

POLICY & FINANCE COMMITTEE

26 NOVEMBER 2020

GENERAL FUND, HOUSING REVENUE ACCOUNT (HRA) AND CAPITAL PROJECTED OUTTURN REPORT TO 31 MARCH 2021 AS AT 30 SEPTEMBER 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 six 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 £0.953m on Service budgets, with an overall unfavourable variance of £1.094m as shown in the table below. This is based on meetings which took place with Business Managers in mid-October, therefore does not account for the changes in expenditure/income which resulted from Newark and Sherwood entering the Very High (tier 3) Local COVID Alert Level or the effects of the new national restrictions currently in place until 2 December 2020.

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Economic Development	1.724	2.083	2.820	0.737
Homes & Communities	2.418	2.479	2.481	0.002
Leisure & Environment	3.759	3.546	3.748	0.202
Policy & Finance	4.280	6.229	6.240	0.011
Net Cost of Services	12.182	14.336	15.233	0.953

Other Operating Expenditure	3.904	24.217	24.217	(0.000)
Finance & Investment Income/Expenditure	(0.009)	(0.183)	0.127	0.311
Taxation & Non-Specific Grant Income	(19.714)	(41.638)	(42.228)	(0.590)
Net Cost of Council Expenditure	(3.638)	(3.269)	(2.595)	0.674
Transfer to/(from) Usable Reserves	3.082	2.713	3.133	0.420
Transfer to/(from) Unusable Reserves	0.556	0.556	0.556	0.000
Transfer to/(from) General Reserves	0.000	0.000	(1.080)	(1.094)

- 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 £0.953m and represents 6.6% of the total service budgets.
- 3.4 The main reason for a projected unfavourable variance of £0.953m against service budgets is because the council predicts to receive £1.643m less income from sales, fees and charges (SFC) than budgeted for. The council estimates that it will be able to claim between £0.300m and £0.500m from the government in compensation for lost SFC income. This would reduce the projected overall unfavourable variance of £1.094m to between £0.794m and £0.594m. **Appendix B** shows the areas that are predicting the shortfall in income.

	£'m
Projected overall unfavourable variance (before compensation)	1.094
Estimated compensation for lost sales, fees and charges income	(0.300) - (0.500)
Projected overall unfavourable variance (after compensation)	0.794 - 0.594

- 3.5 The Nottinghamshire Business Rates Pool may also return some funding to the council for 2020/21, though it cannot currently be quantified how much this may be, as it is based on the non-domestic rates (NDR, or 'business rates') income received by all authorities within the pool. 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 The council currently has sufficient resources in its medium-term financial position (MTFP) reserve if the projected overall unfavourable variance of between £0.794m and £0.594m were to occur. The council's current approved MTFP for the four years between 2020/21 and 2023/24 (2020/24) will be updated for 2021/25 (2021/22 to 2024/25) before

Christmas, once funding information for local authorities is published as part of the government's one-year Spending Review for 2021/22.

3.7 Non-Service expenditure is expected to have a favourable variance against the revised budget by £0.279m. The £0.311m variance against Finance & Investment Income/Expenditure largely relates to less than budgeted investment interest income, because of lower interest rates this year.

3.8 The £0.590m variance on the Taxation & Non-Specific Grant Income line relates to the following additional grant income that the council has received that was not budgeted for:

Grant	£'m
Administration of the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund	0.170
COVID-19: emergency funding for local government tranche 4 allocation	0.338
Administration of the COVID-19 Test and Trace Support Payments	0.026
Local Authority Compliance and Enforcement Grant	0.056
	0.590

The administration grant for the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund is forecasted to be used during the year on the costs of administering these grants. The variance in relation to the other grants (£0.420m) is currently forecasted to be transferred to reserves, as per the 'Variance' on the 'Transfer to/(from) Usable Reserves' line. Where these funds are needed throughout the year for additional spend, they will be allocated and a reduced amount forecasted to be transferred to reserves.

3.9 The Council is also aware that it will receive further funding based per head of population to fund Covid compliance and contract tracing. As the Council will be entering into Tier 3 from 00:01 30th October 2020, £8 per head of population will be received, which will equate to circa £0.970m. This funding will initially be received by Nottinghamshire County Council and will be distributed to the Council based on defrayed expenditure.

3.10 It should be noted that the projected outturn variances are still somewhat indicative. These will become more accurate in subsequent months' budget monitoring reports, as officers continue to refine budgets and forecasts in light of the latest information available.

3.11 The council has received £1.483m grant funding from the Ministry of Housing, Communities and Local Government (MHCLG) for additional COVID-19 related costs, and is shortly due to receive another £0.338m (see paragraph 3.8 above). Costs to be paid for from the £1.483m have been borne centrally rather than by individual services for transparency/clarity, and so as to not overstate 2020/21 spend on mainstream services.

3.12 **Appendix B** shows how the £1.483m is currently allocated, and forecast spend for the year against these allocations. As can be seen, all but £0.026m has currently been allocated to specific items of spend, and some allocations are not forecasted to be fully spent. This allows scope for further COVID-19 related spend to be approved where the need arises.

