POLICY & FINANCE COMMITTEE
24 SEPTEMBER 2020

GENERAL FUND, HOUSING REVENUE ACCOUNT (HRA) AND CAPITAL PROJECTED OUTTURN REPORT TO 31 MARCH 2021 AS AT 31 JULY 2020

1.0 Purpose of Report

1.1 This report compares the Revised Budgets for the period ending 31 March 2021 with the Projected Outturn forecast for the period, based on meetings with Financial Services staff and the appropriate Business Manager. These are based on four months' performance information on the Council's revenue and capital budgets, including:-

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

2.0 Background Information

2.1 The Council's Constitution states that the Section 151 Officer shall present to the Policy & Finance Committee, at least twice in each financial year, budgetary control statements showing performance against the approved estimates of revenue expenditure and income. The appropriate Chief Officer will report on any major variances from planned budget performance.

2.2 Where it appears that the amount included under any head of the approved budget is likely to be exceeded or the budgeted amount of income under any head is unlikely to be reached then Business Managers are required to find savings elsewhere in their budget. In circumstances where savings cannot be identified it will be necessary to consult with the Section 151 Officer and ultimately take a report to the Policy & Finance Committee.

3.0 Proposals

Overview of General Fund Revenue Projected Outturn for 2020/21

3.1 The accounts show a projected unfavourable variance against the revised budget of £1.310m on Service budgets, with an overall unfavourable variance of £1.174m as shown in the table below:

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Economic Development	2.139	2.093	2.820	0.727
Homes & Communities	2.700	3.218	3.212	(0.006)
Leisure & Environment	5.119	5.120	5.305	0.185
Policy & Finance	4.563	4.919	5.323	0.404
Net Cost of Services	**14.521**	**15.350**	**16.660**	**1.310**
Other Operating Expenditure	3.904	3.857	25.162	21.305
Finance & Investment Income/Expenditure	(0.009)	(0.183)	0.038	0.221
Taxation & Non-Specific Grant Income	(19.714)	(20.012)	(41.674)	(21.662)

Net Cost of Council Expenditure	**(1.298)**	**(0.988)**	**0.186**	**1.174**
Transfer to/(from) Usable Reserves	3.082	2.772	2.772	0.000
Transfer to/(from) Unusable Reserves	(1.784)	(1.784)	(1.784)	0.000
Transfer to/(from) General Reserves	0.000	0.000	(1.174)	(1.174)

3.2 As can be seen from the table above there are variances projected in service areas and other budgets. Looking at the underlying trends, the detailed variances by Committee can be further summarised and these are shown at **Appendix A**.

3.3 Service Budgets managed by the Business Managers is currently predicting an unfavourable variance of £1.310m and represents 8.5% of the total service budgets.

3.4 The main reason for the projected unfavourable variance of £1.310m against service budgets is because the council predicts to receive gross £1.525m less income from sales, fees and charges than budgeted for. To mitigate against this, the Government has introduced a scheme to compensate councils for "*relevant losses, over and above the first 5% of planned income from sales, fees and charges."* The compensation would equate to 75% of the lost income after a 5% deductible subject to further deductions for other funding received (i.e. income in relation to officers that have been furloughed). The scheme mandates that prior to claiming relevant costs associated with the service must be netted off the budgeted fees and charges income. Guidance around claiming has been received and officers are working towards calculating the impact of this. Based on initial estimates of receiving between £0.400m and £0.600m in compensation for lost sales, fees and charges income, this would reduce the projected overall unfavourable variance of £1.174m to between £0.774m and £0.574m. Should this variance occur, this would need to be funded from reserves. This would be funded from the MTFP reserve of which there is currently sufficient balance to meet this shortfall. This would then impact on the Councils' current approved MTFP. This will be revised when further information is disclosed regarding the impact of the national Comprehensive Spending Review.

