

POLICY & FINANCE COMMITTEE

21 JANUARY 2021

GENERAL FUND, HOUSING REVENUE ACCOUNT (HRA) AND CAPITAL PROJECTED OUTTURN REPORT TO 31 MARCH 2021 AS AT 30 NOVEMBER 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 eight 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 £0.942m on Service budgets, with an overall unfavourable variance of £0.478m as shown in the table below. This is based on meetings which took place with Business Managers in mid-December, therefore does not account for changes in expenditure/income resulting from Newark and Sherwood being in the Very High (tier 3) Local COVID Alert Level (LCAL) between 02/12/2020 – 30/12/2020, nor the Stay at Home (tier 4) LCAL from 31/12/2020.

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Economic Development	1.724	2.261	2.894	0.632
Homes & Communities	2.418	2.501	2.452	(0.049)
Leisure & Environment	3.759	3.587	3.829	0.242
Policy & Finance	4.280	6.406	6.524	0.117
Net Cost of Services	12.182	14.756	15.698	0.942

Other Operating Expenditure	3.904	29.105	29.005	(0.100)
Finance & Investment Income/Expenditure	(0.009)	(0.264)	(0.144)	0.120
Taxation & Non-Specific Grant Income	(19.714)	(46.469)	(47.160)	(0.691)
Net Cost of Council Expenditure	(3.638)	(2.872)	(2.601)	0.271
Transfer to/(from) Usable Reserves	3.082	2.316	2.523	0.207
Transfer to/(from) Unusable Reserves	0.556	0.556	0.556	0.000
Transfer to/(from) General Reserves	0.000	0.000	(0.478)	(0.478)

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 £0.942m and represents 6.4% of the total service budgets.

3.4 The main reason for a projected unfavourable variance of £0.942m against service budgets is because the council predicts to receive £1.719m less income from sales, fees and charges (SFC) than budgeted for. The council estimates that it will be able to claim between £0.400m and £0.500m from the government in compensation for lost SFC income. This would reduce the projected overall unfavourable variance of £0.478m to between £0.078m and a favourable variance of £0.022m.

Projected overall unfavourable variance (before compensation)	£0.478m
Estimated compensation for lost sales, fees and charges income	£(0.400)m - £(0.500)m
Projected overall variance (after compensation)	£0.078m - £(0.022)m

3.5 As the premise of the Income Support Scheme is based on net losses to the Council, this means that the Council must seek to reduce spend where appropriate in order to mitigate losses. Three claims must be made, each based on four-month tranches. £0.384m was claimed for in total as part of the first two tranches, based on £0.647m of total lost income being declared. The £0.183m claimed for as part of tranche 1 (April 2020 – July 2020) was received in December 2020. There will be a reconciliation process at year-end as part of the final tranche 3 claim.

3.6 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.

3.7 Non-Service expenditure is expected to have a favourable variance against the revised budget of £0.671m. The £0.120m unfavourable variance against Finance & Investment Income/Expenditure primarily relates to the reduction in forecast investment interest income being more than the reduction in forecast interest spend.

- 3.8 The £0.791m variance across the Other Operating Expenditure and Taxation & Non-Specific Grant Income lines relates to the following additional grant income that the council has received that was not budgeted for and/or is not expected to be fully spent:

Grant	£'m
COVID-19: emergency funding for local government tranche 4 allocation	0.338
Administration of the Small Business Grant Fund; Retail, Hospitality and Leisure Grant Fund; and Local Authority Discretionary Grant Fund (£0.170m + £0.077m)	0.247
Allocation of Additional Restrictions Grant towards Business Support	0.100
Local Authority Compliance and Enforcement Grant	0.056
Administration of the COVID-19 Test and Trace Support Payments	0.026
Administration of the Council Tax Hardship Fund	0.023
	0.791

- 3.9 In the report to this Committee on 26/11/2020, the overall unfavourable variance of £1.094m assumed that the tranche 4 COVID allocation of £0.338m from Ministry of Housing, Communities and Local Government (MHCLG) would be transferred to reserves, and that the £0.170m funding to administer the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund would be used on the costs of administering these grants. It is now proposed that, in addition to the £0.170m, to use the £0.338m tranche 4 allocation and £0.077m funding received to administer the Local Authority Discretionary Grant Fund to mitigate the overall unfavourable variance on the General Fund in 2020/21. It is anticipated that the use of these grants (£0.585m), together with the Income Support Scheme funding, will result in the GF being balanced at year-end.
- 3.10 The variance in relation to the remaining grants (£0.207m) is currently forecasted to be transferred to reserves, as per the 'Variance' on the 'Transfer to/(from) Usable Reserves' line. The £0.100m allocation of the Additional Restrictions Grant towards business support relates to a business resilience initiative proposed by the Business Manager – Economic Growth, and is being transferred to reserves in order to be spent during 2021/22. Where the remaining funds are needed throughout the year for additional spend, they will be allocated and a reduced amount forecasted to be transferred to reserves.
- 3.11 The council is also aware that it will receive further funding, such as for COVID compliance and contact tracing from Nottinghamshire County Council, based on defrayed expenditure. The allocation of this is £0.248m and Finance officers are currently working with other BM's in order to allocate this funding.
- 3.12 It should be noted that the projected outturn variances are still somewhat indicative, and that these will become more accurate in subsequent months, as officers continue to refine budgets and forecasts in light of the latest information available.
- 3.13 The council has received £1.821m grant funding from MHCLG for additional COVID-19 related cost pressures over four tranches. Additional costs the Council has incurred due to COVID have been borne centrally rather than by individual services for transparency/clarity, and so as to not overstate 2020/21 spend on mainstream services.

