

REPORT TO: CABINET

DATE: 10 SEPTEMBER 2020

TITLE: YEAR END 2019/20 FINANCE REPORT

PORTFOLIO HOLDER: COUNCILLOR MARK INGALL, LEADER OF THE COUNCIL

LEAD OFFICERS: SENIOR MANAGEMENT BOARD (01279) 446004

This is not a Key Decision

It is on the Forward Plan as Decision Number I011546

The decision is not subject to Call-in Procedures for the following reason:

It is within the scope of the budget approved by Full Council in February 2019

This decision will affect no ward specifically.

RECOMMENDED that Cabinet:

- A** Acknowledges the outturn position set out in within the report in respect of General Fund, Housing Revenue Account (HRA) and Capital Programmes for the year ending 31 March 2020.
- B** Notes working balances at 31 March 2020 of £15,751,000 in respect of the HRA and nil in respect of the Major Repairs Reserve (MRR).
- C** Approves:
 - i) The carrying forward of £162,720 of budgets from 2019/20 to 2020/21 in respect of the General Fund as set out in Appendix B to the report.
 - ii) The transfer to reserves of £1,104,000 as set out in Appendix C to the report.
 - iii) The contribution of £150,000 into a Covid-19 Earmarked Reserve as set out in Paragraph 17 of the report.
 - iv) The carrying forward of £180,172 of budgets from 2019/20 to 2020/21 in respect of the Housing Revenue Account as set out in Appendix E to the report.
 - v) The carrying forward of £1,739,197 of budgets from 2019/20 to 2020/21 in respect of the Non Housing Capital Programme as set out in Appendix I to the report.
 - vi) The carrying forward of £6,894,672 of budgets from 2019/20 to 2020/21 in respect of the Housing Capital Programme as set out in Appendix J to the report.

REASON FOR DECISION

- A** To ensure that Cabinet reviews performance against the Council's approved General Fund, Housing Revenue Account and Capital budgets for 2019/20.
- B** To seek approval for the recommendations set out in the report in relation to transfer to reserves (paragraphs 15 to 18) and carrying forward underspends to ensure that the resources remain to provide services or carry out works in 2019/20 (paragraph 14).
- C** To note the application of the Council's MRR, highlighting its relationship with the Housing Capital Programme.
- D** To approve the acquisition of properties up to the value of £12.6 million for inclusion in the Housing Revenue account to ensure that retained receipts are utilised for the provision of social housing.

BACKGROUND

1. The closure of the Council's 2019/20 accounts was completed by 31 August 2020; and the draft Statement of Accounts (i.e. subject to audit) has been published on the Council's website. The closure of the accounts enables the final contribution to the General Fund Reserve to be calculated representing the variance between the approved budget and the actual income received and expenditure incurred delivering Council services during the year.
2. The closure of accounts also enables the final working balance on the Housing Revenue Account and the Major Repairs Reserve (MRR) to be calculated and reported.
3. Careful management of service budgets has once again ensured any in-year pressures that have arisen have been effectively managed within the overall service budgets wherever possible.

ISSUES/PROPOSALS

General Fund

4. A review of the 2019/20 financial year indicates that service controllable budgets have overspent by £841,000, or 1.55 per cent. After adjusting for the requested budget carry-forward items detailed in this report (totalling £162,720), and other non-controllable variations there is an underspend for the financial year of £23,000 or 0.04 per cent of the General Fund budget. The previous estimated position, based on December 2019 forecasts and agreed under Covid-19 delegations in April was for an overspend of £400,000, or 0.73 per cent.
5. Appendix A to this report summarises major budget variations across all service areas and non-controllable budgets.

6. The following table summarises the year-end financial position:

Table 1 – Summary of Year End Financial Position

	£'000
Total Service Variations	841
Windfall and non-controllable variations and reserve movements	-1,027
Budget Carry Forward requests (Appendix B)	163
Total General Fund outturn 2019/20	-23

7. As in previous years, budgets have been carefully managed across all services to guard against expenditure pressures and offset income reductions.
8. Significant variations have been reported to Cabinet during the year. Key areas that have contributed to the reported outturn position include:
- a) Additional income from business rates of £2.4 million;
 - b) Additional Government grant in respect of business rates reliefs of £1.1million;
 - c) Higher than budgeted returns from HTS - £0.2 million;
 - d) Additional interest earned and reduced interest payments of £0.4 million; and
 - e) Additional transfers to earmarked reserves of £3.2 million.