	£'m
Projected overall unfavourable variance (before compensation)	1.174
Estimated compensation for lost sales, fees and charges income	(0.400) - (0.600)
Projected overall unfavourable variance (after compensation)	**0.774 – 0.574**

3.5 Additionally to this, in relation to Business Rates, there is potential for a return of funding from the Nottinghamshire Business Rates Pool. At this stage it cannot be quantified as to the size of this return, as this is based on the performance of all Nottinghamshire Districts. Officers across Nottinghamshire are working to review the position, albeit this will be difficult to predict as the landscape for businesses is currently so volatile. Nottinghamshire S151 officers keep this under review during the year to assess the latest information collated across the County. This will then be fed into future forecast outturn reports.

3.6 Non-Service expenditure is expected to have a favourable variance against the revised budget by £0.135m.

3.7 The large variances against Other Operating Expenditure and Taxation and Non-Specific Grant Income primarily relate to the council's distribution in the 2020-21 financial year of its £28.752m of Small Business Grant, Retail, Hospitality and Leisure Grant and Local Authority Discretionary Grant allocation. The council distributed £7.450m of this £28.752m in 2019-20, and most of the remainder in April 2020. The £0.221m variance against Finance & Investment Income/Expenditure relates to less than budgeted investment interest income.

3.8 It should be noted that this position is still an indication of the anticipated outturn position, and officers continue to work throughout the year revising their forecasts. Further forecast reports closer to the financial year end will give a more accurate assessment of the outturn position.

3.9 The council has received £1.483m in funding from the Ministry of Housing, Communities & Local Government (MHCLG) for additional costs as a result of COVID-19. Spend paid for from this funding has been borne centrally rather than by individual services, to ensure that additional costs as a result of COVID-19 can be itemised separately from spend on mainstream services.

3.10 **Appendix B** shows the current allocation of this budget. As can be seen, all but £0.027m has been allocated to specific expenditure. This therefore allows scope for further expenditure to be approved for spend as a result of COVID-19 where the need arises.

3.11 Updated versions of Appendix B will be included in subsequent quarterly forecast outturn reports presented to this Committee. These will include projected spend for the year against each line with a funding allocation.

3.12 The council has also been granted, through section 31 grant, monies to support the Collection Fund in relation to the Extended Retail Discount. Businesses within the Retail, Hospitality and Leisure sector do not need to pay any non-domestic rates (NDR, or 'business rates') for 2020/21 due to this relief. Currently the relief amounts to £18.264m. The impact of this is that there will be a large deficit in the Collection Fund at the end of this financial year as business rates invoices that would usually be raised to these businesses will not now be raised into the Collection Fund. However, this is offset by the s31 grant that has been received, but due to accounting regulations the s31 grant is receivable into the General Fund rather than the Collection Fund.

3.13 As a result of this, it is anticipated that there will be a large surplus declared on the GF, but this will need to be transferred into reserves in order to meet the shortfall in the Collection Fund for the following year. It has been announced that losses on the Collection Fund will be able to be spread over a three year period, albeit the deficit arising from the extended retail relief will not qualify for spreading and it will only be real losses arising from closure of businesses. Officers are still awaiting guidance from CIPFA who are liaising with MHCLG regarding the mechanics of how this will work in practice.

3.14 Analysis from Council Tax and NNDR show that there are movements between the current year and 2019/20 in terms of collection rates. NNDR has seen a slight increase in the collection rate as the proportion of the net debit (adjusted for the additional reliefs) that was outstanding at 31st July was 61.92% as opposed to 63.35% at the same stage last year. Council Tax is showing a slight decline in the collection rate as the proportion of the net debit that outstanding at 31st July was 66.11% as opposed to 65.52% at the same stage last year.

