



<b>Report for:</b>	<b>Finance &amp; resources Overview and Scrutiny Committee</b>
<b>Date of meeting:</b>	<b>8<sup>th</sup> June 2021</b>
<b>PART:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Provisional Financial Outturn 2020/21</b>
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance and Resources  Author/Responsible Officer Nigel Howcutt, Assistant Director (Finance & Resources)  Fiona Jump, Group Manager (Financial Services)
Purpose of report:	To update members on the provisional financial outturn position for 20/21 including the; <ul style="list-style-type: none"> <li>• General Fund</li> <li>• Housing Revenue Account</li> <li>• Capital Programme</li> </ul>
Recommendations	It is recommended that Committee note the financial performance in regards to: <ol style="list-style-type: none"> <li>1. The General Fund projected outturn,</li> <li>2. The HRA projected outturn</li> <li>3. The Capital programme financial performance.</li> </ol>
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Implications:	<u>Financial</u> This report outlines the financial position for the Council for 2020/21 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 2020/21 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:	<b>Deputy Section 151 Officer:</b> This is a Deputy S.151 Officer 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 MHCLG – Ministry of Housing, Communities and Local Government EA – Everyone Active HCC – Herts County Council AFM – Alternative Financial Model

## 1. Executive Summary

- 1.1** The Council has faced significant financial pressures as a result of the Covid-19 pandemic. The provisional year-end financial outturn is showing a deficit of £2.4m on the General Fund, which is consistent with previous forecasts of the effect of the pandemic on Council services. It is proposed that this deficit is funded from a contribution from the Economic Recovery Reserve, which has been set up specifically for this purpose.
- 1.2** It should be noted that Collection Fund and pension adjustments are yet to be finalised, and the outturn position may be subject to change as a result of these.
- 1.3** The HRA is reporting a surplus of £362k. This is a reduction of £2.1m quarter on quarter and is driven predominantly by technical accounting changes related to capital accounting and accounting for bad debt provision as detailed in section 7 of this report, it is proposed that this surplus is transferred to a revenue reserve to allow the surplus to be used flexibly for revenue or capital purposes going forward.
- 1.4** General Fund Capital budgets have seen slippage of £2.9m with overspend of £62k. More detail is provided in Section 8 of this report.
- 1.5** The HRA Capital programme is showing slippage of £2.7m with an underspend of £2.5m.

## 2. Introduction

2.1 The purpose of this report is to present the Council's Provisional Outturn for 2020/21, 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 8<sup>th</sup> September 2021, 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.

The table below outlines the service areas where significant financial pressures have arisen:

<b>Table 1</b>	<b>Key Financial Pressure</b>	<b>Description</b>
<b>Scrutiny Committee</b>		
Finance & Resources	£0.85m	Commercial Property income
Finance & Resources	£1.4m	Car Parking income
Finance & Resources	£0.75m	Leisure support costs
Housing and Community	£0.4m	Garages Income
Strategic Planning and Environment	£1.2m	Waste Services (Waste cost pressure and income pressures for Domestic Waste and Commercial Waste)

3.3 The table below provides an overview by Scrutiny area of the current forecast outturn for controllable budgets within the General Fund.

Table 2	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Finance & Resources	8,027	11,852	3,825	47.7%
Strategic Planning and Environment	10,906	12,760	1,854	17.0%
Housing & Community	1,666	1,945	279	16.7%
<b>Total</b>	<b>20,599</b>	<b>26,557</b>	<b>5,958</b>	<b>28.9%</b>
Core Funding	(20,599)	(24,199)	(3,600)	17.5%
<b>Deficit to be funded from Economic Recovery reserve</b>	<b>0</b>	<b>2,358</b>	<b>2,358</b>	

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

#### 4. Finance and Resources and Core Funding

Table 3 Finance & Resources	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	14,188	14,394	206	1.5%
Premises	2,946	3,027	81	2.7%
Transport	296	269	(27)	(9.1%)
Supplies & Services	3,984	4,721	737	18.5%
Third-Parties	729	669	(60)	(8.2%)
Capital charges and other items	(3,093)	(2,304)	789	(25.5%)
Income	(11,136)	(8,983)	2,153	(19.3%)
Earmarked Reserves	113	59	(54)	(47.8%)
<b>Total</b>	<b>8,027</b>	<b>11,852</b>	<b>3,825</b>	<b>47.7%</b>

#### 4.1 Employees - £206k over budget

The variance in this area relates to:

- £100k agency pressure 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. As of the start of 21/22, the service will have a permanent staffed up workforce for the first time in over 5 years.
- £90k pressure within Neighbourhood Delivery due to interim resource to support delivery of new initiatives within the service.

