

# Somerset West and Taunton Council

## Scrutiny – 8 January 2020

### Financial Monitoring – 2019/20 as at 30 November 2019

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

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#### 1 Executive Summary

- 1.1 This report provides an update on the projected outturn financial position of the Council for the financial year 2019/20 (as at 30 November 2019).
- 1.2 Monitoring the budget is an important part of the Council's performance management framework. Reporting is undertaken regularly to the Senior Leadership Team, with periodic reporting to Scrutiny and the Executive Committee. Reporting is primarily 'by exception' and focusses on the forecast position for the year as a whole compared to the Annual Budget. Forecasts are compiled by budget holders, with support and advice as appropriate from finance specialists (accountants) and case officers. Forecasts will take into account known / committed items as well as assumptions about future performance and demand.
- 1.3 The current revenue forecast outturn for the financial year 2019/20 is summarised as follows. These are the best estimates at month 8 of the financial year based on information currently available:
  - a) General Fund (GF) Revenue Budget = forecast net overspend of £36k.
  - b) Housing Revenue Account (HRA) Revenue Budget = forecast net underspend of £378k.
- 1.4 The current Capital Programme forecast position for 2019/20 is as follows:
  - (a) The General Fund Capital Programme budget is £56.734m. No significant variations to budget are currently reported.
  - (b) The HRA Capital Programme budget for 2019/20 is £23.093m. As previously reported, it is expected costs will be phased over more than one year so a proportion of the budget will need to be carried forward at the end of the financial year.

The Capital Programmes are shown in detail in Appendices A and B.

- 1.5 The General Fund general reserves balance as at 31 March 2020 is projected to be £2.756m (subject to risks identified). The opening balance has been adjusted due to an

accounting error correction in last year's accounts, as explained in this report. The balance is below the operational target of £3m, but above the financial resilience target of £2.4m as approved in the Council's Financial Strategy in September 2019.

- 1.6 The General Fund earmarked reserves balance at the beginning of the year was £18.242m. The net movement in year is currently an increase of £3,954m, mainly contributions to the New Homes Bonus (less the agreed contribution of £747k to fund staff costs) and Business Rates Smoothing earmarked reserves. A number of allocations from reserves are applied at the end of the financial year and will be included in the Outturn report at that stage.
- 1.7 The Housing Revenue Account (HRA) general reserve balance as at 31 March 2020 is projected to be £3.07m (subject to risks identified). This is above both the current recommended operational target level (£2.4m) and financial resilience target level (£1.8m) set within the Council's Finance Strategy and HRA Business Plan.
- 1.8 The HRA earmarked reserves balance at the beginning of the year was £2.719m, with £1.369m committed to be spent within the next three years and the remaining £1.340m for the Social Housing Development Fund will be used as required to fund social housing development.

## **2 Recommendations**

- 2.1 It is recommended that Scrutiny notes the Council's forecast financial performance and projected reserves position for 2019/20 financial year as at 30 November 2019.

## **3 Risk Assessment**

- 3.1 Financial forecasts are based on known information and projections based on assumptions. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable, and based on experience it is feasible the year end position could change, where it is reasonable to assume volatility of say +/- £100k compared to the mid-year forecast.
- 3.2 Salient in year budget risks are summarised in sections 8 and 11 in this report. The Council manages financial risk in a number of ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk.

## **4 Background and Full details of the Report**

- 4.1 This report provides the Council's forecast end of year financial position for revenue and capital expenditure as at 30 November 2019 for the Council's General Fund (GF) and Housing Revenue Account (HRA).
- 4.2 The regular monitoring of financial information is a key element in the Council's Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the Council's

## Medium Term Financial Plan.

- 4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas.
- 4.4 Budget Holders, with support and advice from their accountants, regularly review the position and update their forecasts based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and a number of risks and uncertainties are highlighted within this report. However, the following forecast is considered to be reasonable based on current information.

## 5 General Fund Revenue Budget – 2019/20 Forecast Outturn

- 5.1 The Council is currently forecasting an overall net overspend of £36k (0.2% of £22.3m Net Budget), as summarised below. The previous forecast as at Month 6 was a net overspend of £795k. This included £747k of additional staffing costs for which the Council subsequently approved a supplementary budget increase in December 2019, and is therefore no longer reported as a variance.

