

Report for: Cabinet 10th November 2015

Item number: 11

Title: The Council's financial position - Month 6 Update.

Report authorised by: Tracie Evans – Chief Operating Officer

Lead Officer: Neville Murton – Head of Finance (Budgets and Accounting).

Ward(s) affected: ALL

**Report for Key/
Non Key Decision:** Non Key.

1. Describe the issue under consideration

- 1.1. Cabinet considered the Quarter 2 (August) budget monitoring position at their meeting on 20th October 2015. Taking into account the proposed use of the Council's Risk Reserve, the General Fund revenue position set out in that report indicated an **overspend of £14.3m**.
- 1.2. In the light of that significant overspend the Cabinet Member for Resources and Culture advised that a further paper would be brought back following the receipt of Period 6 financial returns from budget managers, reviewing the most up to date position and setting out a proposed strategy for bringing the 2015/16 budget back into balance.
- 1.3. Taking into account a range of proposed actions the 2015/16 position can, at this stage, be mitigated to an overspend of **£6.9m**. Further work will continue to address this remaining position.

2. Cabinet Member Introduction

- 2.1. When the Cabinet considered the second quarterly budget monitoring position I said that, in the light of the overspend indicated, I would keep the position under review and continue to ensure that Cabinet were kept informed. I am committed to understand the challenges and ensure that appropriate responses are developed and this report sets out the first stage of that process.
- 2.2. When we set our Medium Term Financial Strategy for the three year period covering 2015 to 2018 that required delivery of a further £70m of savings we recognised that this would be a challenge. The Council had already delivered successfully almost £120m of savings over the previous four years and it was acknowledged that there needed to be transformational change across many services.

- 2.3. However, because of the way that we have prudently managed our finances; setting aside resources in our reserves to provide capacity to smooth the implementation of our savings and continuing to maximise the return from our Treasury Management activities, we are well placed to deal with the current situation.
- 2.4. There still remain significant uncertainties in the funding position for Local Government; only last month we heard that Local Authorities are to be allowed to retain 100% of the Business Rates by the end of this decade which, whilst it will incentivise further the need to promote business growth, it also brings with it further risk. For Haringey with high needs and a low business rate taxbase we will continue to require government support in some form and we do not know how that resource equalisation will be achieved in any new system. We have also seen, in the last financial monitoring report, the impact that business rate appeals can have on our collection rates even when we are only exposed to 30% of that risk.
- 2.5. All of which means that it is imperative that we continue to pursue our financial strategy across the three year period; more than ever it is necessary for us to understand the challenges and develop strategies that deliver what we said we would do. The Star Chamber process is a key part of keeping under close review our progress towards delivering our three year financial strategy and I will be reporting to the Cabinet the outcomes from that process when the next scheduled report is provided in January.
- 2.6. I am confident that the savings we approved in February 2015 are the right ones; Officers are being held to account for the savings that they proposed and we accepted, and in this paper is an approach that is needed to support the implementation of the three year strategy from where we are now.

3. Recommendations

- 3.1. The Cabinet notes the updated budget management position and the proposed actions to address the 2015/16 position.

4. Reasons for decision

- 4.1. Members set the approved budget in February 2015 alongside the three year Medium Term Financial Strategy (MTFS). The overspend position apparent at this stage of the 2015/16 financial year requires members to consider the options for bringing the budget back into balance over the remainder of the financial year.

5. Alternative options considered

- 5.1. In addition to the approach set out in this paper there are a number of alternatives that could be taken. A passive approach could be adopted with the position being dealt with at the end of the financial year; in that event, and to the extent that there remained an overspend position; there would be a call on the Council's reserves.

- 5.2. The option of requiring alternative or additional budget savings has also been considered however at this stage it has been discounted as the evidence suggests that the approved savings should continue to be delivered albeit that slippage is occurring. In addition there are no indications that any alternative savings have a greater chance of success; this is particularly true given the time that would be needed to develop, approve and implement them.
- 5.3. Further, more aggressive management action could be taken to limit spending above those already being pursued in the Deficit Recovery Plan: for example all vacancies could be ‘frozen’, or there could be embargoes on spending. In practice these require significant management attention which at this stage it is considered would detract from the key task of implementing the approved savings proposals. Instead a recruitment panel of senior offices considers the business case for all vacancy and temporary staffing requests and relevant spending trends are closely monitored.
- 5.4. None of these options have been discounted lightly and they are all available should they become necessary later; it is therefore important that members understand the alternative actions and keep the Council’s financial position under close review.