Overview of Projected Housing Revenue Account (HRA) Outturn for 2020/21

3.15 With reference to the 'Variance' column in the table below, the accounts show a projected favourable variance against the approved budget of £1.564m for the HRA as follows:

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Expenditure	17.508	17.382	16.108	(1.274)
Income	(24.255)	(24.128)	(24.418)	(0.290)
Net Cost of HRA Services	**(6.746)**	**(6.746)**	**(8.310)**	**(1.564)**
Other Operating Expenditure	0.489	0.489	0.489	0.000
Finance & Investment Income/Expenditure	3.789	3.789	3.789	0.000
Taxation & Non Specific Grant Income	(0.520)	(0.520)	(0.520)	0.000
(Surplus)/Deficit on HRA Services	**(2.989)**	**(2.989)**	**(4.553)**	**(1.564)**
Movements in Reserves				
Transfer to/(from) Usable Reserves	1.628	1.628	2.258	0.630
Transfer to/(from) Unusable Reserves	(6.581)	(6.581)	(6.581)	0.000
Transfer to/(from) Major Repairs Reserve	7.942	7.942	8.876	0.934
Total	**0.000**	**0.000**	**0.000**	**0.000**

3.16 This is the first full financial year in which the budget integrates all expenditure and income that Newark and Sherwood Homes Ltd used to formally manage on the council's behalf.

3.17 Since February 2020, officers have been working with budget holders in the Housing, Health and Wellbeing directorate to assess the resources required to manage the council's social housing stock.

3.18 A report by Savills in 2018/19 identified the potential for the council to realise £0.950m in savings from reintegrating social housing management services back in-house. Officers have currently identified £1.053m in savings through the deletion of vacant posts and surplus resources within services. £0.332m of this has been reinvested, largely in new posts such as the Director of Housing, Health and Wellbeing's post and the Business Manager posts to be appointed to.

3.19 An annual £0.721m is therefore available from savings generated by the reintegration that can be reinvested into the council's social housing management services. It is anticipated that some of these savings will be used in order to strengthen front line services through a restructure that is currently being drafted and costed. It is currently assumed that another £0.091m will be used during the remainder of this financial year.

3.20 Due to the current pandemic, the plans identified within the report tabled at the Policy & Finance Committee during April 2020 have not yet been realised and hence the £0.721 above remains unallocated. Proposals will be put forward in terms of the reinvestment of the efficiencies, to the Homes and Communities Committee for consideration and approval. These proposals will be a mixture between reoccurring investment and one off initiatives. Once agreed these will be built into the base HRA financial Business Plan.

3.21 The projected outturn for the year is a net transfer to reserves of £1.564m. The prudent level of reserve set on the HRA working balance is still £2m which would remain constant. As proposed in the table above, the favourable variance identified from the efficiencies generated as a result of reintegrating the housing service, would be allocated into a strategic revenue reserve with the balance of the surplus then to be transferred into the Major Repairs Reserve to finance future capital expenditure.

3.22 The main reasons for the projected favourable outturn variance of £1.564m are:

	£'m
Services: a significant number of posts temporarily vacant	(0.506)
Savings: minimal use of the savings identified from bringing housing management services back into the council	(0.630)
Anticipated additional rental income	(0.404)
Other small variances	(0.024)
Total	**(1.564)**

Overview of Projected Capital Outturn 2020/21

3.23 The table below summarises the position for the Capital Programme to the end of July 2020 and is split between General Fund and Housing Revenue Account.

	Revised Approved Budget £'m	**Revised Budget updated for Approval £'m**	**Actual Spend to July 2020 £'m**	**Forecast Outturn £'m**
General Fund	37.498	31.861	0.816	31.861
HRA	26.748	25.298	1.219	24.802
Total	**64.246**	**57.159**	**2.035**	**56.663**

3.24 Actual spend to the end of June 2020 was only 1.5% of the revised budget at the time and for the same period in the previous financial year, this was 26%, therefore the COVID-19 lockdown period has had an impact on Capital expenditure. However, during July, a further £1.143m was spent, so whilst this is still low compared to revised budget (3.6%) expenditure is picking up at pace.

3.25 Overall the forecast outturn position is anticipated to be a favourable variance of £0.496m. Due to the current pandemic, the HRA investment programme is anticipated not to utilise its full budget allocation at this time. Officers will keep this under review and future forecast outturn reports will revise this.