**Table 1 - General Fund Revenue Outturn Summary 2019/20**

	Current Budget £'000	Outturn £'000	Variance	
			£'000	%
Performance and Governance	14,247	14,172	-74	-0.3%
Communication and Engagement	562	562	0	0.0%
Customer	-3,761	-3,542	219	1.0%
Localities	4,051	4,140	89	0.4%
Commercial Investment	2,005	2,166	161	0.7%
Strategy	687	687	0	0.0%
Transition and service resilience	747	747	0	0.0%
<b>Net Cost of Services</b>	<b>18,538</b>	<b>18,933</b>	<b>394</b>	<b>1.8%</b>
Interest and Investment Income	-969	-1,327	-358	-1.6%
Transfers from Earmarked Reserves	6,309	6,309	0	0.0%
Transfers from General Reserves	-65	-65	0	0.0%
Transfers from HRA	-10	-10	0	0.0%
Capital and Other Adjustments	-1,471	-1,471	0	0.0%
<b>Net Budget</b>	<b>22,332</b>	<b>22,368</b>	<b>36</b>	<b>0.2%</b>
Funding	-22,332	-22,332	0	0.0%
<b>Variance</b>	<b>0</b>	<b>36</b>	<b>36</b>	<b>0.2%</b>

- 5.2 The table below provides more detail on the significant variances forecast for the year.

**Table 2 - Summary of Significant Forecast Variances for the Year**

	Staffing £'000	Other Expenditure £'000	Income £'000	Total £'000
Members allowances	n/a	21	0	21
Operational Rota	16	0	0	16
Operation Clean Sweep	n/a	50	0	50
Phase 2 Information Project	n/a	20	0	20
B&B/Homelessness	n/a	130	0	130
Performance & Governance	n/a	50	0	50
Pest Control	n/a	-17	46	29
Community Grants	n/a	10	0	10
Insurance	n/a	-295	0	-295
IT Comms	n/a	170	0	170
Community Safety	n/a	10	0	10
Pollution Control	n/a	10	0	10
Welfare Funerals	n/a	0	19	19
Shopmobility	n/a	-20	0	-20
Car parking	n/a	-193	240	47
Asset Management and Facilities	n/a	161	0	161
Council Tax Collection	n/a	0	-100	-100
Deane Helpline	n/a	0	29	29
Visitor Centres	n/a	0	7	7
Building Control	n/a	0	-40	-40
Housing Partnership	n/a	69	0	69
Interest Receivable	n/a	0	-61	-61
Interest Payable	n/a	-297	0	-297
<b>TOTAL – over / (-)underspend</b>	<b>0</b>	<b>-103</b>	<b>139</b>	<b>36</b>

5.3 The main variances to budget are explained as follows:

- a) **Members Allowances:** The allowance scheme agreed in March 2019 and executive arrangements approved by Members in May 2019 is projected to cost £21k more than the original budget assumptions and estimate set by the Shadow Council in February 2019.
- b) **Operational Rota:** An increase in the standby payments has been applied to ensure that we have the necessary skills and resources available. The payment had not be altered for some time and had fallen behind what is reasonable for the commitment required when undertaking this role.
- c) **Operation Clean Sweep:** Additional costs associated with an intensive clean up, repair and refurbishment of Taunton's street scene and wider public areas, carried out during Spring 2019. The intensive cleaning equipment used as part of this work has also been deployed in other parts of the district.
- d) **Phase 2 Information Project:** This work is required for GDPR compliance and will cost an additional £20k.

- e) **B&B Homelessness:** The cost of Bed and Breakfast expenditure is forecast to exceed the budget by £130k which is an increase of £48k from the last report.

Questions were raised at Full Council on 3rd December about B&B costs. A full written response has been provided on this. However we have provided a detailed summary of that response below to better explain the budget pressures.

Homelessness has risen nationally in England by around 25% between 2016 and 2018 and with it, the rise of B&B accommodation bookings and elongated stays. Some of the reasons for this increased demand and cost are:

- Increased timescales in the Homeless Reduction Act
- Legislation which states we have to place clients who are suspected to be homeless and have a priority need in emergency accommodation pending investigation has caused the need for B&B use to rise.
- General increase in rents alongside increase in private landlords serving s21 notices to end private tenancies.
- Resistance of landlords both social and private, to accept clients who are on Benefits, this has been exacerbated by the uncertainty for landlords with Universal Credit.

The introduction of the Homelessness Reduction Act in April 2018 has disproportionately affected our district and resulted in an overall increase in cases for advice and assistance of 130% in Somerset West and Taunton. Last year we overspent our B&B budget by £330,000 and this year we have much stronger control over this but are still heading for a £130k overspend. Reasons why our district has higher demand include the attraction and access of having a mainline train station, good support accommodation such as that provided by ARC and Open Door, a major hospital, additional demand due to the Hinkley project and a council with its own housing stock (and the perception of being able to get a council house). This year so far we have had 111 application clients in B&B accommodation. The service is very demand led and many landlords are reluctant to accept anyone with a chaotic history or on benefits, which lengthens time in B&B and runs up costs. The current cost of booking a room is around £80 per night. This works out at around average £560 a week per application however we often have larger families who require two rooms. The cost could be a possible £3360 if the booking is for the full 6 weeks period till we move the client on or £6720 if a two room family.

