Report for:	Cabinet
Item number:	**8**
Title:	Budget Monitoring 2015/16 Quarter 3
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:	Key

1. Describe the issue under consideration

1.1. This report sets out a range of indicators relevant to the Council's overall financial health. These include the forecast financial revenue and capital outturns for 2015/16 based on actual performance to 30th November 2015.

1.2. To consider the proposed management actions set out in this report and approve the budget adjustments (virements) in Appendix 1 as required by Financial Regulations.

2. Cabinet Member Introduction

2.1. The Council's 2015 – 2018 Medium Term Financial Strategy (MTFS) was published alongside the Council's Corporate Plan and the final budget for 2015/16 was approved in February 2015.

2.2. The MTFS reflected the significant financial challenges facing the Council due to sustained funding reductions implemented by the government as part of their austerity measures. In summary the MTFS delivered savings of c£70m and was substantially balanced, requiring a net contribution from reserves of £4.3m over the three year planning period.

2.3. We have now received the provisional local government finance settlement and you have separately on this agenda, our initial budget proposals for 2016/17 based on those updated figures.

2.4. I remain concerned by the forecast overspends this year and am asking officers to undertake specific pieces of work particularly around saving proposals that are slipping. The provisional settlement confirms that the Council is facing the continuing challenge of a reducing resource base along with increasing demands and customer expectation for services.

2.5. I am also asking for a further provisional outturn report for the current year to be prepared and brought to Cabinet in March so that we can be clear with you on our approach to managing the 2015/16 position as we enter the new financial year.

3. Recommendations

That Cabinet:-

3.1. Consider the report and the progress being made against the Council's 2015/16 budget in respect of net revenue and capital expenditure;

3.2. Approve the budget changes (virements) as set out in Appendix 1;

3.3. Delegate to the Lead Finance Officer the authority to agree cashflow support for Alexandra Palace in support of the East Wing Restoration Project (Paragraphs 9.7 to 9.10).

3.4. Maintain under review the key risks and issues identified in this report.

3.5. Note that a provisional outturn report will be brought to the March Cabinet meeting.

4. Reasons for decision

4.1. Members' involvement in financial monitoring is an essential part of delivering the Council's priorities.

4.2. The constitution requires Members to approve certain financial transactions such as virements according to approved limits.

5. Alternative options considered

5.1. This report proposes that the Cabinet considers the financial position for 2015/16 in line with existing procedures. It also includes enhanced financial information to give the Cabinet a more rounded view of the Council's finances.

5.2. A risk based approach to budget monitoring has been developed in order to manage the Council's finances at a time of economic and financial uncertainty including additional financial information.

5.3. At this stage of the year the impact of management action on the current years position is limited however, given the overall position and the further savings to be delivered in 2016/17 it is still as important that corrective action is identified to bring expenditure back into line with the budget.

6. Background information

6.1. Following the conclusion of the period 8 (November) budget management processes, the Council's estimated revenue and capital position for 2015/16 is set out below together with relevant issues. The outturn position for the Housing Revenue Account (HRA) is also included.

6.2. In addition extended budget information has been updated to provide the Cabinet with a range of additional information to support strategic financial decision making.

6.3. There are three broad areas of analysis each with further detail within them as summarised below:

- Financial/ Management Indicators

  - Revenue outturn 2015/16
  - Key financial management issues 2015/16
  - Capital outturn
  - Capital receipts
  - Collection Fund
- Liquidity Indicators
  - Working capital
  - Cash flow
  - Debt analysis
- Risks

7. Revenue Outturn 2015/16

7.1. Budget managers have been providing their estimated outturn position as at the end of Period 8 (November 2015). The gross position on the General Fund is an estimated **overspend of £13.3m**. The Risk Reserve of **£2.2m** has been applied to provide mitigation and at their November meeting the Cabinet agreed to the use of a further **£5m** of reserves as a further strategy for managing the position; this results in a net forecast overspend of ***£6.1m*** at this point. The revenue position is summarised in Table 1 with further details of the key budget issues and pressures being set out further below.