6. Background information

- 6.1. Following consideration of the quarter 2 budget management report by the Cabinet, budget managers have been asked to update their estimated outturn position as at the end of Period 6 (September 2015). Following that exercise the overall position on the General Fund is an estimated **overspend of £17m**, however, the Risk Reserve of **£2.2m** remains available to provide mitigation and the net overspend position is therefore now **£14.8m**. The summary position is set out in the Table below.

Table 1 – Summary General Fund financial position.

£'000 General Fund	2015/16 Budget Variance		
	Budget	Estimated Outturn	Variance
Leader and Chief Executive	4,049	4,049	0
Chief Operating Officer	70,953	78,634	7,681
Deputy Chief Executive	144,947	159,598	14,651
Dir. of Regeneration/ Planning	16,545	16,728	183
Non Service Revenue (NSR)	8,451	2,951	(5,500)
Total	244,945	261,960	17,015

- 6.2. This position is largely unchanged from the previous (P5) position although it does reflect a further increase in the overspend for Temporary Accommodation.
- 6.3. In the light of the significant overspend a number of options have been explored either to bring the budget back into line by the end of the financial year or set out a clear strategy for managing the budget pressures being seen. The broad approaches that are being undertaken are:

- Review of capital financing assumptions including the policy for providing the repayment of debt through the Minimum Revenue Provision (MRP).
- Instigation of Star Chamber meetings to consider progress towards the current and future years' saving proposals.
- Review of the Council's reserves position.
- Continuation of other management activities in the Deficit Recovery Strategy such as the recruitment panel and a review of centrally held budgets for demographic and inflationary purposes with a view to releasing it to service budgets where demographic pressures can be demonstrated.

6.4. The Council's 2014/15 capital outturn position was under spent by £11.4m. Under its current MRP policy the Council is only required to provide for the repayment of prudential borrowing in the year following the expenditure. As a result the proposed MRP for 2015/16, which is based on 2014/15 expenditure, is lower than budgeted for. Additionally the Council did not utilise its Acquisition Fund in 2014/15 and as a consequence the budget it established for the repayment of the debt associated with such acquisitions will also not be required in 2015/16.

6.5. In total this review of the council's financing assumptions means that a further **£2.9m** can be released to support the current years overspend.

6.6. Star Chamber meetings are being held to determine the progress of the Council's approved savings proposals. A key element of that discussion is determining the extent to which savings for 2015/16 are achievable but have been delayed (slippage). To the extent that a delay has occurred, leading to an overspend in the current year, it is appropriate to provide short term support from reserves.

6.7. To facilitate this the Chief Finance Officer has reviewed the level and purpose of the Council's reserves and this has identified that a sum of **£5m** can be earmarked to support 2015/16 expenditure in the short term. This will be drawn partly from the Services Reserve (£4.5m) in support of the overall level of pressure in services and from the Financing Reserve (£0.5m) where we have previously retained resources to provide cover against costs exceeding the level of the Housing Benefit Grant.

6.8. The additional actions set out in the Deficit Recovery Strategy will continue to be pursued with the expectation that this will deliver reductions in expenditure in 2015/16 above the levels currently predicted and this will contribute to a further reduction in the estimated overspend position.

6.9. Taking all of the above proposals into account there remains a pressure of **£6.9m** that will require on-going attention; this is summarised in Table 2 below. The initial work that has been carried out will continue and the Cabinet Member for Resources and Culture will be kept fully informed of all proposed actions and the outcomes of the various reviews. The next quarterly report to the

Cabinet is scheduled for January 2016 and members will be updated on further progress and actions at that time.

Table 2 – Revised General Fund Position.

	2015/16 estimated Outturn
Estimated gross outturn as set out in Table 1 above	(17,015)
Application of Risk Reserve	2,200
Additional savings from Treasury management activities (MRP)	2,900
Application of Services Reserve	4,500
Application of Financing Reserve	500
Restated estimated outturn position	(6,915)

7. Contribution to strategic outcomes

7.1. Adherence to strong and effective financial management will enable the Council to deliver all of its stated objectives and priorities.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1. This report covers all of the relevant financial implications for members to consider.

8.2. The Assistant Director of Corporate Governance has been consulted on this report. There are no specific legal implications arising from this report.

9. Use of Appendices

9.1. NONE

10. Local Government (Access to Information) Act 1985

10.1. The following background papers were used in the preparation of this report:

- Budget management papers

10.2. For access to the background papers or any further information please contact Neville Murton – Head of Finance (Budgets and Accounting Team).