We have put in place a number of steps to better control this budget including training to ensure more consistent application of the policy by staff; increasing number of units of temporary accommodation and turning these around quicker; utilisation of tenancy sustainment officers to prevent tenancy breakdown and a private sector officer to work with letting agents to increase supply of private rented accommodation we can use. We have also recently negotiated better deals for B&B accommodation from one of our main suppliers. We are working hard to try and prevent the overspend increasing any further and we are planning to review the budget for B&B accommodation for 2020/21 to ensure it is realistic.

- f) **Performance & Governance:** As previously reported, a budget error has been identified that will be corrected for 2020/21 base position but results in a variance this year.
- g) **Pest Control:** The discretionary Pest Control service was previously operated with a subsidy as the cost of delivering it exceeded the income. The historic income budget of £29k was not removed when the budget was set, despite the service ceasing. This will be corrected for 2020/21.
- h) **Community Grants:** Grants offered have marginally exceeded the budget.
- i) **Insurance:** Following procurement of updated insurance arrangements for the new authority, premiums have significantly reduced. Insurance cover levels have been maintained so this represents a significant saving. The total savings for the General fund are £295k.
- j) **IT Comms:** BT costs account for the majority of the projected overspend, most of which is due to lines no longer being recharged out to individual areas. In addition there are 200 more mobile phone contracts than originally budgeted, and the requirement for 8x8 licences was underestimated with 150 more 8x8 standard users than budgeted. Officers are currently reviewing mobile phone usage with the aim of reducing the number of phones in use as well as working with Vodafone to review contracts to control and reduce costs. We are also updating our policies on the use of mobile phones for different roles and on ICT usage generally. This will help to reduce costs in-year.
- k) **Community Safety:** This is mainly the result of insufficient inflation costs estimate within the budget for the CCTV contract.
- l) **Pollution Control:** Private water sampling income is lower than budget as at the end of September as we are a bit behind on our expected delivery of work at the mid-year point. This will be impacted further in the near future due to staff turnover.
- m) **Welfare Funerals:** This is mainly due to income held awaiting a probate claim by relatives which wasn't carried forward from last year.
- n) **Shopmobility:** The contract is below the amount budgeted for and no further costs are anticipated, providing a net underspend for the year.
- o) **Car parking:** Income is currently forecast to be under budget and parking enforcement contract costs are also expected to exceed the budget estimate. This is partly offset by a net underspend on maintenance and business rates.
- p) **Asset Management and Facilities:** The overspend is mainly due to additional security implemented at West Somerset House in Williton for health and safety reasons, costs of business rates negotiations which will yield savings in the longer term, and professional advice on asset based projects and cases such as valuations as backlog cases are addressed and key projects progressed.

- q) **Council Tax Collection:** Income is expected to overachieve by £100k. An increase in courts held this year has resulted in a £43k overachievement against annual budget. A further 2 courts are planned later in the year. Some of this income over-recovery is a one-off which is catching up on a backlog from the previous year when fewer courts were held whilst Transformation took place. The income to date is currently showing in CIVICA and is the income due (i.e. that will be collected via council tax bills). The income forecast is a conservative estimate and as such should allow for any debt not recovered
- r) **Deane Helpline:** Income is expected to underachieve the budget by £29k. Customer numbers are remaining constant and charges have been increased in line with RPI, resulting in higher income than last year. However, the income target was increased by £94k from 18/19, which was above RPI and therefore the income budget set was unrealistic.
- s) **Visitors Centre:** Income is expected to under recover against budget by £6.5k. This may be recoverable depending on Christmas sales results, however ticket sales for concerts are expected to be lower due to the artists representing a younger more online demographic.
- t) **Building Control:** This is a result of an expected £40k refund from previous years' surpluses from the Partnership.
- u) **Housing Partnership:** The charge to the General Fund from the Partnership is £102k. The budget for 19/20 is only £58k and although the staffing budget was removed there was no increase in the budget for the staffing charges from Sedgemoor. In addition it appears the 18/19 charge was not accrued for and this adds a further £25k.

Officers are reviewing this budget to better understand the charges as there have been significant changes since 2018/19. Further clarity will be provided for the next report.

- v) **Interest Receivable:** Treasury investment income is forecast to exceed the budget by £61k. The S151 Officer plans to exercise further placement of cash balances in strategic funds planned to be held for the long term and producing higher returns than very low risk alternative investment options. This approach is in line with the approved Treasury Strategy.
- w) **Interest Payable:** The General Fund has had minimal need to externalise its borrowing requirement this year and continues to prioritise use of 'internal borrowing'. The current forecast assumes no additional external borrowing this year, however this may change depending the scale of capital expenditure in the second half of the year. It is likely that any external borrowing will focus on short term inter-authority lending which would keep costs to a minimum.

