

Somerset West and Taunton Council

Tenants Strategic Group – 19 July 2021

Financial Monitoring – Outturn Position 2020/21

This matter is the responsibility of Executive Councillor Ross Henley, Portfolio Holder for Corporate Resources

Report Author: Kerry Prisco, Management Accounting and Reporting Lead

1 Executive Summary / Purpose of the Report

- 1.1 This report contains information related to Somerset West and Taunton Council's (SWT) financial performance for the 2020/21 financial year. The outturn figures included are provisional subject to the completion of the external audit of the statutory financial statements. The audit is due to be completed between July and September with the findings due to be reported to the Audit and Governance Committee on 27th September this year.
- 1.2 The COVID pandemic has significantly impacted upon the Council's services, costs and income during the past financial year. The situation has been extremely dynamic throughout the year both in terms of various announcement of additional funding arrangements from Government and the local impact on demand for and delivery of services. Measures were implemented early in the year by leadership to mitigate risk and uncertainty.
 - 1.2.1 The HRA is a ring-fenced, self-financing account used to manage the Council's Housing Landlord function, which is budgeted to break even (net of approved transfers to/from HRA Reserves). As the HRA Net Budget is net £nil with costs wholly offset by income and reserves, performance is reported against gross income for monitoring purposes.
 - 1.2.2 The **Housing Revenue Account (HRA) revenue outturn position** for the financial year 2020/21 is a net overspend of £15k (0.1% of gross income).
- 1.3 The **HRA capital outturn position** for 2020/21 is as follows:
 - 1.3.1 The actual spend on the HRA Capital Programme during 2020/21 was £9.1m with £231k budget underspend being returned as no longer required (Appendix A). The major areas of capital spend during the year related to the capital maintenance for the existing housing stock and the development and acquisition of new stock. Capital budget totalling £125.3m is planned to be spent over the MTFP, which includes housing development projects that will be delivered over several years (Appendix B).

2 Recommendations

- 2.1 The Tenants Strategic Group to note the recommendations being made to the Executive.

2.2 The Executive is recommended to:

2.2.1 Note the impact of COVID on the Council's cost and income during 2020/21 financial year.

2.2.2 Note the reported Housing Revenue Account Budget overspend of £15k in 2020/21 and the HRA General Reserves Balance of £2.8m as at 31 March 2021.

2.2.3 Note the Capital Outturn position.

2.2.4 Approve the proposed capital slippage of £125.3m for the HRA Capital Programme.

2.2.5 Note the Capital Programme schedule identifying the schemes and overview profile providing the basis for future performance monitoring (Appendix B).

3 Risk Assessment

3.1 The Council has managed significant financial risks during the past financial year, notably due to the significant volatility in costs and income due to COVID, economic recovery, and a range of additional grant funding arrangements from Government that emerged throughout the year.

3.2 Whilst a significant focus was placed on COVID, the final outturn position demonstrates that it has been difficult in some areas to accurately forecast the timing of spend, and how much spend has ultimately been supported by additional funding. Forecasting of income and service demand has been susceptible to fluctuation during the year as national and local restrictions have been implemented and eased for various periods during the year, and resources have been diverted to COVID-related priorities. Additionally, budget monitoring accuracy has been exposed to risk as operating budgets were reorganised during the year to reflect the Directorate structure, and work has continued throughout the year to review and update the accuracy and alignment of budgets to service requirements.

4 Background and Full details of the Report

4.1 This report informs Members of the Tenants Strategic Group of the HRA's financial outturn (a comparison of net spending against the budget for the year) for revenue and capital budgets in 2020/21.

4.2 Scrutiny and the Executive have received quarterly budget monitoring reports throughout the year which have highlighted variances from budgets and comments from the budget holders, as well as summarising the main risks and uncertainties as explained above. The forecast position has fluctuated during the year.

4.3 The outturn figures contained in this report are provisional at this stage. The financial outturn has been taken into account when preparing the Council's Draft Statement of Accounts, which is due to be approved by the Assistant Director – Finance (S151 Officer) at the end of June, and is now subject to review by the Council's External Auditor. Should the External Auditor identify the need for any changes to the Accounts these will be reported to the Audit and Governance Committee on 27th September this year.