## **4.2 Supplies and Services - £737k pressure against budget**

The outturn includes the following items:

- A pressure of £0.75m relates to support payments made to the Council's leisure provider Everyone Active (EA) to support their losses during the current Covid-19 pandemic. Contractual support of £0.5m was provided to EA in the first half of the financial year, and due to ongoing restrictions and further lockdowns imposed from November 2020, a further £0.5m has been required for the second half of the year in order to protect the ongoing financial viability of the leisure centres. This is partially offset by a contribution from central government towards these support costs of £0.3m, which the Council successfully bid for.
- £81k relating to investigative work at High Barns. It is requested that this is funded from a drawdown from the Dacorum Development reserve (see section 9).
- £140k underspend in the budget for Car Parking contract costs. An underspend has arisen due to the Covid-19 pandemic, as parking enforcement staff were furloughed during Quarter 1 of the year. There has also been a reduction in volume-based credit card transaction fees during the various periods of lockdown and social restrictions.

## **4.3 Income - £2,153k below budget**

The main variances in this area are income streams which have been affected by Covid-19:

- £1.4m pressure in car parking income. This income stream has been severely affected by the coronavirus pandemic, particularly in the lockdown period during Q1 where income was 85% down on budget. The income improved during Quarter 2 as restrictions were lifted, but further lockdowns from November onwards have had a detrimental effect, with income falling back to Q1 levels. Around 72% of the net losses of car parking income have been reimbursed through central government's income guarantee scheme.
- £0.5m pressure in the management fee income due from the Council's leisure provider. As part of the leisure support package, the management fee that would have been due from EA has been waived. 72% of this lost income will be reimbursed from central government.
- £160k pressure in Commercial Property income. This figure is a net pressure on income invoiced. There is a further pressure of £680k reported in the Capital Charges line, which relates to an increase in anticipated uncollectable debt from the Council's commercial customers. The service continues to work proactively with tenants to arrange payment plans to support businesses in the short term, however the level of arrears has risen year on year, and it is possible that some of this debt may not be collected as pressure on businesses continues. Investment Property rental income is not eligible for the Government's income protection scheme which limits the volatility of other, non-rental income by underwriting 72% of net losses.

- £100k pressure in facilities hire at Civic Buildings. These buildings could not open during the period of lockdown. Subsequently income has been affected due to ongoing social distancing requirements and further restrictions from November through to end of year.
- A pressure of £90k has arisen in the Cemeteries service due to delays in contractual negotiations around the new cemetery site at Bunkers Park.
- Surplus of £90k in Benefits Administration Subsidy. The anticipated reduction in budget for Administration Subsidy did not materialise. In addition, a one-off grant of £30k was awarded in March 2021 to reflect the additional pressures the service has borne as a result of Covid-19.

#### **4.4 Capital Charges and Other Items – pressure of £789k**

The variance here of £789k has arisen due to an increase in the level of bad debt provision. As mentioned in paragraph 4.3 above, £680k of this relates to Commercial Property. A further £90k pressure has arisen on the Council's other commercial income streams, reflecting the fact that arrears across the Council are at increased risk this financial year.

#### **4.5 Core Funding - £3.6m additional funding / reduction in expenditure**

A surplus of £3.7m has been achieved on corporate grant income that is entirely linked to additional Covid financial support/grants. This includes the following:

- £2.05m of Covid-19 support grant has been received from MHCLG
- £1.34m of Covid Income Guarantee Scheme compensation, which reimburses local authorities for 75% of lost income after the first 5% of the budgeted total.
- £99k of New Burdens funding relating to welfare reform within the Revenues and Benefits service.
- £109k Homelessness Prevention funding utilised to offset service pressures.
- £76k of new burdens funding to support the Local Authority Discretionary Grants scheme.
- £68k of Test and Trace admin support grant.

In addition, there are variances on the following corporate items:

- £140k pressure in General Fund investment income budgets due to the reduction in interest rates announced by the government in March 2020.
- £99k surplus on interest and MRP (Minimum Revenue Provision) charges.
- £122k under budget on the recharge to the HRA. This is due to temporary accommodation void costs being higher than expected. These are initially borne by the HRA as part of the Total Asset Management contract but

allocated to the General Fund in line with the ownership of Temporary Accommodation properties.