3.26 As projects are developed and spending commitments are made, budget requirements can change. It is a requirement that Policy & Finance Committee approve all variations to the Capital Programme. Following the meeting of 25 June 2020, the total approved budget was £64.246m. The additions and amendments that now require approval are detailed in **Appendix C** and summarised as follows:

Additions/Reductions	£0.440m
Reprofiles	-£7.527m
Total	**-£7.087m**

3.27 If these variations are approved, then the revised budget will be reduced to £57.159. A more detailed breakdown at scheme level, including some comments on projects progress, can be found at **Appendices D** (General Fund) **and E** (HRA).

Capital Programme Resources

3.28 The Capital resources available to the Council are not static. Capital receipts are generated throughout the year, additional grants and contributions are paid to the Council, and borrowing may be increased to fund some projects.

3.29 In summary, the forecast outturn of £56.663m (taking account of the anticipated favourable variance on the Investment Programme) will be financed as follows, with every attempt to minimise the impact on the Council's revenue budget

	General Fund £'m	**HRA £'m**	**Total £'m**
Borrowing	19.060	7.599	26.659
External Grants & Contributions	6.684	0.830	7.514
Capital Receipts	0.974	4.853	5.827
Community Infrastructure Levy	0.620	0	0.620
Revenue Contributions	4.523	11.520	16.043
Total	**31.861**	**24.802**	**56.663**

Capital Receipts

3.30 The Council has been successful in securing a number of capital receipts for both general fund and HRA in previous years, and continues to do so. The current level of capital receipts is detailed in the table below:

	General Fund £'m	HRA Receipts £'m	HRA 1-4-1 Receipts £'m	Total £'m
Balance at 1st April 2020	**1.209**	**2.440**	**1.805**	**5.454**
Received up to the end of July 2020	0.000	0.503	0.216	**0.719**
Estimated receipts for remainder of the financial year	0.000	0.183	0.572	**0.755**
Approved for financing	0.974	2.260	2.593	**5.827**
Available Capital receipts balance at 31 March 2021	**0.235**	**0.866**	**0.000**	**1.101**
Estimated Receipts 2021/22 - 2023/24	2.350	2.232	2.437	**7.019**
Approved for Financing 2021/22 - 2023/24	0.233	2.115	1.646	**3.994**
Estimated Uncommitted Balance	**2.352**	**0.983**	**0.791**	**4.126**

3.31 The Right-to-Buy (RTB) receipts for Replacement Homes (known as 1-4-1 Receipts) are retained through a RTB agreement. Under the terms of that agreement, the RTB receipts have to be spent on new supply of affordable housing within 3 years of arising, or have to be returned to Government with penalty interest applied. The Ministry of Housing, Communities & Local Government (MHCLG) wrote to the council inviting it to enter in to an agreement to make it easier to fulfil the conditions, recognising that the COVID-19 crisis has halted or slowed down development. The Council now has an additional six months (until 31 December 2020) to catch up with spending plans.

4.0 Financial Implications (FIN20-21/1512)

4.1 All of the financial implications are set out in the body of the report.

4.2 As per paragraph 3.14 the HRA is currently predicting an additional transfer of £1.564m to the Major Repairs Reserve.

4.3 With regard to the General Fund revenue outturn, the unfavourable variance of between £0.574m and £0.774m represents a negative variance of between 3% and 4% on the overall General Fund budget.

4.4 With regard to capital, any savings on projects will be assessed and used to meet additional demands, or to fund the Council's Capital Programme in future years.

5.0 RECOMMENDATIONS that:

(a) the General Fund projected unfavourable outturn variance of between £0.574 and £0.774 be noted;

(b) the Housing Revenue Account projected favourable outturn variance of £1.564m be noted;

(c) the variations to the Capital Programme at Appendix D be approved; and

(d) the Capital Programme projected outturn and financing of £56.663m be noted.

Reason for Recommendations

To update Members with the forecast outturn position for the 2020/21 financial year.

Background Papers

General Fund Monitoring Reports to 31 July 2020
Capital Financing Monitoring Reports to 31 July 2020

For further information please contact: Nick Wilson, Business Manager - Financial Services on Ext. 5317; Mohammed Sarodia, Assistant Business Manager - Financial Services on Ext. 5537; or Jenna Norton, Accountant on Ext. 5327

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