5 Housing Revenue Account (HRA)

- 5.1 The HRA is a ring-fenced account used to manage the Council's housing stock of approximately 5,700 properties, with the Council acting as the Landlord. The HRA operates as a 'self-financing' service, with costs of the properties and associated services funded by housing rents and specific fees and charges. The HRA is working within a 30 year business plan, reflecting the long-term nature of the housing assets, and plans to break-even each year.
- 5.2 **Revenue Outturn Position:** The revenue outturn position for the financial year 2020/21 for the HRA is a net overspend of £15k (0.06% of gross income). The end of year position is closer to budget compared to the £247k underspend forecast at Q3. Table 1 below shows a high level summary of the revenue outturn against budget.

Table 1: HRA Revenue Outturn Summary

	Budget £000	Outturn £000	Variance	
			£000	%
Gross Income	-26,773	-26,919	-147	0.5%
Service Expenditure	15,027	15,569	543	2.0%
Other Operating Costs and Income	9,925	9,544	-381	-1.4%
Unearmarked Reserve Transfers	0	0	0	0.0%
Capital Financing and Debt Repayment	1,821	1,821	0	0.0%
Total	0	15	15	0.1%

- 5.3 The department variances to budget are shown in Table 2, with explanations for the variances set out below.

Table 2: Main Outturn Variances

	Budget £000	Actuals £000	Variance £000
Gross Income:			
Dwelling Rents	-24,225	-24,278	-53
Non-Dwelling Rents	-719	-708	11
Charges for Services / Facilities	-1,457	-1,562	-104
Other Income	-371	-371	0
Sub-Total Gross Income	-26,772	-26,919	-147
Service Expenditure:			
Development & Regeneration	531	406	-125
Community Resilience	189	157	-32
Tenancy Management	1,999	2,378	379
Maintenance	3,813	3,709	-103
Assets	1,499	1,141	-357
Compliance	1,724	2,944	1,220
Performance	5,272	4,834	-438
Sub-Total Service Expenditure	15,027	15,569	543
Central Costs / Movement in Reserves:			
Revenue Contribution to Capital	0	0	0

	Budget £000	Actuals £000	Variance £000
Interest Payable	2,745	2,442	-302
Interest Receivable	0	-33	-33
Change in Provision for Bad Debt	180	-162	-342
Depreciation	7,000	7,297	296
Voluntary Repayment of Provision	1,821	1,821	0
Sub-Total Central Costs / Movement in Reserves:	11,745	11,365	-380
Net Surplus(-) / Deficit for the Year	0	15	15

Income

- 5.4 **Dwelling Rents:** the budgeted income for 2020/21 is £24.225m, which reflects an assumption of 1.25% void losses and applying a 52-week year. During the year tenants were invoiced £24.278m which exceeds the budget estimate by £53k (0.22%). Thus more income has been recovered than predicted when setting the budget and providing an allowance for voids.
- 5.5 **Charges for Services / Facilities:** The budgeted income for 2020/21 for the Service Charge Income for Dwellings (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 1.25% void loss and applying a 52 week year, is £1.283m. Thus £76k more income has been recovered than predicted when setting the budget and providing an allowance for voids.
- 5.6 The Service Charge Income for Leaseholders income for non-scheme holders is invoiced in arrears and therefore the actual income received relates to expenses incurred in the previous financial year. The budget was estimated at £164k. There was an over-recovery of income of £39k compared to budget, reflecting the total of actual costs recharged.

Expenditure

- 5.7 **Development & Regeneration:** The underspend relates to a few posts held vacant during the year. The delivery of new development projects has not required this resource as the service has focused on establishing a development pipeline. The development pipeline of 342 units is now established and following procurement and planning this resource in the structure will be required as the council moves into delivery increasingly from 2021/22.
- 5.8 **Community Resilience:** The underspend relates to some unbudgeted income for a One Team post and a general reduction in project expenditure on the One Team budgets due to COVID restricting activities.
- 5.9 **Tenancy Management:** There are several areas within this department that have underspent because of reduced activity due to COVID. This has in part offset the overspend which relates in part to (a) tenancy management staffing levels that have been activity maintained over and above establishment to support the transition to the new directorates operating structure and COVID activity, (b) increased council tax

liabilities from properties held vacant for longer due to COVID restrictions and (c) one-off costs to bring additional temporary accommodation units back online to support the COVID accommodation needs.