## 5. Strategic Planning and Environment

Table 4 Strategic Planning and Environment	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	10,078	10,807	729	7.2%
Premises	990	1,001	11	1.1%
Transport	1,240	1,485	245	19.8%
Supplies & Services	2,422	2,720	298	12.3%
Third-Parties	366	373	7	1.9%
Income	(5,359)	(4,818)	541	(10.1%)
Capital Charges	1,571	1,605	34	2.2%
Earmarked Reserves	(402)	(413)	(11)	2.7%
<b>Total</b>	<b>10,906</b>	<b>12,760</b>	<b>1,854</b>	<b>17.0%</b>

### 5.1 Employees - £729k pressure against budget

The pressure in employees' costs includes:

- A pressure of £655k relates to Waste Services employees' costs from additional agency requirements during the Covid-19 pandemic. This is due to a combination of staff sickness and requirements to self-isolate, as well as the requirement for clinically extremely vulnerable staff to remain at home. The service is under pressure due to increased levels of waste, access issues due to more people working from home resulting in a significant increase in missed bins, and the need to maintain social distancing which has put pressure on the rural rounds where there is increased travel in the waste vehicles.
- Pressure of £60k in Planning where staffing levels have been higher than budgeted due to maternity leave in the service.
- Pressure of £40k in the Vehicle Repair Shop due to additional staffing requirements as a result of Covid-19.

### 5.2 Transport - £245k pressure against budget

A pressure of £185k relates to the maintenance of ageing fleet vehicles in Waste Services. This pressure is expected to continue until the full fleet of waste vehicles is received.

A pressure of £150k relates to hire of waste vehicles to support social distancing requirements, particularly for crews on rural rounds. The two rural rounds consisting of a driver and two loaders have been split, requiring the hire of two additional vehicles.

These are offset by some more minor variances in fuel budget and in employee travel budgets which have not been fully utilised as a result of less business travel.

### **5.3 Supplies and Services - £298k pressure against budget**

A pressure of £235k has arisen in Waste Services from the increased cost of disposal of commingled recycling. This is as a result of 3 factors: firstly, tonnages of recyclable waste have increased by 30% as a result of households being at home during lockdown and continuing to work from home; secondly the contractor has charged additional processing fees to fund the costs of safe working conditions under Covid; and thirdly the global market for recyclables has declined leading to a reduction in income for recyclables.

Pressure of £70k in the Planning service for legal expenditure relating to the appeals process. Where planning decisions are appealed and the decision is not in favour of the Council, legal costs are incurred which causes a budget pressure.

### **5.4 Income – £541k pressure against budget**

The pressures in income budgets are all Covid-19 related:

- Pressure of £170k related to Waste Services income. No income has been generated this financial year against a budgeted £310k in the Alternative Financial Model (AFM) with Herts County Council (HCC). This is due to the increase in residual waste particularly during the lockdown period. An increase in residual waste pushes up the cost of disposal to HCC, which is then passed back to local authorities via a lower AFM income payment. This is partially offset by an increase of £140k in recycling credit income due to increased tonnages of recycled waste.
- Pressure of £55k in Planning Income. This income stream has held up well given the uncertainties in the market to be just slightly below budget.
- Pressure of £180k in Commercial Waste Income. This variance has arisen due to businesses being closed during the various periods of lockdown.
- Pressure of £50k in Maylands Business Centre income. A pressure in rental income has arisen, due to the effect of the pandemic on smaller businesses.
- There are other pressures in income streams such as Cesspool emptying £55k, Pest Control £30k and Bulky Waste £16k as a result of Covid-19.

## 6. Housing and Community

Table 5 Housing and Community	Current Budget £000	Provisional Outturn £000	Variance	
			£000	%
Employees	4,159	4,286	127	3.1%
Premises	1,003	899	(104)	(10.4%)
Transport	14	3	(11)	(78.6%)
Supplies & Services	1,141	1,116	(25)	(2.2%)
Transfer Payments	5	2	(3)	(60.0%)
Income	(5,701)	(5,262)	439	(7.7%)
Capital Charges	1,083	1,083	0	0.0%
Earmarked Reserves	(38)	(182)	(144)	378.9%
<b>Total</b>	<b>1,666</b>	<b>1,945</b>	<b>279</b>	<b>16.7%</b>

### 6.1 Employees - £127k over budget

Pressure of £120k in the Garages service - a garages project manager is being employed to manage the investment strategy, which will direct the appropriate long term investment in garages to improve occupancy levels. It is proposed that this is funded from a contribution from the Management of Change reserve.

