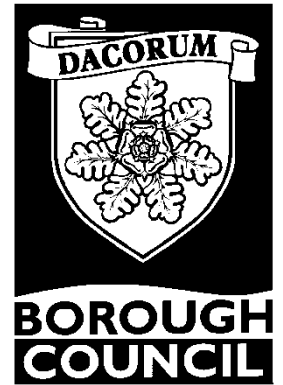


## AGENDA ITEM:

### SUMMARY



Report for:	AUDIT COMMITTEE
Date of meeting:	17 September 2020
PART:	I
If Part II, reason:	

Title of report:	Final Outturn 2019/20
Authors:	Fiona Jump, Group Manager (Financial Services) Nigel Howcutt, Assistant Director (Finance and Resources)
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources  James Deane, Corporate Director (Finance and Operations)
Purpose of report:	The purpose of this report is to present the Council's final outturn for 2019/20.
Recommendations:	It is recommended that Members of the Audit Committee:  a) review the final financial outturn for 2019/20 (Appendices A and B); b) for 2019/20, approve a General Fund revenue contribution to capital of £150k and a final Housing Revenue Account revenue contribution to capital of £3.814m c) for 2019/20, approve the following reserve movements as set out at 5.5: a contribution to the Dacorum Development reserve of £56k, a contribution to the Funding Equalisation Reserve of £1m and; transfer £792k to the HRA revenue commitments reserve to support future HRA service priorities. d) review the capital slippage for 2019/20 (Appendix C).
Statutory Officer Comments:	<b>Section 151 Officer:</b> My comments are included within the body of this report and within the commentary and explanatory foreword to the Statement of Accounts.  <b>Monitoring Officer:</b> No further comments to add.

Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Consultees:	None
Background papers:	Provisional Outturn 2019/20 Cabinet 19 May 2020 Agenda item 7

## 1. Executive summary

1.1 The provisional outturn for 2019/20 was presented to Cabinet on 19 May 2020. The reported provisional outturn position included:

- A balanced budget position for the General Fund.
- A surplus of £1.344m including a contribution to reserves for future year pension liabilities of £460k. This position excluded final depreciation movements and corporate recharges.
- The General Fund capital programme reported slippage of £0.4m and an overspend variance of £2.4m (12.7% of current budget).
- The Housing Revenue Account capital programme reported slippage of £0.8m and an overspend variance of £0.6m (1.5% of current budget).

The position incorporated reserve movements which Cabinet recommended for approval to Council at the meeting.

1.2 This final outturn report for 2019/20 has been produced following audit work undertaken in conjunction with our external auditors and the publication of the Audit Findings Report by the Council's external auditors. The completion of the external audit process is only subject to the completion of the audit of the Hertfordshire County Council Pension Fund.

1.3 The overall balanced budget position reported for the General Fund has not changed for the final outturn. The position now includes:

- Adjustments relating to the financing of capital expenditure £150k;
- An increase in the final recharge to the HRA £57k.
- Additional reserve movements outlined at 5.5 below.

1.4 The finalisation of depreciation and corporate recharges has reduced the surplus on the Housing Revenue Account from £1.344m to £1.251m, a movement of £93k. Appendices A, B and C provide more detail on the General Fund, Housing Revenue Account and Capital position for 2019/20.

## 2. General Fund Revenue Outturn

2.1 Appendix A shows the final outturn position on the General Revenue Fund. This is summarised in the table below:

<b>Table 1</b>	<b>Current Budget</b>	<b>Outturn</b>	<b>Variance</b>	<b>Variance</b>
<b>Scrutiny Committee Area</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
Finance and Resources	16,415	16,569	154	0.9%
Housing and Community	537	615	78	14.5%
Strategic Planning and Environment	8,434	9,305	871	10.3%
<b>Net cost of services*</b>	<b>25,386</b>	<b>26,489</b>	<b>1,103</b>	<b>4.3%</b>
Investment Property	(4,317)	(4,208)	109	2.5%
Core Funding	(21,070)	(22,281)	(1,211)	5.7%
<b>Contribution (to)/ from General Fund Working Balance</b>	<b>(1)</b>	<b>0</b>	<b>1</b>	<b>0.0%</b>

\*The Net Cost of Services figures in the table above excludes capital charges. This is consistent with the position presented in Table 1 of the Narrative Report in the 2019/20 Statement of Accounts.

## 2.2 Key service variances to budget within the General Fund are unchanged between the provisional and final outturn. These include:

- Planning – overall pressure of £170k. The end of year position is a pressure of £75k in employee costs. 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. In addition, Planning income did not fully achieve the budget by £95k, due to some large one-off fees expected in Q4 being delayed to 2020/21.
- Garages – overall pressure of £335k. 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.
- Commercial Waste Services – pressure of £200k. 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.
- Fleet – overall pressure of £230k. This 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 – pressure of £200k. 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 has given rise to additional employee and fuel costs. This pressure should reduce over the next 12 months as new vehicles are on order and have started to arrive.

2.3 Key variances within Core Funding areas are unchanged from provisional outturn:

- New Burdens grants funding- surplus of £258k. 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.
- Minimum Revenue Provision- surplus of £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.
- Investment Income – surplus of £279k. 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.

2.4 Key variances that have changed since provisional outturn are as follows:

- An additional revenue contribution of £150k to finance the capital programme. The transfer arises from the finalisation of the position on flexible use of capital receipts in 18/19. Amounts accrued for in 18/19 were £150k greater than final amounts settled and paid in 2019/20. The proposed transaction returns this balance to capital resources.