3.13 Each year, the government announces which reliefs that business rate payers will be eligible for, and how much grant it will compensate councils with for income councils can no longer directly receive from businesses (because of the aforementioned business rate

reliefs). Prior to 2020/21, the council has typically received around £2m annually in compensation grant. In 2020/21, because of the Expanded Retail Discount, the council will receive more than £18m in compensation grant. Though the grant relates to the Collection Fund, accounting regulations require it to be paid into the General Fund. There will therefore be a large deficit in the council's Collection Fund at year-end, and, conversely, a large surplus in its General Fund which will need to be transferred to reserves to pay for the Collection Fund deficit. MHCLG are developing guidance for local authorities on the appropriate accounting arrangements.

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

3.14 With reference to the 'Variance' column in the table below, the HRA accounts show a projected favourable variance against the approved budget of £1.955m as follows:

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Expenditure	17.508	17.382	15.797	(1.584)
Income	(24.255)	(24.128)	(24.493)	(0.365)
Net Cost of HRA Services	(6.746)	(6.746)	(8.695)	(1.949)
Other Operating Expenditure	0.489	0.489	0.483	(0.005)
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)	(4.944)	(1.955)
Movements in Reserves				
Transfer to/(from) Usable Reserves	1.628	1.628	2.473	0.845
Transfer to/(from) Unusable Reserves	(6.581)	(6.581)	(6.821)	(0.240)
Transfer to Major Repairs Reserve	7.942	7.942	9.292	1.350
Total	0.000	0.000	0.000	0.000

3.15 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.

- 3.16 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.
- 3.17 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. £0.362m 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.
- 3.18 An annual £0.691m 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.
- 3.19 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 £0.691m above remains unallocated. Proposals to reinvest the efficiencies will be put forward 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.
- 3.20 The projected outturn for the year is a net transfer to reserves of £1.955m. 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 (£0.600m), with the balance of the surplus (£1.350m = £1.355m less £0.005m because of a reduction in forecast Right to Buy (RTB) sales) then to be transferred into the Major Repairs Reserve to finance future capital expenditure.
- 3.21 The main reasons for the projected favourable outturn variance of £1.955m are:

	£'m
Services: a significant number of posts temporarily vacant	(0.745)
Savings: minimal use of the savings identified from bringing housing management services back into the council	(0.600)
Anticipated additional rental income	(0.404)
Reduced planned maintenance, voids maintenance and responsive repairs	(0.102)
Other variances	(0.103)
Total	(1.955)

Overview of Projected Capital Outturn 2020/21

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

	Revised Approved Budget £'m	Revised Budget updated for Approval £'m	Actual Spend to September 2020 £'m	Forecast Outturn £'m
General Fund	32.677	32.619	1.645	32.619
HRA	25.379	24.379	4.179	23.886
Total	58.056	56.998	5.824	56.505

- 3.23 Actual spend to the end of June, was significantly lower than previous years for the same period, due to COVID-19 and the subsequent lockdown period. In quarter 2 2020/21 a further £4.93m has been spent, this is still lower than the equivalent period in the previous financial year, but spend is increasing and the budget profiles are being monitored closely. The HRA investment programme is currently expecting to underspend by £0.493m but this will be reviewed again during the next quarter.
- 3.24 Overall the forecast outturn position is anticipated to be a favourable variance of £0.493m. 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.
- 3.25 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 24 September 2020, the total approved budget was £58.056m. The additions and amendments that now require approval are detailed in **Appendix C** and summarised as follows:

Additions/Reductions	£0.108m
Reprofiles	-£1.167m
Total	-£1.059m

- 3.26 If these variations are approved, then the revised budget will be reduced to £56.998m. 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

- 3.27 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.
- 3.28 In summary, the forecast outturn of £56.505m (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	7.360	0.829	8.189
Capital Receipts	1.007	3.856	4.863

Community Infrastructure Levy	0.620	0	0.620
Revenue Contributions	4.572	11.602	16.174
Total	32.619	23.886	56.505

Capital Receipts

- 3.29 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 end of September 2020	0.000	0.693	0.297	0.990
Estimated receipts for remainder of the financial year	0.000	0.840	0.360	1.200
Approved for financing	1.007	1.394	2.462	4.863
Available Capital receipts balance at 31 March 2021	0.202	2.579	0.000	2.814
Estimated Receipts 2021/22 - 2023/24	2.350	2.232	2.437	7.019
Approved for Financing 2021/22 - 2023/24	0.200	2.115	1.646	3.961
Estimated Uncommitted Balance	2.352	0.2696	0.791	5.839

- 3.30 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 (FIN20-21/3388)

- 4.1 All of the financial implications are set out in the body of the report.
- 4.2 As per paragraph 3.20 the HRA is currently predicting an additional transfer of £1.350m to the Major Repairs Reserve.
- 4.3 With regard to the General Fund revenue outturn, the unfavourable variance of between £0.594m and £0.794m represents a negative variance of between 4% and 6% of 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 £0.594m and £0.794m be noted;**
- (b) the Housing Revenue Account projected favourable outturn variance of £1.955m be noted;**
- (c) the variations to the Capital Programme at Appendix D be approved; and**
- (d) the Capital Programme projected outturn and financing of £56.505m 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 30 September 2020
Capital Financing Monitoring Reports to 30 September 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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