General Fund Balance

9. The position on the General Fund balance is:

Table 2 – General Fund Balance

	£ millions
General Fund closing balance 31 Mar 2019	4.488
Other one off funding requirements 2019/20 (Museum))	-0.100
2018/19 budget Carry Forward Requests	-0.138
Effective General Fund closing Balance 31 March 2019	4.250
Service Variations 2019/20	-0.841
Non Service Variations	1.027
Service Carry Forward Requests	-0.163
General Fund Closing Balance – 31 March 2020	4.273
Proposed Covid – 19 Reserve	-0.150
Final General Fund Closing Balance 31/3/19	4.123

10. After adjusting for proposals previously approved by the Council, the General Fund balance will move from an opening position of £4.488 million to £4.273 million at the year-end (as shown in the Council's draft Statement of Accounts).
11. Subject to the proposals set out within this report being approved the final General Fund Balance will stand at £4.123 million as shown in the table above.
12. As part of the 2020/21 budget setting process and as approved in the Medium Term Financial Strategy (MTFS), the minimum level for the General Fund Reserve balance over the life of the current MTFS is £2.5 million.
13. This level was set to ensure that the Council has adequate reserves given the financial uncertainty resulting from the Government's welfare reform, the Local Government Resource Review proposals and the impact of the on-going economic conditions in the medium term and more recently the local impacts of Covid-19. Subject to Cabinet decision, the forecast level for 2019/20 will be £1.623 million above the minimum recommended balance.
14. As part of the 2020/21 budget setting process a call on the General Fund will be made during 2020/21 of £1.6 million. This is to achieve pension fund contribution benefits of nearly £900,000 over the period 2020/21 - 2022/23 with contributions of £800,000 being made back to the reserve in both 2021/22 and 2022/23 leaving a nil impact on the reserve over the three year period. Once these transactions take place in 2020/21 the General Fund balance will be at or near to the recommended minimum level of £2.5million until the 2021/22 financial year.

Carry Forwards Affecting the General Fund Balance

15. Cabinet is requested to approve the carry forward of 2019/20 budgets of £162,720. These have been reviewed by the Senior Management Board (SMB) and are detailed in Appendix B to this report. No funding is currently provided within the 2020/21 budget for the items identified and if the carry forwards are not approved it is unlikely that the work/ projects will be carried out.

Transfers to Reserves

16. It is recommended that the net movement in reserves for 2019/20 of £1,104,000 as set out in Appendix C to the report is agreed.
17. In light of the Covid-19 pandemic which has emerged as a worldwide crisis since March 2020, it is also proposed that £150,000 is earmarked as a specific reserve. This is to enable the Council to have direct access to financial resources to aid, and support the work that will be undertaken during 2020/21 and future years in managing the local impacts and implementing its recovery strategies.

Housing Revenue Account

18. Set out in Appendix D is the 2019/20 HRA outturn statement. It can be seen from the statement that there was an overall variance of £8.7 million which is mainly due to re-profiling in the Housing Capital Programme which has a direct impact on the HRA due to the variation this causes in the revenue contributions to support the capital spending. A detailed explanation for the re-profiling of the Capital Programme which is consistent with previous reports presented to Cabinet throughout the financial year can be found in Appendix F. In addition to capital variations impacting on the outturn position there were other revenue variations and the main issues driving these are set out below. The requested capital carry forwards in respect of Housing have been agreed by SMB and are presented at Appendix J to this report.

Operational Expenditure

19. General Management – underspend £0.636 million

a) During the year there was a major restructuring of Housing Asset Management roles, Technical Services and Property Management positions as a result of the cessation of the Savills's (UK) Ltd partnership. This has been planned over two years and it is anticipated that this will be completed in 2020/21. In addition there were some other vacancies in the Business Support Unit which proved quite difficult to fill.

20. Special management – underspend £0.364 million

a) There were savings in electricity costs arising from adjustments to invoices in the previous period. These invoices were in respect of lighting in communal areas and the savings have been passed on to tenants by adjusting their weekly service charges.

b) Each year, support is given to tenants in temporary accommodation to move into secure tenancies once they are available. There has been less movement in 2019/20 and as a consequence this budget is underspent.