### **3. Housing Revenue Account**

3.1. The final outturn position is detailed at Appendix B to this report. The overall position for the Housing Revenue Account has changed by a reduction to the overall reported surplus of £93k following the finalisation of recharges between the General Fund and the HRA. This results in a total balance available to transfer to reserves of £1.251m at final outturn compared to £1.344m at provisional outturn.

3.2. Key variances to budget within the Housing Revenue Account are detailed below.

Dwelling Rent and Charges to Tenants and Leaseholders - £236k over-recovery

3.3. The 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.

Repairs and Maintenance- £556k under budget

3.4. 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.

Supervision and Management, including recharges - £235k under budget

3.5. The reported underspend includes the following key variances:

- £160k relating to vacancies across the service. Recruitment to these vacancies is currently underway.
- There are also a number of smaller surpluses across minor budgets in this area, such as £60k in Lifeline equipment expenditure and £35k in Under Occupation Incentive Scheme.
- The final recharge to the HRA from the General Fund was £93k over budget.

Depreciation - £1.7m over budget

3.6. Housing stock has increased in value, resulting in capital charges also seen an increase. The depreciation charge is allocated to the Major Repairs Reserve to fund future maintenance requirements on the HRA housing stock.

Revenue Contributions to Capital - £1.7m under budget

3.7. The impact of the additional depreciation charge is a reduction in the revenue contribution to capital. The previously approved revenue contribution to capital was £5.48m. The final revenue contribution to capital is £3.814m.

Other Expenditure including contribution to bad debt provision- £273k under budget

3.8. 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 (UC) 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.

#### 4. Capital Programme

4.1. Appendix C shows the capital outturn in detail by scheme. The final capital outturn position is unchanged from the provisional position. The table below summarises the overall capital outturn position. The 'Slippage' column refers to projects where expenditure is still expected to be incurred, but it will now be in 2019/20 rather than 2018/19. The 'Variance' column refers to projects which are now complete, but have come in under or over budget and projects which are no longer required.

Table 2	Current Budget	Slippage	Revised Budget	Final Outturn	Variance to current budget %	
Scrutiny Committee Area	£000	£000	£000	£000	£000	
Finance & Resources	8,154	(667)	7,487	9,027	1,540	18.9%
Strategic Planning & Environment	3,671	200	3,871	4,063	192	5.2%
Housing & Communities	6,762	26	6,788	7,419	631	9.3%
<b>GF Total</b>	<b>18,587</b>	<b>(441)</b>	<b>18,146</b>	<b>20,509</b>	<b>2,363</b>	<b>12.7%</b>
<b>HRA Total</b>	<b>37,987</b>	<b>(841)</b>	<b>37,146</b>	<b>37,722</b>	<b>576</b>	<b>1.5%</b>
<b>Grand Total</b>	<b>56,574</b>	<b>(1,282)</b>	<b>55,292</b>	<b>58,231</b>	<b>2,939</b>	<b>5.2%</b>

#### General Fund Major Variances

4.2. There is slippage of £0.4m on the General Fund and an overall variance to budget of £2.4m, unchanged from provisional outturn. The slippage to future years includes:

- Line 54: slippage of £0.1m on Rossgate Shopping Centre relating to 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. Three 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 over the lifetime of the project 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 the following:
  - An 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.
  - An 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.
  - Temporary car park c. £0.2m – this was an unknown cost at project commencement as it was a condition imposed through planning permission. An additional £0.3m of expenditure is expected to be required in 2020/21 to complete the project. Cabinet recommended to Council a supplementary budget of £300k in 2020/21 to fund the remaining expenditure required to complete the project at their meeting on 19 May 2020.
- Line 155: expenditure £0.2m over budget on Disabled Facilities Grants. This expenditure is fully funded from grant income received from Hertfordshire 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.

#### Housing Revenue Account Capital

- 4.3. The HRA capital programme is unchanged from provisional outturn, being broadly on budget with £0.8m.

- 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.
- 4.4. The nature of large capital build projects is that there is often some slippage on projects due to the volume of differing variables involved. The finance team have worked closely with project leads to re-profile the 2020-24 capital programme.

## **5. Balances and Reserves**

- 5.1. Appendix C shows the capital outturn in detail by scheme. The final capital outturn position is unchanged from the provisional position. The table below summarises the overall capital outturn position. The 'Slippage' column refers to projects where expenditure is still expected to be incurred, but it will now be in 2019/20 rather than 2018/19. The 'Variance' column refers to projects which are now complete, but have come in under or over budget and projects which are no longer required.
- 5.2. 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.
- 5.3. 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 was recommended for Council approval by Cabinet on 19 May 2020.
- 5.4. 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. Cabinet recommended to Council to approve these reserve movements on 19 May 2020.
- 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 the 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.

5.5. Following finalisation of the outturn position, it is recommended that Members recommend to Council to approve the following additional reserve movements:

- Dacorum Development Reserve – a £56k contribution to reserve following notification of amounts due to the Council under the 75% Hertfordshire Business Rates pilot. This makes the total contribution to the Dacorum Development Reserve arising from the pilot £556k in 2019/20.
- Funding Equalisation Reserve - £1m contribution to reserve arising from a combination of timing differences in Collection fund Income (Council Tax and Non-Domestic Rates) received or paid by the council and additional government grants received to fund the collection service.
- HRA revenue commitments reserve- £792k to be transferred to this reserve to support future HRA service commitments. This is to be funded from the final HRA surplus of £1.251m, the balance having previously been approved for transfer to reserves.

## **6. Conclusion**

6.1. Members are asked to:

- note the final 2019/20 outturn position for the Council
- to recommend to Council final revenue contributions to capital of General Fund (£150k) and HRA (£3.814m).
- to recommend to Council the additional reserve transfers detailed at 5.5 to this report.