

**AGENDA ITEM:
SUMMARY**



Report for:	AUDIT COMMITTEE
Date of meeting:	8 September 2021
PART:	I
If Part II, reason:	

Title of report:	Final Outturn 2020/21
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 2020/21.
Recommendations:	It is recommended that Members of the Audit Committee: <ul style="list-style-type: none"> a) Review the final financial outturn for 2020/21 (Appendices A and B); b) For 2020/21, approve the following reserve movements as set out at 5.4: a contribution to the Funding Equalisation Reserve of £12.436m and; a further transfer of £876k to the HRA revenue commitments reserve to support future HRA service priorities. c) Review the capital programme outturn for 2020/21 (Appendix C). d) Review the final balances on earmarked reserves as at 31 March 2021 (Appendix D)
Statutory Officer Comments:	Section 151 Officer: My comments are included within the body of this report and within the commentary and explanatory foreword to the Statement of Accounts. Monitoring Officer: No further comments to add.
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Consultees:	None

Background papers:	Provisional Outturn 2020/21 Cabinet 22 June 2020 Agenda item 11
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1. Executive summary

1.1 The provisional outturn for 2020/21 was presented to Cabinet on 22 June 2021. The reported provisional outturn position included:

- A deficit of £2.358m on the General Fund, consistent with previous in- year forecasts. It was proposed that this deficit be funded from the Economic Recovery Reserve, a reserve set up specifically for this purpose.
- A surplus of £362k against the Housing Revenue Account, including the impact of providing for £2.002m of water charge refunds.
- The General Fund capital programme reported slippage of £2.901m and an overspend variance of £62k.
- The Housing Revenue Account capital programme reported slippage of £2.681m and an underspend variance of £2.469m.

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

1.2 This final outturn report for 2020/21 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 deficit reported for the General Fund has not changed for the final outturn. Incorporating the recommended transfer from the Economic Recovery Reserve, the overall position on the General Fund is balanced. The position now includes additional reserve movements outlined at 5.4 below, relating to the Collection Fund.

1.4 The finalisation of the accounting treatment for pension costs means that the reported surplus on the Housing Revenue Account has increased from £362k at provisional outturn to £1.238m at final outturn, a movement of £876k.

1.5 The capital position for both the General Fund and the Housing Revenue Account is unchanged from the provisional outturn.

1.6 Appendices A, B and C provide more detail on the General Fund, Housing Revenue Account and Capital position for 2020/21.

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:

Table 1	Current Budget	Outturn	Variance	Variance
	£000	£000	£000	%
Finance and Resources	14,941	14,913	-28	-0.2%
Housing and Community	621	1,044	423	68.1%
Strategic Planning and Environment	9,738	11,607	1,869	19.2%
Net cost of services	25,300	27,564	2,264	8.9%
Investment Property	(4,374)	(3,543)	831	(19.0%)
Core Funding	(20,249)	(36,806)	(16,557)	81.8%
Contribution (to)/ from Earmarked reserves	(677)	12,785	13,462	(1,988.5%)
Contribution (to)/ from General Fund Working Balance	0	0	0	

2.2 Key service variances to budget within the General Fund (those over £100k) are unchanged between the provisional and final outturn. These include:

- **Leisure** – total pressure of £1.250m. A pressure of £750k relates to support payments made to the Council’s leisure provider to support their losses during the current Covid-19 pandemic. This pressure is net of £300k of government support made available to the Council to support leisure activities.

A further £500k relates to 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 has been reimbursed from central government, which is included under ‘Core Funding’ in the table above.

- **Car parking income-** pressure of £1.4m. This income stream has been severely affected by the Covid-19 pandemic, particularly in the lockdown period during quarter 1, where income was 85% down on budget. Around 72% of the net losses of car parking income have been reimbursed through central government’s income guarantee scheme, which is included under ‘Core Funding’ in the table above.
- **Investment property-** pressure of £831k. £160k of this figure is the reduction in rental income compared to budget. The residual £680k of the pressure relates to an increase in anticipated uncollectable debt from the Council’s commercial customers.

The service continue 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 very likely that some of this debt will not be collected as pressure on businesses continues. The Government’s Covid Bill has restricted enforcement on outstanding rental debt until the end of 2021 which increases uncertainty on this debt. 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. There are other minor pressures within the services.

- **Fleet**-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.
- **Waste services employees**- pressure of £655k. This pressure 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 (and the associated increase in missed bins) and the need to maintain social distancing.
- **Waste services other costs**-pressure of £385k. £150k of this pressure 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. £235k of the pressures has arisen from the increased cost of disposal of comingled 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.
- **Waste Services income**- pressure of £170k. No income has been generated this financial year against a budgeted £310k in the Alternative Financial Model (AFM) with Hertfordshire 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.
- **Commercial Waste Income**- pressure of £180k. This variance has arisen due to businesses being closed during the various periods of lockdown.
- **Garages** – overall pressure of £260k. £400k of the pressure relates to the Garages service income target not being achieved. Void levels have remained fairly consistent throughout the financial year at 31%. This is partly offset by an underspend of £140k on premises costs. 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.

2.3 Variances within Core Funding areas are £16.557m in total, broken down as follows:

- £16.721m of income over budget against government grants. The Council has received multiple grant income streams relating to the Covid-19 pandemic. These include:
 - £12.957m of net grant funding relating to the Collection Fund. A significant proportion of this will be repaid to the government in 21/22 and beyond under Collection Fund accounting rules.
 - £2.050m of Covid-19 support grant has been received from MHCLG.
 - £1.340m of Income Guarantee Scheme compensation, which reimburses local authorities for 75% of lost income after the first 5% of the budgeted total.
 - £175k of New Burdens funding relating to welfare reform within the Revenues and Benefits service and. to support the Local Authority Discretionary Grants scheme.
 - £109k Homelessness Prevention funding utilised to offset service pressures.
 - £90k of other minor grant balances
- £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.
- £123k 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.