Table 1 – Summary Revenue Position (Month 8)

	2015/16 Budget Variance		
£'000 General Fund	Budget	Estimated Outturn	Variance
Leader and Chief Executive	4,049	4,029	(20)
Chief Operating Officer	72,410	78,352	5,942
Deputy Chief Executive	145,093	161,412	16,319
Dir. of Regeneration/ Planning	17,279	16,710	(569)
Non Service Revenue (NSR)	6,113	(2,287)	(8,400)
Total	**244,944**	**258,216**	**13,272**
Approved application of reserves			**(7,200)**
Revised position			**6,072**

7.2. For the Housing Revenue Account (HRA) the estimated outturn position is an overspend of £579k which reflects a reduction against the budgeted surplus agreed by the Council in February 2015.

7.3. A provisional outturn report will also be provided to the Cabinet in March which will include a range of options for managing the overall financial pressures being seen and following consultation with the Lead Member for Resources and Culture.

7.4. The position on the ring fenced Housing Revenue Account (HRA) is summarised in the table below. The original budget was set to generate a surplus in order to provide resources for future investment in the Council's housing stock. In the event the current projection suggests that a smaller surplus will be made.

Table 1a – HRA Summary Revenue Position (Month 8)

£'000 HRA	2015/16 Budget Variance		
	Budget	Estimated Outturn	Variance
Housing Revenue Account	**(16,315)**	**(15,736)**	**579**

8. Key Financial Management Issues 2015/16

Children's Services (Deputy Chief Executive)

8.1. The budget management information from Children's Services identifies a gross forecast overspend of £4.7m. In addition Dedicated Schools Grant (DSG) budgets are showing an overspend of £0.8m which, as it relates to increased costs of meeting the needs of Children with SEN will largely be funded from the DSG contingency within the High Needs block. Assumed management action of £0.5m is expected to result in a reduction of the forecast net overspend to £4.2m.

8.2. There are a number of areas within the service where pressures are being seen. The main area of pressure is within the safeguarding and social care service where, based on current and expected numbers of Looked After Children (LAC), there is a £2.8m pressure.

8.3. Given the stage of the financial year reached there is a further risk that the remaining management action may also be at risk.

Adults Services (Deputy Chief Executive)

8.4. The projection from Adults services indicates a net overspend of £12.9m.

8.5. The service overspent by £3 million last year as a result of demographic pressures and the rising costs of care. These pressures have continued into 2015/16 which has led to an increasing overspend position despite management action.

8.6. The service has adopted an ambitious new strategy for supporting people with social care needs as part of the Corporate Plan and the Medium Term Financial Strategy. This new approach is expected to deliver significant savings as well as improved outcomes for people; however due to the far ranging and complex nature of the changes required and the Council's commitment to a co-production approach the benefits of the transformation are not expected to be achieved in the current financial year leading to a delay in the delivery of savings.

8.7. The service continues to take action across all client groups to assist with the management of costs including:

- Care Package reviews
- Contract re-negotiations
- Reducing dependency of existing clients on existing packages through re-ablement
- Improving VFM for spot contracts.

8.8. It is clear however, that the implementation of fundamental changes to realise the savings proposals are necessary to bring the expenditure in this area back into line with the approved budget.

Other Deputy Chief Executive areas

8.9. The Commissioning budget is showing a £275k underspend which is mainly attributable to variances against staffing budgets and which will be maintained to offset pressures elsewhere within the Deputy Chief Executive's area.

8.10. Following confirmation from the government of the estimated £1.3m in-year reduction to the Public Health Grant the service has been taking action to mitigate the effect of that reduction; currently a £0.3m underspend is anticipated.

General Fund Housing (Chief Operating Officer)

8.11. The Housing service within the General Fund is presently showing an overspend of £4.7m. The pressure is attributable to the Temporary Accommodation budget, where the costs of acquiring TA is continuing to rise.