21. Repairs & Maintenance – underspend £0.567 million

a) Payments to HTS are lower than anticipated due to the lockdown in March from the Covid-19 pandemic. HTS suspended all responsive and planned repairs on 23 March 2020 and only concentrated on emergency call outs to vulnerable people.

b) The repairs and maintenance estimates included a contribution of £181,000 to the insurance reserve. The reserve has been reviewed and similar to 2018/19, it has not been necessary to make a contribution this year.

c) There has been a saving in the costs of lift maintenance as a consequence of the lift refurbishment programme and expenditure on

water treatment works is lower than anticipated due to the lockdown in March.

22. Rent Arrears – Impairment Allowance – overspend £0.079 million

- a) During the year, tenant rent arrears have increased by £125,000 and in line with the Council bad debt policy it has been necessary to increase the impairment allowance by £79,000 more than anticipated.

Non-Operational Expenditure

23. Depreciation & Impairment Allowance – £4.150 million

- a) The provision for depreciation of HRA fixed assets (£10.6 million) has been calculated in line with Council policy. In accordance with proper resource accounting practices the provision for depreciation will be used to finance the capital programme through the major repairs reserve.
- b) During the year HRA assets were revalued by the Council's valuers and property values were impaired in line with proper valuation practice. The additional impairment allowance is charged to the HRA but reversed out with an adjustment to the Capital Adjustment Account so there is no direct cost to the HRA.

24. Revenue contribution to Capital Expenditure – underspent £9.2 million

- a) Due to delays in the capital programme, there has been no need to make a revenue contribution to finance the capital programme.

Operational Income

25. Dwelling Rents – under budget £0.849 million

- a) The actual dwelling rents are lower than anticipated because Right to Buy (RTB) sales were higher than budgeted. There were also some prior year adjustments following the reconciliation of the housing management system with the financial information system.

26. Charges for Services & Facilities – under budget £0.613 million

- a) Following the receipt of lower than anticipated electricity invoices from the supplier these reductions were passed on to the tenants and leaseholders resulting in a lower than anticipated income to the HRA.

Non-Operational Income

27. Interest Receivable - over budget £0.092 million

- a) Higher than anticipated general HRA balances has resulted in additional Item 8 interest being credited to the HRA.

HRA General Balances

28. The HRA outturn statement in Appendix D shows an overall surplus of £2,02million. The movement in HRA balances can be summarised as follows:

Table 3 – HRA General Working Balances

HRA - General Working Balances		
HOUSING REVENUE ACCOUNT		
2018/19		2019/20
£,000	Narrative	£,000
14,104	Balance as 1st April	13,731
(373)	Surplus /(Deficit) for year	2,020
13,731	Balance as at 31st March	15,751

Major Repairs Reserve

29. Under the Accounts and Audit Regulations 2015, councils have to keep a Major Repairs Reserve (MRR) which controls an element of the capital resources required to be used to finance HRA capital expenditure. The movement on the reserve can be summarised as follows:

Table 4 – Summary of Major Repairs Reserve

Summary of Major Repairs Reserve				
	Balance	Transfers	Transfers	Balance
	as at	To	From	as at
Name of Reserve	31 March 2019	Reserve	Reserve	31 March 2020
	£	£	£	£
Major Repairs Reserve	0	10,624,425	(10,624,425)	-

HRA Capital Receipts

30. Retained Right to Buy Receipts (RTB)

- a) In 2014 the Council signed an agreement with the Ministry of Housing, Communities and Local Government (MHCLG) to retain RTB receipts for the one for one replacement of affordable housing. Set out in table 5 is a quarterly analysis of the retained right to buy receipts retained by the Council.
- b) The accumulation of retained RTB receipt can be summarised as follows:

Table 5 – Retained Right to Buy Receipts

Retained Right to Buy Receipts					
Year	Quarter	Balance Brought Forward	Receipts Received	Receipts Utilised	Balance Carried Forward
		£	£	£	£
2017/18	Qtr 2	0	1,005,654	0	1,005,654
2017/18	Qtr 3	1,005,654	1,226,277	0	2,231,932
2017/18	Qtr 4	2,231,932	1,553,847	0	3,785,779
2018/19	Qtr 1	3,785,779	0	0	3,785,779
2018/19	Qtr 2	3,785,779	0	0	3,785,779
2018/19	Qtr 3	3,785,779	0	0	3,785,779
2018/19	Qtr 4	3,785,779	0	45,741	3,740,038
2019/20	Qtr 1	3,740,038	1,900,339	33,866	5,606,510
2019/20	Qtr 2	5,606,510	553,213	62,432	6,097,291
2019/20	Qtr 3	6,097,291	1,181,154	42,028	7,236,417
2019/20	Qtr 4	7,236,417	1,844,361	68,393	9,012,385