### 6.2 Premises - £104k under budget

Underspend of £140k - an underspend has arisen in the Garages service. A considerable amount of refurbishment work was undertaken in the final quarter of the financial year, once a targeted plan of work which would achieve the greatest results was established, however the full budget was not spent in year.

### 6.3 Income - £439k pressure against budget

Pressure of £400k in Garages income – the void level has remained fairly consistent throughout the financial year at 31%.

## 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 provisional outturn position for the HRA is shown at Appendix B.

7.2 The HRA balance at the end of 2020/21 is a surplus of £362k. It is proposed that this surplus is transferred to a revenue reserve, where it can be used most flexibly towards revenue or capital requirements going forward.

### **7.3 Dwelling rents - £0.15m underachievement of income**

The void rate has been slightly higher than the budgeted 0.8%, at 1.08%. This is particularly attributable to voids at sheltered schemes.

### **7.4 Tenants' Charges – pressure of £0.16m**

This variance has arisen in service charges income. Service charges are recalculated each year to ensure that the charge received by the tenant accurately reflects the service received. Where there are variations in cost to the tenant from one year to the next, the Council has committed to pass on a maximum increase of CPI +1% (which is in line with current rental policy).

### **7.5 Interest and Investment Income – underachievement in income of £0.1m**

Investment income has not achieved the budgeted target due to a reduction in interest rates earlier in the financial year.

### **7.6 Repairs and Maintenance - £3.7m underspend against budget**

A underspend in Repairs and Maintenance was anticipated early in the financial year due to the restrictions imposed during the Covid-19 pandemic. It has not been possible for internal or intrusive works to take place under the prevailing circumstances. Workstreams have been re-prioritised where possible to carry out external works and to ensure that all essential, health and safety works have been undertaken as required.

### **7.7 Supervision and Management - £0.13m underspend against budget**

The underspend arises from vacancies and staff turnover in year, plus reduced costs associated with tenants moving which has been much reduced this financial year.

### **7.8 Provision for Bad Debts and Other Charges - £1.34m above budget**

This variance has arisen due to the need to set aside a provision in the sum of £2.0m for other charges payable by the HRA due to policy changes.

The budget line also contains the budget for bad debt provision top up. It had been expected that an increase in arrears of rental income would be seen this financial year, which would require a significant increase to the provision for bad debt. This situation did not arise for two main reasons: firstly the Housing Income team have worked closely with tenants, to arrange payment terms and support with accessing benefits if appropriate. Secondly the level of bad debt provision which existed at the end of financial year 2019/20 was sufficient to ensure the council was well provided for already.

### **7.9 Depreciation - £2.75m above budget**

An increased depreciation charge has been seen this year due to increases in the value of the council's housing stock.

### **7.10 Revenue Contribution to Capital - £1.54m under budget**

Due to underspends in the capital programme predominantly in the budget for Planned Fixed Expenditure as a result of access issues, the capital programme has been fully financed without the need to use the full revenue contribution.

### 7.11 Transfer to Housing Reserves - £0.80m variance to budget

A contribution of £433k was expected from HRA reserves to fund a one-off secondary pension contribution in 2020/21. Due to overall in year surplus generated overall on the HRA, this was not required in 2020/21.

## 8. Capital Programme

### 8.1 Appendix C shows the provisional 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 2020, plus approved amendments.

The 'rephasing' column refers to projects where expenditure is still expected to be incurred, but will now be in 2021/22 rather than 2020/21 ('slippage'), or conversely, where expenditure planned initially for 2021/22 has been incurred in 2020/21 ('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 £0	Rephasing £0	Revised Budget £0	Provisional Outturn £0	Variance	
					£0	%
Finance & Resources	4,081	(1,443)	2,638	2,669	31	0.8%
Strategic Planning & Environment	3,055	(999)	2,055	2,250	195	6.4%
Housing & Communities	5,076	(459)	4,617	4,454	(164)	(3.2%)
<b>GF Total</b>	<b>12,211</b>	<b>(2,901)</b>	<b>9,310</b>	<b>9,373</b>	<b>62</b>	<b>0.5%</b>
<b>HRA Total</b>	<b>22,240</b>	<b>(2,681)</b>	<b>19,559</b>	<b>17,027</b>	<b>(2,532)</b>	<b>(11.4%)</b>
<b>Grand Total</b>	<b>34,451</b>	<b>(5,582)</b>	<b>28,869</b>	<b>26,400</b>	<b>(2,469)</b>	<b>(7.2%)</b>

### 8.2 General Fund Major Variances

There is rephasing of £2.9m into 2021/22 on the General Fund, with an overspend of £62k.