## 6 General Fund (GF) Reserves

- 6.1 Following the completion of the audit for the final accounts for Taunton Deane Borough Council, and accounting adjustment has been recorded in 2018/19 which amends the General Reserves balance transferred to SWTC on 1 April 2019. This amendment corrects an accounting error in respect of the debtors balance on 31 March 2019, which has reduced by £347k. The reserves balance transferred from Taunton Deane and West Somerset Councils on 1 April is therefore corrected to £2.857m.
- 6.2 The Financial Strategy approved in September 2019 introduced a new measure which provides an operational minimum reserve target as well as a minimum financial resilience balance. This recognises that reserves can provide resources during the year to address emerging costs and priorities not identified through the annual budget process.
- 6.3 As agreed in the Financial Strategy approved by the Executive in September 2019, we measure reserves against two targets – (i) a financial resilience minimum balance that should not be breached, and (ii) an operational target minimum balance that provides resources during the year if needed to address emerging costs and priorities not identified through the annual budget planning process. Table 3 below summarises the movement in GF General Reserves to 30 November 2019. The forecast balance as at 31 March 2020 is £2.756m, this would be £245k below the recommended operational minimum balance of £3m. The balance is only a forecast and can change which means it must be caveated at this stage. If the position at the end of the financial year remains below the recommended operational balance, plans will need to be implemented to increase reserves in future years.

**Table 3 - General Reserve Balance**

	<b>£000</b>
<b>Balance Brought Forward 1 April 2019 (as corrected per 6.1 above)</b>	<b>2,857</b>
Approved Transfers to date	-65
2019/20 Projected Outturn Variance – Month 8 Forecast	-36
<b>Projected Balance 31 March 2020</b>	<b>2,756</b>
Operational Minimum Balance	3,000
Projected Balance below recommended minimum	-245
Financial Resilience Minimum Balance	2,400
Projected Balance above recommended minimum	356

- 6.4 The projected balance remains above the minimum requirement for financial resilience purposes, but is projected below the operational target. It is important that the leadership team and Members consider the need to increase reserves in the short to medium term when considering financial decisions. The Draft 2020/21 Budget Progress and Initial Budget Options report on this agenda (see section 7) recommends transferring £300k to General reserves from the NHB reserves in 2020/21 to bring these back up above the minimum level. Advice from the S151 Officer is that Leadership should plan to allocate any General Fund underspend at the end of this financial year also to general reserves to improve financial resilience.

### **Earmarked Reserves**



- 6.5 The General Fund Earmarked Reserves brought forward balance for 2019/20 is £18.242m. In-year movements to date amount to an additional £3.954m, which included the recent approvals to fund the new Director posts, continued subsidy to the park and ride service in Taunton and funding of general fund staff costs from the new homes bonus. The current balance is £22.196m.
- 6.6 The following table details those reserves with balances greater than £500,000.

**Table 4 - GF Earmarked Reserves**

	<b>Opening Balance</b>	<b>Transfers To/From</b>	<b>Closing Balance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
New Homes Bonus	6,168	2,342	8,510
Business Rates Smoothing	3,547	2,869	6,416
General Funds General Carry Forwards	1,135	-1,135	0
Garden Town	944	0	944
Transformation	728	0	728
Transition	648	0	648
Affordable housing community land grant from MHCLG	576	0	576
Revenue Reserves held for Capital Projects	889	0	889
Other; with an individual balance less than £500k	3,608	-122	3,486
<b>TOTAL</b>	<b>18,242</b>	<b>3,954</b>	<b>22,196</b>

- 6.7 Earmarked reserves are reviewed during the year. This is in order to confirm they align to current priorities, and to identify any surplus balances that can be redirected to mitigate in-year financial risks or be returned to general reserves.

## **7 General Fund - Risk and Uncertainty**

- 7.1 Budgets and forecasts are based on known information and the best estimates of the Council's future spending and income. Income and expenditure over the 2019/20 financial year is estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in a number of ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

- 7.2 The following general risks and uncertainties have been identified:

- a) **Fluctuation in demand for services:** We operate a number of demand-led services and the levels of demand do not always follow a recognisable trend. We therefore have to caveat the forecasts in these areas to account for fluctuations.
- b) **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all of their budget, experience shows we could see

underspends of £50k-£100k by year-end caused by the cumulative effect of minor underspends in a number of service areas.