8.12. This is for two main reasons, firstly increases in rent levels for existing properties, as existing landlords switch properties to more expensive nightly rated stock and secondly increased costs for newly acquired units, as the existing unit is sold. Therefore the gap between rent paid out and collected is growing further apart, in common with the rest of London.

8.13. To reduce this overspend the service is exploring a range of other options which will be subject to separate Cabinet reports.

Customer Services (Chief Operating Officer)

8.14. Following the creation of the new Shared Service Centre (SSC) the information relating to Customer Services, which sits outside the SSC, has been separately identified. Customer Services are currently showing an overspend of £0.9m

8.15. This overspend mainly relates to the non-achievement of planned staff savings associated with the customer services/ libraries transformation programme, including delays to the roll-out of MyAccount which will facilitate customer self service.

Regeneration, Planning and Development (Director of Regeneration)

8.16. Overall the Regeneration, Planning and Development service is currently projecting an underspend of £0.5m.

Non Service Revenue

8.17. At this stage an underspend of c£8.4m is available representing the clear need to utilise contingencies and the remaining inflationary provision as a strategy for offsetting service budget pressures.

8.18. The achievement of significant benefits from the council's successful Treasury Management strategy and reduced need to make Minimum Revenue Provision Payments (MRP) for capital expenditure has also provided addition resources in this year.

Housing Revenue Account (HRA)

8.19. The Housing Revenue Account is showing an overspend of £579k, this is due to projected income shortfalls in the Managed Account from Supported Housing and garages where budget savings have been identified but not achieved. In addition there is a shortfall in the income from tenant service charges.

Virements

8.20. A number of virements are set out at Appendix 1; the appendix differentiates between those that are provided for information and those that, in accordance with the Council's financial regulations, require the formal approval of Cabinet.

9. Capital Outturn

9.1. Currently there is a projected underspend of £7.1m against the 2015/16 approved General Fund Capital Programme, the HRA is also projecting an underspend of £13.9m. Appendix 2 shows the current programme for both of these areas.

9.2. Appendix 2 shows the variances against the individual projects within the approved capital programmes. The main areas of variance include the Business Improvement Programme (BIP) IT projects which are showing an underspend of £1.9m where the procurement processes have secured a combination of less expensive options.

9.3. There is also an Information Technology forecast underspend of £1.1m; the proposed projects are currently being reviewed; however it is likely that the projects in the approved capital programme are likely to be delayed or alternatives proposed for approval. The IT service went through a major structure change with creation of SSC, the new projects required within SSC had subsequent impact on planned IT projects which explains this capital underspend.

9.4. Within the Children's Services building programme the contingency to cover unforeseen circumstances is unlikely to be required in full and an underspend of £1.5m is currently being projected.

9.5. The Housing Revenue Account Capital Programme is projected to underspend by £13.9m. £2.126m is the mechanical and electrical works programme due to a change in the procurement method, some 90% of the projects are at the approval stage. An £8.406m underspend on the Decent Homes programme is due to an extensive value engineering exercise against some projects and further slippage in this year.

9.6. The projected underspending in the General Fund will result in a reduced need for borrowing in 2015/16. For the HRA the slippage will temporarily increase the level of balances at the end of the year pending scheme completion; Members will be asked at the end of the year to agree to carry forward these resources which will facilitate completion of the projects in future financial years'

Alexandra Park and Palace

9.7. The Council has previously approved support for the East Wing Restoration Project at Alexandra Palace totalling £6.8m over the period 2015 to 2018.

9.8. Alexandra Palace has commenced the first stage in the Restoration Works to the East Wing; financial support for this project is primarily from the Heritage Lottery Fund and the Council. The grant from the HLF must be claimed in arrears and this presents the Trustee with a cash flow issue which will peak during 2017 when the second stage and main restoration works are on site.

9.9. The Cabinet are being asked to agree to support the Palace's cash flow during these periods as required and in particular to delegate to the Lead Financial Officer/Deputy Section 151 Officer the authority to agree a payment support profile with the APPCT Director of Finance and Resources for the East Wing Restoration project.