- c) It can be seen from Table 5 that as at 31 March 2020 the Council is holding £9 million in retained RTB receipts for the one for one replacement of affordable housing. Under the current regulations the Council can only finance 30 per cent of the total cost of the project from retained receipts and there is a three year time limit before the receipts have to be repaid to MHCLG.
- d) Given the current re-profiling of the HRA capital programme set out elsewhere in this report there is a real risk that these receipts will have to be repaid plus interest at four per cent above base rate (4.1 per cent) compounded quarterly.
- e) The receipts retained in Quarter 2 of 2017/18 are due for repayment by 31 October 2020. Due to the delays caused by Covid-19, the MHCLG have relaxed the rules and allowed the Council to delay repayment by three months. However, unless we use £3.74 million by 31 March 2021 it will have to be repaid.
- f) In order to utilise the receipts as 30 per cent contribution the Council will have to spend a total of £12.6 million. It will not now be possible to use these receipts for the purpose of construction of council housing in the very short timescales allowed by the Government and therefore it is proposed to acquire up to 45 three bedroom houses via the open market at an average cost of £280,000 per dwelling during the

remainder of the 2020/21 financial year to add to the HRA housing stock.

31. Other HRA Capital Receipts - £0.21million

- a) In addition to the retained RTB receipts, the HRA has £0.21 million in other capital receipts. There is no restriction on the use of these receipts.

Capital – Non Housing

32. The approved Non Housing Capital Programme totalled £19,686,000 including major works at the Enterprise Zone. Table 6 below details the current Non Housing Capital Programme at the end of the 2019/20 financial year :

Table 6 – 2019/20 Year End Non Housing Capital Programme

	£000s
2019-20 Capital Programme Budget	19,686
Reprofile of Enterprise Zone - Modus	(-)6,699
Carry Overs Approved at Period 6	(-)1,434
Carry Overs Approved at Year End	(-)1,739
Grant Funded (POD/GAF) Schemes	295
Revised Budget	10,109
2019-20 Outturn	9,985
Capital Programme Underspend	124

33. Cabinet is requested to approve the carry forward of 2019/20 capital budgets totalling £1.739 million as detailed in Appendix H to this report. The requests have been reviewed by SMB and are detailed and are supported as a result of the review. No funding is currently provided within the 2020/21 budget for the items identified and if the carry forwards are not approved it is unlikely that the work/ projects will be carried out or other schemes will be reduced or will not be undertaken to enable part completed schemes to be finished in the new financial year.
34. The outturn position for the non-housing capital programme is detailed at Appendix I and shows the final capital spend of £9,985,000. When compared to the revised budget (after carry overs) the variation against the approved programme is £124,000.

IMPLICATIONS

Environment and Planning (Includes Sustainability)

As contained in the report.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT, and Property and Facilities)

As contained in the report.

Author: Simon Freeman, Head of Finance and Property and Deputy to the Chief Executive

Housing

As contained in the report.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

As contained in the report.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

As contained in the report.

Author: Simon Hill, Head of Governance

Appendices

Appendix A – General Fund Variations 2019/20

Appendix B – General Fund Carry forward Requests 2019/20

Appendix C – Proposed end-of-year General Fund Earmarked Reserves Movements

Appendix D – HRA Variations 2019/20

Appendix E – HRA Carry Forward Requests 2019/20

Appendix F – HRA Capital Programme Outturn 2019/20

Appendix G – HRA Capital Variations Narrative 2019/20

Appendix H – Non Housing Capital Carry Forward Requests 2019/20

Appendix I – Non Housing Capital Programme Outturn 2019/20

Appendix J – Housing Capital Carry Forward Requests 2019/20

Background Papers

None.

Glossary of terms/abbreviations used

HRA – Housing Revenue Account

MHCLG – Ministry for Housing, Communities and Local Government

MTFS – Medium Term Financial Strategy

MRR – Major Repairs Reserve

RTB – Right to Buy

SMB – Senior Management Board