- c) **Year-end Adjustments:** Certain items are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts, and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.
- d) **Business Rates:** There are inherent risks and uncertainties within the Business Rates Retention system. The Council's share of business rates funding is directly linked to the total amount of business rates due and collected in the area, which can fluctuate throughout the year and be affected by the result of Rateable Value changes e.g. as a result of Appeals.
- e) **Recruitment costs:** There is a risk of no savings within salary budgets to take into account these costs – these costs are normally covered by vacancy savings in-year.
- f) **Interest receivable:** This has been forecast on the basis that interest rates will remain as they are currently. However, interest rates are unpredictable and there is a risk that interest rates could decrease further, and investment fund performance is susceptible to financial markets.
- g) **Asset Management:** The budgets for maintaining our assets do not hold any contingency for significant unforeseen repairs or improvement works. Therefore if an event like the breach of the wall at Watchet Harbour occurs then these costs will need to be funded from reserves.

## **8 General Fund Capital Programme**

- 8.1 The current capital programme budget is £56.7m, which is to be funded by a combination of Capital Grants and Contributions, Capital Receipts, Revenue Funding, Reserves and Borrowing. No potential overspends have been identified at this stage.
- 8.2 The major growth and regeneration projects account for £39.4m of the total capital budget. Due to the nature of capital projects the costs are likely to be incurred over more than one financial year. Budget Holders are projecting that £12.7m will be spent during 2019/20 with the remainder due to be spent in future years. Within this total, the largest projects are: Coal Orchard regeneration, Great Western Railway development loan, Seaward Way development, Employment Site Enabling, Major Transport Schemes and Watchet East Quay development loan. There is also an amount of up to £7m identified in respect of planned loans to Somerset Waste Partnership, however it is probable that only £5m will be needed in practice.
- 8.3 The following table summarises the current capital programme and more detail is shown in **Appendix B**.

**Table 5 - GF Capital Programme Summary**

	SWTC Approved Budget 19/20	TDBC Schemes Brought Forward	WSC Schemes Brought Forward	19/20 suppleme ntary estimates /returns	Total
	£'000	£'000	£'000		£'000
Growth Programme	2,027	4,190	0	-4,400	1,817
IT Projects	154	544	354		1,052
Major Projects	7,500	16,257	6,362	7,460	37,579
Housing	1,695	2,703	567		4,965
Other Projects	398	486	463	-96	1,252
S106 – General			271	331	603
S106 – Hinkley Funded			3,539	-72	3,539
CIL – Infrastructure Projects	6,000				6,000
<b>TOTAL</b>	<b>17,774</b>	<b>24,180</b>	<b>11,556</b>	<b>3,224</b>	<b>56,734</b>

## 9 **Housing Revenue Account (HRA)**

- 9.1 The HRA is a ring fenced account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.
- 9.2 Since April 2012, under the Localism Act 2011, the HRA has been a 'self-financing' account. This enables the Council to retain all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and voluntary repayment of one-off debt of £85.12m incurred to become a 'self-financing' authority.
- 9.3 The HRA budget for 2019/20 is budgeted to break-even (net of approved transfers to/from HRA Reserves).
- 9.4 The current year end forecast outturn position for the Housing Revenue Account for 2019/20 is an underspend £378k. The Month 4 forecast was a £17k overspend and the Month 6 forecast was a £19k underspend.

**Table 6: HRA Outturn Summary**

	Budget	Outturn	Variance	
	£'000	£'000	£'000	%
Gross Income	(26,217)	(26,389)	(171)	0.7%
Service Expenditure	13,834	13,558	(277)	-2.0%
Other Operating Costs and Income	9,382	9,452	70	0.7%
Unearmarked Reserve Transfers	-	-	-	0.0%
Capital Financing and Debt Repayment	2,991	2,991	-	0.0%
Total	(10)	(388)	(378)	-1.5%

- 9.5 The variances forecasted for the year are described below.
- 9.6 **Interest Receivable:** the actual interest receivable in 2018/19 was nil due to internal borrowings exceeding investments. The expectation is that this situation will arise again and therefore a variance of £70k is now being reported.
- 9.7 **Right To Buy:** the original budget estimated that 46 properties would be sold to existing tenants under the RTB scheme. However the current forecast is that there will be only 36 RTB sales (34 sales in 2018-19; 53 sales in 2017-18). Therefore an under recovery of RTB admin fee grant income is being reported of £13k.
- 9.8 **Insurance:** following an authority wide re-tender exercise for insurance premiums the new authority has been successful at significantly reducing their annual premiums. It is estimated that a saving against budget of £180k will be seen across the HRA including leaseholders, shops and meeting halls.
- 9.9 **Rental and Service Charge Income:** an estimated over recovery of rental and service charge income of £171k has been identified based on extrapolating 35 weeks (out of 53 weeks) of invoicing data. These figures represent the amount invoiced to tenants (and not the amount of income collected) and is affected by levels of void properties and amounts of discounts applied to tenants accounts.
- 9.10 **Repairs and Maintenance:** Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. cold winters causing burst pipes), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required. The current forecast is an underspend of £110k based on 8 months' worth of data, however it is highly likely this forecast will change and consequently this variance should be regarded with caution.