- 5.10 **Maintenance:** The underspend relates to COVID lockdowns delaying works (e.g. responsive repairs and void repairs).
- 5.11 **Assets:** The underspend relates to COVID lockdowns delaying works (e.g. pre-planned maintenance and SAP EPC & Stock Validation) as well as staffing costs where a post was held vacant during the year.
- 5.12 **Compliance:** The overspend is due to accelerated programmes of compliance activity (e.g. additional electrical testing and required repairs, and asbestos related works) as well as additional staffing costs within the gas team and electrical team.
- 5.13 **Performance:** The net underspend is a combination of: (a) reduced activity during the year due to COVID restrictions for both Tenant Empowerment and the Tenants Action Group, (b) an overspend due to higher agency costs for a period of time during the transition to new Directorate structure, (c) an underspend for the creation of a new performance team and the time taken to recruit to the positions, (d) an underspend on shared support staff, (e) an underspend on the overtime budget offsetting pressures across the service, and (f) an underspend on insurance premiums where the impact of the renegotiated contract that resulted in savings across the authority that were not reflected in the budgets for 2020/21 due to timings.

Central Costs and Movement in Reserves

- 5.14 **Interest Payable:** there is an underspend of £335k on interest payable as the HRA has taken out £30m of fixed rate loans during the year thus securing cheaper sources of debt, reducing internal borrowing.
- 5.15 **Interest Receivable:** a combination of new fixed borrowing and COVID reducing capex during the year this has resulted in investments exceeding capital financing requirements. Therefore £33k of interest receivable was gained during the year.
- 5.16 **Bad Debt Provision:** There is an underspend of £342k for the change in expected credit losses (bad debt impairment) for the year end. The total outstanding debt for dwelling rents, service charges and garage rents has reduced by £97k year on year (£672k 20/21; £769k 19/20). The reason for the underspend is a significantly reduced expected credit loss as a result of the Rent Recovery Team changing their approach, with more direct support to tenants realising a significant reduction in older debts.
- 5.17 **Depreciation:** Depreciation is transferred to the Major Repairs Reserve (MRR) and must be used to fund the capital programme and/or repay capital debt. Depreciation is calculated at the end of the financial year and is based on each of the major components of each property e.g. kitchen, bathroom, roof, etc. For 2020/21 the dwelling depreciation charge was £6.9m and the other land and buildings depreciation charge was £0.4m; a total of £7.3m against a budget of £7m which has resulted in an overspend of £0.3m compared to the original budget. The budget for next year has already been increased.

6 HRA Earmarked Reserves

- 6.1 The Council can set aside HRA funds for specific purposes to be used in future years. Table 3 below provides a summary of the HRA earmarked reserves and the movements during the year.
- 6.2 The balance as at 31 March 2021 committed to support spending in future years is £1.108m. The Social Housing Development Fund will be used to fund social housing development feasibility studies, stock appraisals and other asset management activities to progress the Directorate plan objectives. The remainder of the earmarked reserves have been specifically committed to be spent within the next three financial years.

Table 3: Balance of HRA Earmarked Reserves held at 31 March 2021

Description	Balance B/F £000	Transfer In £000	Transfer Out £000	Balance C/F £000
Employment and Skills Development	102	0	-102	0
Asbestos Surveys	102	0	-102	0
One Teams	37	0	-11	26
Social Housing Development Fund	1,232	0	-382	850
Contribution to Transformation	175	0	0	175
Lettings	0	57	0	57
Total	1,648	57	-597	1,108

7 HRA Unearmarked Reserves

- 7.1 The recommended minimum balance for the HRA General Reserve balance is £1.8m. Remaining at or above these targets provides added financial resilience. Table 4 below summarises the movement on the HRA unearmarked reserves during 2020/21. The balance as at 31 March 2021 (subject to audit) is £2.6m, which is £0.8m above the recommended minimum balance of £1.8m.

Table 4: HRA Unearmarked Reserves Balance

	£000
Balance Brought Forward 1 April 2020	2,701
Approved In-Year Transfers	0
Provision Outturn 2020/21	-15
Balance Carried Forward 31 March 2021	2,686
Recommended Minimum Balance	1,800
Balance above recommended Minimum Operational Target	886

8 HRA Capital Outturn Position

- 8.1 The HRA approved Capital Programme for 2020/21 was £31.7m. This consisted of £15.9m of new schemes approved for 2020/21 plus £15.8m of slippage from prior years. The HRA Capital Programme relates to schemes which will be completed over the next ten years.
- 8.2 In addition, £85.9m of supplementary budgets were approved by Full Council on the 7th July and 1st December 2020, and 19th February 2021 for social housing

development schemes to be delivered over several years and to be funded from RTB capital receipts and borrowing. There was also £9.97m for existing stock, mainly through major projects, approved by Full Council on 19th February 2021.