9.10. It should be noted that this does not commit the Council to financially supporting the project beyond the capital funds already approved but is just a short term advance of cash to enable liabilities to be met when due; the sums will be repaid following the receipt of the HLF funding on a quarterly basis.

10. Capital Receipts

10.1. The General Fund capital expenditure programme agreed by the Council in February 2015 is in part predicated on the achievement of capital receipts. In total over the period 2015 – 2018 £41.7m of receipts are required to finance expenditure. In the current year receipts of £7.1m are projected compared to £9.3m originally forecast. To date only £2.4m has been achieved.

10.2. If there is a shortfall of capital receipts, caused by timing issues the Council will need to consider the extent to which it might need to undertake temporary borrowing in accordance with its Treasury Management Strategy. However, as set out above the lower estimated level of capital expenditure will also impact on the need for the various sources of financing.

11. Collection Fund

11.1. The Collection Fund reflects a statutory obligation on the Council to maintain a separate ring-fenced account for the collection of business rates and council tax and the distribution of these between Haringey (30%), the Greater London Assembly (20%) and central government (50%).

Business Rates

11.2. The latest forecast outturn for net business rates income is £58.11m which is £6.24m lower than originally forecast.

11.3. Since the introduction of the Business Rate Retention Scheme local authorities have been responsible for making provision for the cost of future potential losses in business rate income arising from appeals against previous rating revaluations (the last ones took place in 2005 & 2010). The number of appeals outstanding in Haringey at 30 November 2015 is 830 cases.

11.4. During the period April to November 2015, 308 appeals were settled either successfully or dismissed/withdrawn; this had the impact of reducing the Council's overall rateable value by £851k.

11.5. Virgin has filed a new appeal in Q4 2014/15 to have all their valuations administered in a single location. Should this be settled in 2015/16 in a single location out of our borough, the potential settlement for backdated rate payments could be in the region of £7.2m and a loss of annual rate income of c£1m, of which 30% would be attributable to the Council; this appeal is not yet resolved

11.6. The in-year collection rate to November 2015 is 74.58% and this area is on target for the budgeted collection rate of 97%.

Council Tax

11.7. The latest forecast outturn for council tax income is £109.82m which is £5.07m higher than originally forecast. The key reason for the variance can be attributed to higher than expected collection from council taxpayers under the Local Council Tax Reduction Scheme.

11.8. The in-year collection rate to November 2015 is 72.71%. and is on target for the budgeted collection rate of 95%

12. Liquidity Indicators

Working Capital

12.1. The Treasury Management Strategy Statement (TMSS) places a high emphasis on security of the Council's funds. One of the ways to do this is to minimise the funds held which need to be invested. During the year to date officers have been managing cash balances to keep them to a minimum and only borrowing externally when it is required to meet the Council's obligations. There has been no new borrowing in the year to date and we have, therefore, realised a further saving in the interest payments budget, this is reflected in the revenue account projections above.

12.2. The current approach to borrowing was recently discussed with Arlingclose using their projections of interest rate movements. The conclusion was that short term borrowing remained appropriate to fund temporary funding gaps. However, rates remain attractive from a longer term perspective and if long term borrowing is required in the next 12-24 months to fund the capital programme then consideration should be given to locking in current rates, even if this did incur a short term cost. Uncertainty around the timing of capital expenditure has to date caused reluctance to commit to longer term borrowing

12.3. Interest rates earned on investments remain low and significantly less than the cost of new borrowing and therefore the strategy of minimising cash balances is continuing in 2015-16. Borrowing will be taken only when required for liquidity purposes with the preference being short term local authorities' loans at very low rates. However longer term interest rates continue to be carefully monitored.

Debt Analysis

Business Rates

12.4. Summary information relating to Business Rates debt levels and collection performance in 2015/16 is set out below in Table 2.

12.5. In-year collection performance remains ahead of both this year's target and the percentage collected at this time last year. This represents increased income of £605,323 on the same period last year. Unfortunately, the net collectable amount has decreased and this can be attributed to reductions in RV by appeal.