### **HRA - Risk and Uncertainty**

- 9.11 Budgets and forecasts are based on known information and the best estimates of the Council's future income and expenditure activity. Income and expenditure over the financial year is estimated by budget holders and then reported through the budget monitoring process. During this process any risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.
- 9.12 There are also a number of areas where the financial impact is not known until the end of the financial year such as depreciation charges and change in provision for bad debt.
- 9.13 The current areas of risk and uncertainty being reported include:
- 9.14 **Tenancy Management:** The current year spend to date is low against budget due to the embedding of a new team in a new operating model. There may be an underspend but this

will not be known with certainty until later in the year to allow the service time to explore the demands of this service against current budget provision.

- 9.15 **Interest Payable:** There is a risk that the HRA may need to externalise its internal borrowings from the general fund if the general fund needs to borrow internally from itself for any major schemes. The HRA may also need to take on more borrowing to finance capital schemes such as buybacks. As a consequence the interest payable may increase on any additional loans taken.
- 9.16 **Staffing Costs:** As reported to Full Council on the 3<sup>rd</sup> December 2019, the Council's leadership team identified ongoing financial pressures in order to protect service standards and maintain capacity whilst completing the safe delivery of expected service process efficiencies and greater customer access to self-service. The HRA's share of these transition and service resilience cost pressures for this financial year are estimated to be £339k. It is expected that this can be offset by underspends in other budget areas within the HRA.

## **10 HRA Capital Programme**

- 10.1 The HRA approved Capital Programme is £23.093m. This consists of £9.586m of new schemes approved for 2019/20 plus £13.507m of slippage from prior years. In addition, a supplementary budget was approved by Full Council on the 16 July 2019 for Laxton Road for £331k funded by RTB Receipts. The Capital Programme relates to schemes which will be completed over the next five years.
- 10.2 The Council is supporting this investment through the use of the Major Repairs Reserve, Capital Receipts, Revenue Funding and Borrowing.
- 10.3 **Appendix A** provides a breakdown of the HRA Capital Programme Outturn by scheme and the actual spend incurred within the first eight months of the year.
- 10.4 **Delegated Authority:** On the 8 Oct 2019 Full Council approved the request for the Housing Director / Head of Function in consultation with the Housing Portfolio Holder to be granted delegated authority to make changes to the profile of budgeted spend for all of the HRA capital schemes, whilst remaining within the approved Capital Programme for 2019-20. Any virements will be reported as part of Appendix A to SLT on a bi-monthly basis and to Members on a 4-monthly basis.
- 10.5 The capital programme can be split into three distinct areas:
- 10.6 **Major Works:** The original budget of £7.322m is funded by the Major Repairs Reserve and relates to spend on major works on existing dwellings such as kitchens, bathrooms, heating systems, roofs, doors and windows. Spend to date is £1.477m with a total spend projected to be £4.191m.
- 10.7 **Improvements:** The original budget of £2.710m is funded by the Major Repairs Reserve and relates to spend on improvements such as disabled facilities adaptations, asbestos removal and environmental improvements. Spend to date is £508k with a total spend projected to be £2.05m.

- 10.8 The estimated underspend or rather slippage of budget into 2020-21 seen for Major and Improvement Works at the end of the current financial year is £3.747m. This is due to the substantial disruption caused by transformation – implementing a new the staffing and operational model – and also due to the number of significant contracts for works coming to the end of their contract period during 2019-20 making it is necessary to review the delivery of capital works and improvements schemes in the future as part of the HRA Business Plan review.
- 10.9 **Social Housing Development Programme:** The original budget of £13.061m is for the provision of new housing through schemes such as North Taunton Regeneration, Weavers Arms and other buybacks to increase the Council’s housing stock. Spend to date is £4.632m with a total spend projected to be £7.112m. The estimated underspend at the end of the year is £5.503m, which will be carried forward into next year for further spend on existing schemes. There is an estimated underspend of £929k that is no longer required for completed schemes which will be returned, although approximately £152k of this will be requested to fund projected overspends on other schemes.

## 11 HRA Earmarked Reserves

- 11.1 The HRA Earmarked Reserves (EMR) at the beginning of 2019/20 were £2.719m (see **Table 2** below). Of this, half the funds have been have been specifically committed to be spent within the next three financial years. The other half relates to the Social Housing Development Fund which will be used as required to fund social housing development feasibility studies and usage approved through the Housing Programme Board.