- 8.3 The Council is supporting the total investment through the use of the Major Repairs Reserve, Capital Receipts, Revenue Funding and Borrowing.
- 8.4 The actual spend on the HRA Capital Programme during 2020/21 was £9.1m. The major areas of capital spend during the year related to the capital maintenance for the existing housing stock and the development and acquisition of new stock.
- 8.5 A budget return of £230k for Aids and Adaptations and DFGs relates to a number of factors resulting in a recognition that the annual budget can be profiled lower for future years and that the underspend does not need to be carried forward. A budget return of £500 for The Outer Circle scheme which has completed under budget. The slippage of £104m will be carried forward for spend in future years. The HRA Capital Programme and outturn for the year is included in Appendix A.

9 HRA Right To Buy (RTB) Capital Receipts

- 9.1 The RTB scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. During 2020/21 the Council sold 34 homes through the RTB Scheme.
- 9.2 Through a “1-4-1 Agreement” with the Treasury / MHCLG, the Council can retain a small proportion of these RTB receipts and use them to fund new social housing. These receipts can only account for up to 30% spend on new social housing costs, with the remaining 70% coming from other funds such as revenue funding or borrowing. During the year the Government awarded a temporary amendment to the Retention Agreement which meant that, due to COVID, the Council was given until the 31st March 2021 to spend their receipts within the year.
- 9.3 From 1st April 2021 the Government has issued a policy change increasing allowable spend to 40% (from 30%) on new build development and extending the timeframe within which receipt must be spent to five years (from three years).
- 9.4 These receipts must be spent within three years of the capital receipt or returned to Government with interest at 4% over base rate from the date of the original receipt. To date, the Council has successfully spent all of their retained 1-4-1 receipts with no returns being made to the Treasury / MHCLG.
- 9.5 During the financial year 2020/21 the total attributable spend on eligible RTB schemes was £4.336m. This was a combination of the Council’s own new build development works plus 7 new build acquisitions at Pyrland Fields in Taunton and 8 buybacks (re-purchase of previously sold properties).

10 Links to Corporate Strategy

- 10.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

11 Corporate Scrutiny Comments / Recommendation(s)

11.1 To be updated following Corporate Scrutiny Committee on 7 July.

Democratic Path:

- Corporate Scrutiny – 7 July 2021
- Tenants Strategic Group – 19 July 2021
- Executive – 21 July 2021
- Full Council – No

Reporting Frequency: Annually

List of Appendices

Appendix A	HRA Capital Outturn 2020/21
Appendix B	For Information: Capital Programmes Budget 2021/22 to 2025/26

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Appendix A: HRA Capital Outturn Position 2020/21

HRA Capital Scheme	Revised Budget for 2020-21 £	Actual Capital Outturn 2020/21 £	Budget under (-) /over spend on completed projects £	Budget not required £	Total budget c/f to future years (ongoing projects) £
Major Works	8,443,300	2,773,583			5,669,717
Fire Safety	2,150,000	596,033			1,553,967
Related Assets	100,000	69,927			30,073
Exceptional & Extensive	260,000	283,642			(23,642)
Vehicles	347,800	0			347,800
ICT	855,110	238,996	129,484		745,598
Aids & Adaptations & DFGs	629,090	398,824		-230,266	0
Sub-Total Majors & Improvements	12,785,300	4,361,005	129,484	-230,266	8,323,513
Social Housing Development Programme	100,988,490	4,784,946	3	-500	96,203,047
HRA TOTAL	113,773,790	9,145,951	129,487	-230,766	104,526,560

Appendix B: For Information: Capital Programmes Budget 2021/22 to 2025/26

	20/21 Carried forward £	Approved Budget 21/22 £	Approved Budget future years £	Total Budget 21/22 and future Years £
Housing Revenue Account: James Barra				
Major Works and Improvements	-1,044,000	9,970,000	34,847,000	43,773,000
Social Housing Development Schemes & Major projects	161,000	22,763,000	58,634,000	81,558,000
HRA Total	-883,000	32,733,000	93,481,000	125,331,000

Note:

This HRA budget reflects the CIT Strategies for the period of the Medium Term Financial Strategy 2021-26 for future years. This enables capital programme delivery to be monitored for progress within and across years.

The Outturn budget Approved Budget rolled forward includes all Social Housing Development schemes approved for their duration plus one year of major works and improvements.