The rephasing to future years includes:

- Line 12: Slippage of £0.3m on Rossgate Shopping Centre – Structural Works. This site is a mix of residential and commercial properties, and consultation with all stakeholders has taken longer than expected. Both phases of the project, the replacement of windows at the rear of the residential block, and the replacement

of the curtain wall window frame system at the front of the precinct, will now be carried out together with a start on site expected in early summer 2021.

- Line 29: Slippage of £0.28m on Hemel School Astroturf renewal. The project has been unavoidably delayed due to the need for planning permission for the floodlights.
- Line 35: Slippage of £0.15m on Car Park Refurbishment scheme. Works at Canal Fields and Alexandra Road have been delayed due to capacity issues.
- Line 38: Slippage of £0.5m on the budget for Civic Zone Upgrade and other commercially sensitive ventures. This budget is to be slipped into 2021/22 and transferred to the Berkhamsted Leisure Centre Redevelopment budget to fund the design phase of this project.
- Line 52: Slippage of £0.275m on Affordable Housing Development Fund. This budget will be required in 2021/22 to fund grants of “1-4-1 receipts” to housing associations.
- Line 56: Slippage of £0.2m on Disabled Facilities Grants. The full budget has not been spent this financial year due to restrictions on internal works.
- Line 61: Slippage of £0.9m on fleet replacement programme. New waste vehicles have been ordered and 5 have already been delivered this financial year, but a further 9 that had been expected will now be delivered in financial year 2021/22.

The overspend of £62k includes the following items:

- Lines 2 and 38: Overspend of £0.12m on the budgets for Demolition of the Civic Centre and Civic Zone Regeneration Upgrade. This is due to the costs involved in the diversion and relocation of utilities from the site.
- Lines 31-33: Underspend of £0.2m on replacement of air handling units at the leisure centres. These were installed during the period of lockdown which resulted in a lower cost.
- Line 53: Underspend of £0.2m on the garage developments at Northend and Westerdale. The schemes are now complete and have been delivered slightly under the project budget.
- Line 57: Overspend of £0.11m on Wheeled Bins. The demand for new bins has increased due to new properties coming on line and increased volumes of domestic waste during the pandemic.

### **8.3 Housing Revenue Account Major Variances**

There is slippage of £2.7m in the HRA capital programme, and underspend of £2.5m. This includes the following items:

- Line 70-75: slippage of £1.5m. The capital maintenance programme has seen a reduction in expenditure following new restrictions announced in January.

- Line 77: £2.0m under budget on Martindale. The scheme is now complete and the full contingency (c. £0.9m) has now been released as this was not required. Potential additional costs due to Covid-19 have also not been as significant as expected.
- Line 79: underspend of £0.55m on Stationers Place. The project is now complete and contingency within the budget has now been released.
- Line 82: accelerated spend of £0.17m on Coniston Road. The scheme is now on site and has progressed more quickly than previously anticipated.
- Line 84: slippage of £0.16m on St Margaret's. The scheme is slightly delayed to due legislative changes as a result of the coronavirus pandemic.
- Lines 88: slippage of £0.8m on Garage Sites. This variance relates to the timing of land appropriation from the General Fund to the HRA. This can take place once planning permission has been granted.

## 9. Balances and Reserves

- 9.1 The Reserves Summary at Appendix D reflects the movements approved by Council in February 2021 and updated for the reserve movements as set out below.
- 9.2 In cases where reserves were to be drawn down in 2020/21 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 2021/22, the carry forward of unspent reserve budgets is recommended.
- 9.3 Approved reserve movements to support the payment of upfront pension contributions in 2020/21 are reflected in Appendix D. Any changes in the accounting treatment of these contributions will be presented as part of the final outturn report to Audit Committee.
- 9.4 Additional reserve movements are:
- Contribution from Management of Change reserve of £120k to fund one-off costs in the garage service
  - Contribution from Dacorum Development reserve of £81k to fund investigative work at Highbarns
  - Contribution from Earmarked Grants reserve to fund Homelessness expenditure £44k
  - Transfer of £581k to Covid-19 Hardship Reserve
  - Contribution from Economic Recovery Reserve of £2.358m which has been set up specifically to fund the deficit in the General Fund as a result of Covid-19 pressures.