**Table 7: Balance of EMR held at 1 April 2019**

Description	Balance b/f (£'000)
HRA Carry Forwards	186
HRA Electrical Testing	474
HRA Employment and Skills Dev	102
HRA One Teams	50
Leasehold Schemes HRA Advanced Payments	9
Social Housing Development Fund	1,340
HRA Contribution to Transformation	380
HRA Contribution to Transition	178
<b>HRA Total</b>	<b>2,719</b>

## 12 HRA General Reserves

- 12.1 The HRA reserves at the start of the year were £2.718m. This is £918k above the minimum recommended reserve level of £1.800m, providing a comfortable level of resilience in light of the significant contractual risk in relation to North Taunton.
- 12.2 **Approved In-Year Transfers** - On the 30 July 2019 Full Council approved a Structural Change to the Senior Leadership Team and one-off additional funding of £26k from HRA

general balances for 2019-20.

- 12.3 **Forecast Outturn** - The current outturn position is forecast to be an under spend of £378k. If this is the position at year end then this will be added to general balances, increasing them to £3.07m

**Table 8: HRA Reserve Balance**

	£k
Balance Brought Forward 1 April 2019	2,718
Approved In-Year Transfers	-26
Forecast Outturn 2019/20 (as at 30 Nov 2019)	378
<b>Forecast Balance Carried Forward 31 March 2019</b>	<b>3,070</b>
Operational Minimum Balance	2,400
Projected Balance below recommended minimum	670
Financial Resilience Minimum Balance	1,800
Projected Balance above recommended minimum	1,270

### 13 Links to Corporate Aims / Priorities

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

### 14 Partnership Implications

- 14.1 A wide range of Council services are provided through partnership arrangements e.g. SLM for leisure services and Somerset Waste Partnership for Waste and Recycling services. The cost of these services is reflected in the Council's financial outturn position for the year.

### 15 Other Implications

- 15.1 None for the purpose of this report.

#### Democratic Path:

- **Scrutiny – 8 January 2020**
- **Executive – 22 January 2020**
- **Full Council – No**

**Reporting Frequency: 4 Monthly**

#### List of Appendices

Appendix A	Housing Revenue Account Capital Programme
Appendix B	General Fund Capital Programme

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## APPENDIX A

### HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

AS AT END OF NOVEMBER 2019

Project	Slippage from 2018-19	Original Approved Budget for 2019-20	Final Budget for 2019-20 (ROUNDED)	Supplements / Returns in 19-20	Proposed Virements in 19-20	Revised Budget for 2019-20	Spend YTD	Total Forecast	Slippage	Returns	Overspend / (Underspend)
<b>Major Works</b>											
HRA C Major Repairs & Improvem	68,489		68,490		1,301,980	<b>1,370,470</b>	450	0	1,370,470		0
HRA C Kitchens	5,312		5,310		344,690	<b>350,000</b>	(20,628)	352,000	(2,000)		0
HRA C Bathrooms	421	1,400,000	1,400,420		(950,420)	<b>450,000</b>	(13,403)	450,000	0		0
HRA C Roofing	61,638		61,640		38,360	<b>100,000</b>	1,961	99,080	920		0
HRA C Windows	4,678		4,680		95,320	<b>100,000</b>	0	69,625	30,375		0
HRA C Heating Improvements	9,401	1,625,000	1,634,400		(29,400)	<b>1,605,000</b>	484,357	739,795	865,205		0
HRA C Doors	160,052		160,050		(160,050)	<b>0</b>	8,383	0	0		0
HRA C Fire Safety Works Commun	590,615	1,172,000	1,762,620		(1,452,620)	<b>310,000</b>	194,008	230,365	79,635		0
HRA C Cladding	0		0		0	<b>0</b>	0	0	0		0
HRA C Fascias and Soffits	122,603	1,200,000	1,322,600		(572,600)	<b>750,000</b>	389,448	751,801	(1,801)		0
HRA C Air Source Heat Pumps	51,747		51,750		28,250	<b>80,000</b>	37,522	119,710	(39,710)		0
HRA C Door Entry Systems	2,107		2,110		434,890	<b>437,000</b>	173,250	436,766	234		0
HRA C Community Alarms	2,297		2,300		(2,300)	<b>0</b>	0	0	0		0
HRA C Insulation	1,775	800,000	801,780		(251,780)	<b>550,000</b>	76,807	551,807	(1,807)		0
HRA C Ventilation	39,567		39,570		60,430	<b>100,000</b>	57,454	97,552	2,448		0
HRA C Kitchen rep'd due to dam	2,834		2,830		197,170	<b>200,000</b>	55,038	185,038	14,962		0
HRA C Bathroom rep'd due to da	1,503		1,500		123,500	<b>125,000</b>	32,331	107,331	17,669		0
HRA C Underground Drainage	0		0		10,000	<b>10,000</b>	0	0	10,000		0
<b>Total Major Works</b>	<b>1,125,039</b>	<b>6,197,000</b>	<b>7,322,050</b>	<b>0</b>	<b>(784,580)</b>	<b>6,537,470</b>	<b>1,476,979</b>	<b>4,190,870</b>	<b>2,346,600</b>	<b>0</b>	<b>0</b>