- 3.14 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

- 3.15 With reference to the 'Variance' column in the table below, the HRA accounts show a projected favourable variance against the revised budget of £2.042m as follows:

	Original Budget £'m	Revised Budget £'m	Projected Outturn £'m	Variance £'m
Expenditure	17.508	17.354	15.683	(1.670)
Income	(24.255)	(24.100)	(24.467)	(0.367)
Net Cost of HRA Services	(6.746)	(6.746)	(8.796)	(2.037)
Other Operating Expenditure	0.489	0.033	0.033	0.000
Finance & Investment Income/Expenditure	3.789	3.789	3.783	(0.006)
Taxation & Non Specific Grant Income	(0.520)	(0.520)	(0.520)	0.000
(Surplus)/Deficit on HRA Services	(2.989)	(3.445)	(5.487)	(2.042)
Movements in Reserves				
Transfer to/(from) Usable Reserves	1.628	1.628	2.233	0.605
Transfer to/(from) Unusable Reserves	(6.581)	(6.581)	(6.546)	0.035
Transfer to Major Repairs Reserve	7.942	8.398	9.801	1.402
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. £0.362m 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.

- 3.19 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 currently assumed that another £0.051m 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 £0.691m 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.
- 3.21 The projected outturn for the year is a net transfer to reserves of £2.042m. 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 (£0.640m), with the balance of the surplus (£1.402m) 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 £2.042m are:

Services: a significant number of posts temporarily vacant	(0.725)
Efficiencies: net efficiencies generated from bringing housing management services back into the council	(0.640)
Anticipated additional rental income	(0.441)
Favourable variances on utilities, postage, telephones and training	(0.202)
Other variances	(0.034)
Total	(2.042)

Overview of Projected Capital Outturn 2020/21

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

	Revised Approved Budget £'m	Revised budget updated for Approval £'m	Actual Spend to November 2020 £'m	Forecast Outturn £'m
General Fund	33.816	14.382	2.962	14.382
HRA	24.429	21.524	7.823	21.039
Total	58.245	35.906	10.785	35.421

- 3.24 Actual spend to date has been significantly lower than previous years as a proportion of the budget, mainly due to COVID-19 and the subsequent lockdown period. However, much of the spend has started to catch up. As per below a large amount of budget is being profiled to next financial year, though this isn't only due to delays caused by COVID. The HRA investment programme is expecting a favourable variance of **-£0.485m** at this point in time.

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 26 November 2020, the total approved budget was £58.245m. The additions and amendments that now require approval are detailed in **Appendix C** and summarised as follows:

Additions/Reductions	£0.137m
Reprofiles	-£22.477m
Total	-£22.340m

3.26 If these variations are approved, then the revised budget will be reduced to £35.906m. 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 revised budget of £35.906m 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	5.869	6.572	12.441
External Grants & Contributions	3.539	0.830	4.369
Capital Receipts	0.897	4.079	4.976
Community Infrastructure Levy	0.620	0.000	0.620
Revenue Contributions	3.457	10.043	13.500
Total	14.382	21.524	35.906

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 November 2020	0.000	0.708	0.472	1.180
Estimated receipts for remainder of the financial year	0.102	0.500	0.215	0.817
Approved for financing	0.897	1.989	2.090	4.976
Available Capital receipts balance at 31 March 2021	0.202	1.659	0.402	2.263

Estimated Receipts 2021/22 - 2023/24	2.472	1.000	2.437	5.909
Approved for Financing 2021/22 - 2023/24	2.875	1.924	1.761	6.560
Estimated Uncommitted Balance	0.011	0.735	1.078	1.824

3.30 The 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 three years of arising, or have to be returned to the government with penalty interest payable. In light of the impact of COVID-19 on the construction industry, MHCLG has temporarily extended the deadline by which certain RTB receipts must be spent by. The original deadline to spend these receipts by 30 June 2020 has twice been extended: first to 31 December 2020, and now to 31 March 2021.

4.0 Financial Implications (FIN20-21/6996)

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

4.2 As per paragraph 3.21 the HRA is currently predicting an additional transfer of £1.402m to the Major Repairs Reserve.

4.3 With regard to the General Fund revenue outturn, the variance of between £0.078m (unfavourable) and £(0.022)m (favourable) represents a variance of less than 1% 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 £0.078m (unfavourable) and £(0.022)m (favourable) be noted;

(b) the Housing Revenue Account projected favourable outturn variance of £2.042m be noted;

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

(d) the Capital Programme revised budget and financing of £35.906m be approved.

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 November 2020

Capital Financing Monitoring Reports to 30 November 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

Sanjiv Kohli
Deputy Chief Executive, Director - Resources and Section 151 Officer