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 is a surplus of £1.238m, an increase of £876k on the provisional outturn surplus following the finalisation of the accounting treatment of pensions costs. It is recommended that this surplus is transferred to HRA revenue reserves to support future service priorities.
- 3.2. Key variances to budget within the Housing Revenue Account (those over £100k) are detailed below.

Dwelling Rents and charges to tenants and leaseholders– pressure of £2.289m

- 3.3. £2.002m of this pressure relates to water charge refunds to tenants. The issue of these refunds was approved by Cabinet in June 2021 and have been accounted for as a reduction in income and in 2020/21, as required by accounting standards.
- 3.4. £147k of this pressure has arisen from dwelling void rates. The void rate has been slightly higher than the budgeted 0.8%, at 1.08%. This is particularly attributable to voids at sheltered schemes.

- 3.5. £161k of 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).
- 3.6. There are other minor underspends within this income line that bring the overall pressure to £2.289m

Interest and Investment income – pressure of £115k

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

Repairs and Maintenance - £3.521m under budget

- 3.8. 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.

Supervision and Management and Recharges- £1.228m under budget

- 3.9. £875k of the underspend relates to pension costs paid in year. The Council budgeted for an upfront payment for 3 years of pension costs in 2020/21. Only one year of these costs is reflected in 2020/21. This has given rise to an underspend. Recharges from the General Fund are also £123k under budget. The balance of £230k relates to staff vacancies and turnover during the year, as we as reduced costs associated with tenants moving, which has been much reduced this year.

Depreciation - £2.752m above budget

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

Revenue Contribution to Capital- £1.543m under budget

- 3.11. 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

Interest payable- £100k under budget

- 3.12. Interest paid in relation to the HRA loans taken on when the HRA moved to self-financing is £100k lower than budgeted.

Other Expenditure- £517k under budget

- 3.13. The budget line 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.

Transfer to Housing Reserves £1.671m over budget

3.14. A contribution of £433k was expected from HRA reserves to fund a one-off pension contributions in 2020/21. Due to surplus generated overall on the HRA, this was not required in 2020/21. A surplus of £1.238m was generated on the HRA overall at year end. It is recommended that this surplus is transferred to HRA revenue reserves. As this contribution is larger than expected, the result is an adverse variance to budget against this budget line, but a balanced position overall for the HRA.

4. Capital Programme

4.1. Appendix C shows the capital outturn in detail by scheme. The final capital outturn is unchanged from the provisional outturn 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 21/22 rather than 20/21. 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 revised budget	
	£000	£000	£000	£000	£000	%
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%)
GF Total	12,211	(2,901)	9,310	9,373	62	0.5%
HRA Total	22,240	(2,681)	19,559	17,027	(2,532)	(11.4%)
Grand Total	34,451	(5,582)	28,869	26,400	(2,469)	(7.2%)

General Fund Major Variances

4.2. There is slippage of £2.901m into 2021/22 on the General Fund, with an overspend of £62k, unchanged from provisional outturn. The slippage to future years includes:

- Line 12: Slippage of £301k 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 £280k on Hemel School Astro turf renewal. The project has been unavoidably delayed due to the need for planning permission for the floodlights.
- Line 35: Slippage of £146k on Car Park Refurbishment scheme. Works at Canal Fields and Alexandra Road have been delayed due to capacity issues.
- Line 38: Slippage of £500k 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 £276k 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 £203k on Disabled Facilities Grants. The full budget has not been spent this financial year due to restrictions on internal works.
- Line 61: Slippage of £901k 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 £122k 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 £211k 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 £210k 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 £112k 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.

Housing Revenue Account Capital

4.3. There is slippage of £2.681m and an underspend of £2.532m on the HRA capital programme. This includes the following items:

- Line 70-75: slippage of £1.527m. The capital maintenance programme has seen a reduction in expenditure following new restrictions announced in January.

- Line 77: £2.034m 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 £547k on Stationers Place. The project is now complete and contingency within the budget has now been released.
 - Line 82: accelerated spend of £168k on Coniston Road. The scheme is now on site and has progressed more quickly than previously anticipated.
 - Line 84: slippage of £162k on St Margaret's. The scheme is slightly delayed to due legislative changes as a result of the coronavirus pandemic.
 - Lines 88: slippage of £808k 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.
- 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 2021-25 capital programme.

5. Balances and Reserves

- 5.1. The General Fund Reserves Summary at Appendix D reflects the movements approved by Council in February 2021 and updated for the reserve movements as set out below.
- 5.2. 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 was recommended for Council approval by Cabinet on 22 June 2021.
- 5.3. 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. Cabinet recommended to Council to approve these reserve movements on 22 June 2021.
- 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.

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

- Funding Equalisation Reserve - £12.346m 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. In 2020/21, a significant proportion of this transfer is supported by government grants and will be used to meet the deficit on the Collection Fund. The proposed transfer to reserves follows guidance on the treatment of these grants issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Please note a draw-down of £1m from this reserve was previously approved by Full Council as part of 2020/21 budget setting.
- HRA revenue commitments reserve-a further £876k to be transferred to this reserve to support future HRA service commitments. This is to be funded from the final HRA surplus of £1.238m and will leave a balanced position overall on the HRA. Please note Full Council previously approved a transfer of £362k to HRA reserves, as recommended in the provisional outturn report.

6. Conclusion

6.1. Members are asked to:

- note the final 2020/21 outturn position for the Council
- to recommend to Council the additional reserve transfers detailed at 5.4 to this report.