Project	Slippage from 2018-19	Original Approved Budget for 2019-20	Final Budget for 2019-20 (ROUNDED)	Supplements / Returns in 19-20	Proposed Virements in 19-20	Revised Budget for 2019-20	Spend YTD	Total Forecast	Slippage	Returns	Overspend / (Underspend)
<b>Improvements</b>											
HRA C Building Services Vehicl	105,879	121,000	226,880		0	226,880	0	200,000	26,880		0
HRA C Environmental Improvemen	100,624	321,000	421,620		(31,620)	390,000	26,838	226,527	163,473		0
HRA C Extensions	38,928	502,000	540,930		0	540,930	3,588	0	540,930		0
HRA C Electrical Testing	0	0	0		300,000	300,000	10,863	284,863	15,137		0
HRA C Parks	0	0	0		150,000	150,000	0	110,000	40,000		0
HRA C Meeting Halls	77,349		77,350		(27,350)	50,000	14,887	48,887	1,113		0
HRA C Garages	5,054		5,050		94,950	100,000	2,215	85,106	14,894		0
HRA C Sewerage Treatment Plant	20,000		20,000		(20,000)	0	0	0	0		0
HRA C Unadopted Areas	30,000		30,000		(30,000)	0	0	0	0		0
HRA C Related Assets	80,000		80,000		(80,000)	0	0	0	0		0
HRA C Scaffolding	0		0		200,000	200,000	49,106	199,513	487		0
HRA C Asbestos Works	221,406		221,400		228,600	450,000	207,612	424,813	25,187		0
HRA C Aids and Adaptations	28,272	61,000	89,270		0	89,270	2,791	65,000	24,270		0
HRA C DFGs	311,791	315,000	626,790		0	626,790	147,110	315,000	311,790		0
HRA C IT Development	371,046		371,050		0	371,050	43,182	135,000	236,050		0
<b>Total Improvements</b>	<b>1,390,349</b>	<b>1,320,000</b>	<b>2,710,340</b>	<b>0</b>	<b>784,580</b>	<b>3,494,920</b>	<b>508,191</b>	<b>2,094,710</b>	<b>1,400,210</b>	<b>0</b>	<b>0</b>
<b>Social Housing Development Programme</b>											
HRA C Social Housing Developme	3,048,020	2,069,000	5,117,020		(5,117,020)	0	0	0	0	0	0
HRA C Creechbarrow Road	246,202		246,200		0	246,200	(1,596)	(1,596)	0	247,796	0
HRA C Buybacks	3,920		3,920		4,241,510	4,245,430	2,580,500	4,373,000	0	0	127,570
HRA C Weavers Arms	493,804		493,800		0	493,800	(1,200)	39,756	0	454,044	0
HRA C TD North Taunton Phase A	6,923,307		6,923,310		0	6,923,310	453,190	1,979,883	4,943,427	0	0
HRA C North Taunton Phases B-E	0		0		0	0	1,430,596	0	0	0	0
HRA C 12 Moorland Close	227,951		227,950		0	227,950	0	0	0	227,950	0
HRA C Outer Circle	45,106		45,110		102,640	147,750	131,878	144,500	3,250	0	0
HRA C Laxton Road	61		60	331,230	772,870	1,104,160	10,236	547,900	556,260	0	0
HRA C Oake	3,601		3,600		0	3,600	27,990	28,335	0		24,735
<b>Total Social Housing Development P</b>	<b>10,991,972</b>	<b>2,069,000</b>	<b>13,060,970</b>	<b>331,230</b>	<b>0</b>	<b>13,392,200</b>	<b>4,631,594</b>	<b>7,111,778</b>	<b>5,502,937</b>	<b>929,790</b>	<b>152,305</b>
<b>HRA TOTAL</b>	<b>13,507,360</b>	<b>9,586,000</b>	<b>23,093,360</b>	<b>331,230</b>	<b>0</b>	<b>23,424,590</b>	<b>6,616,764</b>	<b>13,397,358</b>	<b>9,249,747</b>	<b>929,790</b>	<b>152,305</b>