisen as a result of the gain share on Osborne budgets from the open book arrangement of the contract. The gain share is the element of savings made in relation to maintenance works undertaken, and is verified by an independent advisor commissioned by the Council. In the last financial year, this saving has increased by £470k. This demonstrates that the contract is achieving value for money whilst still delivering a high quality housing maintenance service.

7.7 Supervision and Management - £274k underspend against budget

The forecast underspend against budget includes:

- £160k relating to vacancies across the service. Recruitment to these vacancies is currently underway.

- There are also a number of small surpluses across minor budgets in this area, such as £60k in Lifeline equipment expenditure and £35k in Under Occupation Incentive Scheme.

7.8 Provision for Bad Debts - £527k underspend against budget

The full budget for the bad debt provision increase has not been required this financial year, as the level of arrears currently held is sufficiently provided for. Since the introduction of Universal Credit in 2018/19, the HRA business plan has increased bad debt provision by £675k, to account for expected increases in bad debt related to the delayed and late payments of rent by UC. The actual increase in bad debt provision realised over this period has only being £150k.

7.9 Transfer to Housing Reserves - £460k

A contribution of £433k has been made to HRA reserves in order to fund a one-off secondary pension contribution in 2020/21. This is as per the Budget Preparation 2020/21 report to Cabinet of 11 February 2020. £27k of Leaseholder Contributions have also been transferred to the Lift Sinking Fund reserve in line with the terms of the lease, in order to fund major lift replacement works as and when these become necessary.

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 2019, plus approved amendments.

The 'rephasing' column refers to projects where expenditure is still expected to be incurred, but will now be in 2020/21 rather than 2019/20 ('slippage'), or conversely, where expenditure planned initially for 2020/21 has been incurred in 2019/20 ('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.

Table 6	Current Budget	Rephasing	Revised Budget	Provisional Outturn	Variance	
	£0	£0	£0	£0	£0	%
Finance & Resources	8,154	(667)	7,487	9,027	1,540	18.89%
Strategic Planning & Environment	3,671	200	3,871	4,063	191	5.21%
Housing & Communities	6,762	26	6,788	7,419	632	9.34%
GF Total	18,587	(441)	18,146	20,509	2,363	12.71%
HRA Total	37,987	(841)	37,146	37,722	576	1.52%
Grand Total	56,574	(1,282)	55,292	58,231	2,939	5.19%

8.2 General Fund Major Variances

There is projected rephasing of £0.4m into 2020/21 on the General Fund, with an overspend of £2.4m.

The projected rephasing to future years includes:

- Line 54: slippage of £0.1m on Rossgate Shopping Centre – structural works. Due diligence around building regulations has taken longer than expected and towards the end of March issues arose around access to the interior of the building due to Covid-19.
- Line 107: slippage of £0.25m on Civic Zone Regeneration project (DevCo). Designs have been finalised and the project is ongoing. It is expected that this budget will be fully utilised in 2020/21
- Line 178: accelerated spend of £0.1m on Vehicle Replacement Programme – 3 vehicles for grounds maintenance and one refuse vehicle which had been planned for 2020/21 were sourced earlier than anticipated. This will improve service delivery and help to minimise hire costs.

The additional spend of £2.4m is made up as follows:

- Line 74: additional spend of £0.3m on Bunkers Farm. This will be offset by a contribution from Watford Borough Council to be received on completion of the project.
- Line 95: additional spend of £0.25m on Tring Swimming Pool. Additional works were required to complete the project, including resurfacing of the swimming pool and upgrade work to the changing room ceiling. After contributions from Tring School to fund a portion of the works, the overall variance to budget is reduced to £30k.
- Line 97: additional expenditure of £1.15m on Berkhamsted Multi-Storey car park. The project has exceeded the original estimates due to 3 main reasons:
 - a) increase in construction costs of £0.7m - construction costs have increased from the tender price that was submitted in 2017. This is a result of contract variations required during the mobilisation and build programme, such as utility diversion works, new electrical substation and additional mechanical and engineering costs.
 - b) increase in project management costs of £0.3m – the original budget estimates were set before the constraints of the site were known. The process to achieve planning permission was significantly protracted and the detailed design stage complicated by site and planning restrictions. The mobilisation and build period has been extended from 9 months to 18 months and project management services have been required throughout this period.