Table 2 – Business Rates debt performance 2015/16 (Period 8)

Net Collectable Debt	Net Collected		Last year at same point	Target	Variance		Gross Arrears
£m	£m	%	%	%	%	£m	£m
67.8	**50.8**	**74.58**	**74.15**	**74.00**	**0.58**	**0.4**	**7.5**

Council Tax

12.6. Summary information relating to Council Tax debt levels and collection performance in 2015/16 is set out below in Table 3.

12.7. In-year collection performance remains behind target and is also behind the percentage collected at this time last year. Cash collected is £225,438 up on the same period last year. The net collectable amount has increased by which is aligned to the growing tax base.

Table 3 – Council Tax debt performance 2015/16 (Period 8)

Net Collectable Debt	Net Collected		Last year at same point	Target	Variance Ahead / (Behind)		Gross Arrears
£m	£m	%	%	%	%	£m	£m
113.2	**82.4**	**72.74**	**74.27**	**76.00**	**(3.26)**	**(3.7)**	**25.1**

Housing Benefit Overpayments (Excluding Council Tax Benefit)

12.8. Summary information relating to Housing Benefit Overpayment debt levels and collection performance in 2015/16 is set out below in Table 4.

12.9. The service has collected 22.9% to end November which compares favourably with 18.1% last year.

Table 4 – Housing Benefit Overpayment debt performance 2015/16 (Period 8)

Debt b/fwd	New debt	Recovered			Debt o/s		
		2015/16		Last year	Debtors	Live HB	Total
£m	£m	£m	%	%	£m	£m	£m
26.7	**7.8**	**11.6**	**22.9**	**18.1**	**14.3**	**14.3**	**28.6**

Corporate Debts

12.10. Summary information relating to corporately managed debt levels and collection performance in 2015/16 is set out below in Table 5.

Table 5 – Corporate debt performance 2015/16 (Period 8)

Net Debts				Bad Debt Provision		
Year-end	P8 15/16	NYD	Due	B/Fwd	P8 15/16	Change
£m	£m	£m	£m	£m	£m	£m
40.1	**17.9**	**8.6**	**9.3**	**2.336**	**1.784**	**0.552**

NYD = Not Yet Due

12.11. Corporate Debts are lower than at the start of the year, both for due debts and aged debt. A combination of lower aged debt plus the cancellation of £203k of charges on a long outstanding case has considerably lowered the bad debt provision.

12.12. Whilst it is encouraging that the bad debt provision has reduced at the end of November, the seasonal nature of sundry billing [c.70% of invoices billed in the 2nd half-year] is likely to lead to an increased provision in the coming months. Other SAP debts [Leaseholder, Commercial Rents and Property] are all currently showing an increase in their bad debt provisions.

Parking Debt

12.13. Summary information relating to Parking debt levels in 2015/16 is set out below in Table 6.

Table 6 – Parking debt performance 2015/16 (Period 8)

Income Collected 14/15	Income Target 15/16	Collected P08 14/15	Collected P08 15/16	Year on Year change
£m	£m	£m	£m	£m
10.077	**10.241**	**6.418**	**6.892**	**0.474**

12.14. Parking Income is £474k ahead of that received at the end of November last year

13. Financial Risks

13.1. As part of the budget setting process the Chief Finance Officer carries out an assessment of the adequacy of the Council's general reserves to meet a range of both identified and unforeseen risks. This assessment carried out in February 2015 indicated total risks of £12.5m to be held against the centrally retained contingency budget and the level of general reserves. In addition as set out earlier in this report at the end of 2014/15 it was possible to create an earmarked Risk Reserve of £2.2m to further mitigate those risks.

13.2. The Council's 2014/15 statement of accounts indicate that the General Fund reserve at 31 March 2015 stood at £25.8m; taking into account the 2015/16 budget requirement to draw £4.2m from reserves the estimated closing position at March 2016 is £21.6m.

13.3. However, given the significant overspend identified in this report, the potential implications for the Council's reserves and the associated risk needs careful consideration in consultation with the Lead Member for Resources and Culture.