- c) Temporary car park c. £0.2m – this was an unknown cost at project commencement as it was a condition imposed through planning permission.

It should be noted that an additional £0.3m of expenditure is expected to be required in 2020/21 to complete the project. Cabinet is recommended to request to Council a supplementary budget of £300k in 2020/21 to fund the remaining expenditure required to complete the project.

- Line 155: expenditure £0.2m over budget on Disabled Facilities Grants. This expenditure is fully funded from grant income received from Herts County Council.
- Line 158: Affordable Housing Development Fund: grant expenditure to Housing Associations is £0.4m over budget. This is expenditure on approved schemes to fund the creation of new affordable housing in the borough, and is fully funded from receipts from disposal of properties under Right to Buy (1-4-1 receipts).
- Line 170: additional expenditure of £0.1m on Waste Services wheeled bins. New bins have an estimated useful life of greater than a year and have therefore been treated as capital expenditure.

8.3 Housing Revenue Account Major Variances

The HRA capital programme is broadly on budget overall, with £0.8m of slippage and overspend of £0.6m.

- Line 201 and 205: slippage of £0.1m on Property and Place Planned Fixed Expenditure. This budget will be utilised in 2020/21 to fund compliance work.
- Line 211: £0.3m of slippage on Martindale. The site has been affected by the Covid-19 outbreak and social distancing requirements which have halted the construction during the latter part of March. Completion is now expected during Quarter 3 of 2020/21.
- Line 214: £0.3m of slippage on Stationer's Place/Magenta Court. As per the Martindale site, this scheme has also been affected by the Covid-19 situation, which has resulted in lower than expected expenditure in March 2020. The site is expected to complete towards the end of Quarter 2 2020/21.
- Line 210 and 222: These lines offset each other, as the budgets for land acquisition of Paradise Fields are built in to the New Build General line.
- Line 216 and 217: overspend of £0.5m on Swing Gate Lane, due to a number of factors including planning requirements, some contamination on site, archaeological issues and client changes.

9. Balances and Reserves

- 9.1 The Reserves Summary at Appendix D reflects the movements approved by Council in February 2020 and updated for the reserve movements as set out below.

- 9.2 In cases where reserves were to be drawn down in 2019/20 to fund budgeted expenditure which was not spent in full, only the amount required to fund actual expenditure was drawn down. Where the balance is now required in 2020/21, the carry forward of unspent reserve budgets is recommended.
- 9.3 Variances over £50k on recommended reserve movements compared to the original budget and additional movements approved in year are as follows. This section includes approved reserve drawdowns where the amount was not finalised until the end of the financial year.
- Drawdown of £94k from Local Development Framework reserve to fund work on Hemel Garden Communities. Council approved use of the reserve on 18 September 2019 but the amount of expenditure was not known until year end.
 - Drawdown of £194k from Invest to Save reserve to fund costs of transfer to Herts Building Control. Council approved use of the reserve on 18 September 2019, but the amount of expenditure was not finalised until year end.
 - Drawdown of £54k from Planning Enforcement and Appeals reserve to fund legal costs in Planning, in line with approved use of the reserve.
 - Drawdown of £75k from Uninsured Losses reserve to fund Insurance costs.
 - Drawdown of £93k from Management of Change reserve to fund New Normal projects. Council approved use of the reserve on 27 November 2019, but the timing of expenditure was not fully known until year end.
 - Reduced drawdown of £125k from the Management of Change reserve relating to the cost of the Apprentice scheme. A full year of cost was budgeted, but costs were only incurred from November after conclusion of the recruitment process.
- 9.4 It is recommended that Cabinet recommend to Council these additional reserves movements arising from the provisional year-end position, and delegate approval to the Audit Committee for any changes to these movements as a result of the final outturn position following completion of the external audit.