13.4. The latest key financial risk register is also included as Appendix 3.

14. Summary/ Conclusions

14.1. Overall a General Fund projected overspend of £13.2m is being reported which, through the application of reserves, can be reduced to £6.1m.

14.2. The continuation of significant budget pressures within Adults and Children's services from previous years is a serious concern given the ambitious savings targets in these areas for future years' budgets. There are also significant pressures being reported in the Temporary Accommodation area which similarly has future years' saving targets.

14.3. For capital expenditure within the General Fund the primary source of financing is through Prudential Borrowing and, as a result, any slippage in expenditure against the programme does result in a lower than budgeted need for borrowing; resulting in a consequent short term benefit to the General Fund revenue account; this is currently contributing to keeping the overspend lower than it would otherwise be.

14.4. A number of risks together with an assessment of the impact and likelihood of impact has been compiled and should be kept under review Appendix 4. The identified risks around the Council's medium term finances and the 2015/16 revenue outturn position are being seen and Cabinet took action in November to use reserves as a strategy for reducing exposure in that area.

14.5. Further review of the adequacy and prioritisation of the council's reserves, both general and earmarked, is necessary to manage the remaining pressures and the Lead Member for Resources and Culture will be kept fully informed as actions are developed A provisional outturn report will be brought to Cabinet in March with any further mitigating actions.

15. Contribution to strategic outcomes

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

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

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

16.2. The Assistant Director of Corporate Governance has been consulted on this report. The Cabinet is responsible for approving virements in excess of certain limits as laid down in the Financial Regulations at Part 4 Section I, and within the Executive's functions at Part 3 Section C, of the Constitution. There are no specific legal implications arising from this report.

17. Use of Appendices

Appendix 1 – Virements Schedule

Appendix 2 – Capital Programme financial summary

Appendix 3 - Financial Risk Register.

18. Local Government (Access to Information) Act 1985

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

- Budget management papers
- Medium Term Financial Planning Reports

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

Appendix 3

Risk Title	Internal Controls	Risk and Control Ownership	Date of last review	Impact	Likelihood	RAG/ Score	Comments
Uncertainty around Government funding levels negatively impacts on the Council's MTFS. Also issues around potential changes to 2015/16 specific grant levels	The use of independent modelling tools to supplement local analysis provides an additional sense check on funding projections, continued attendance at key events and the timely evaluation of government announcements.	Assistant Director - Finance and Head of Finance Budgets, Accounting & Systems	January 2016	9	3	27	The provisional local government settlement has been announced and confirms the accuracy of our 2016/17 funding projections.
Material over / under spends materialise in either revenue &/ capital. These could be either un-forecasted or of significant magnitude that they disturb the Council's financial position.	The Council's budget monitoring process places more onus on the budget holder and re-inforces the accountability of the relevant AD. This may result in poorer forecasting, at least in the short term, however Finance are targeting their limited resources on the more high profile or volatile areas of expenditure.	All Heads of Finance	January 2016	9	9	81	Projected overspending in both Adults and Children's Services have been identified and follow adverse 2014/15 outturn variances. Temporary Accommodation pressure is also apparent.
The Council fails to set a balanced budget for 2016/17 and beyond.	The MTFS for 2015 - 2018 covered a full three year planning period and was substantially balanced.	Assistant Director Finance	01-Sep-15	8	2	16	
Non-compliance with Prudential Framework.	Prudential limits are approved by Members annually with quarterly reporting of outcomes v limits and benchmarks to the Corporate Committee.	Head of Pensions & Treasury	24-Sep-15	5	2	10	
Failure to maximise income/recover debts.	Monthly reports are produced on income recovery and debt boards are held to review performance. A review of debt management across the council has been undertaken and consolidation is taking place through the SSC. bad debt provisions are reviewed regularly and are a further control against uncollectable debt.	Corporate Debt Manager and devolved managers with accountability for debts pending consolidation.	01-Sep-15	7	3	21	