

Report for: Cabinet – 15th March 2016

Item number: 9

Title: Provisional Outturn 2015/16

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. At its meeting held on 19th January Cabinet received the Q3 (period 8) budget monitoring report and agreed, amongst other things, to receive a further report on the provisional outturn position. This report provides an updated position based on budget managers period 10 projections for the 2015/16 revenue and capital outturn position.

2. Cabinet Member Introduction

2.1. When we set out our Medium Term Financial Strategy (MTFS) in 2015 we knew that there would be challenges in making further savings of £70m in addition to the £120m already saved since 2010.

2.2. We were clear about our priorities and the challenges that we faced with unprecedented funding reductions and uncertainty about future funding levels. Despite that uncertainty we now know that our funding projections were accurate and that as a result the level of savings we needed to make across the three years of the MTFS were necessary.

2.3. I am pleased to see that the overall overspend has come down in recent months but clearly it has been a challenging year for the authority. We know that the pressures we are experiencing in key areas which have impacted on our 2015/16 estimated outturn position, are being seen across the country. That is particularly true of Adult Social Care – an area which has been underfunded by central government for a number of years. This year we are using reserves to help meet the demands of some of the most vulnerable within our community but we know that approach cannot continue in the long run. Although the council agreed to raise the Adult Social Care precept next year, the revenue raised comes nowhere near the cost of providing support for vulnerable adults.

2.4. It is imperative, not only for Adult Social Care but across all of the council's services, that we continue to deliver the changes necessary to ensure that we can meet the council's priorities within the available resources. More work must also be done to improve our collection rates, both for council tax and business rates.

2.5. Our prudence in previous financial years has resulted in us having reserves available to support us through these difficult times. We must continue to exercise the level of control that has stood us in good stead previously as we continue with our aim of delivering high quality services to our residents even in these times of extreme financial austerity

3. Recommendations

That Cabinet:-

- 3.1. Consider the report and the Council's 2015/16 provisional outturn position in respect of net revenue and capital expenditure;
- 3.2. Agree the principle that the carry forward of resources will only be permitted once agreed by the Chief Finance Officer and where the expenditure is backed by an approved reserve or external funding source; and
- 3.3. Maintain under review the key risks and issues identified in this report in the context of the Council's on-going budget management responsibilities.

4. Reasons for decision

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

5. Alternative options considered

- 5.1. This report proposes that the Cabinet considers the provisional outturn position for 2015/16. The reporting of the Council's outturn and management of financial resources is a key part of the role of the Chief Finance Officer (Section 151 Officer) and no other options have therefore been considered.
- 5.2. At this stage of the year the impact of management action on the final outturn 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 10 (January) budget management processes, the Council's provisional revenue and capital outturn position for 2015/16 is set out below. The estimated outturn position for the Housing Revenue Account (HRA) is also included.

7. Revenue Outturn 2015/16

- 7.1. Budget managers have been providing their estimated outturn position as at the end of Period 10 (January 2016). The gross position on the General Fund is an estimated **overspend of £11.1m**. 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 **£3.9m** at this point. The revenue position is summarised in Table 1.
- 7.2. It is important to note that the outturn position has been made based on the position at the end of January 2016 and the experience of previous years' tends to reflect a marginal improvement in the final outturn position. Officers will, in addition, and as part of the year end close down processes be examining all balance sheet items held to ensure that any amounts which can be written back are used to offset the overall revenue overspend.
- 7.3. As part of the year end closure process there are normally a number of requests brought to Cabinet from services to seek agreement to the carry

forward of resources. Clearly in the current environment, and where these requests relate to General Fund resources we are not proposing to allow any carry forward. The exceptions to this general rule would be cases where the carry forward relates to external grant funding that would otherwise be lost or where funding for a specific project has been previously approved by Cabinet and the spend will inevitably be incurred across more than one year and thus a carry forward is required to ensure that the budget matches the expenditure profile. In these cases the CFO has authority to approve these requests.

Table 1 – Summary Revenue Position (Month 10)

£'000 General Fund	2015/16 Budget Variance		
	Budget	Estimated Outturn	Variance
Leader and Chief Executive	4,049	3,715	(334)
Chief Operating Officer	73,410	79,033	5,623
Deputy Chief Executive	145,877	162,489	16,612
Dir. of Regeneration/ Planning	17,640	18,097	457
Non Service Revenue (NSR)	3,969	(6,360)	(10,329)
Total	244,944	256,059	11,115
Approved application of reserves			(7,200)
Revised position			3,915

7.4. For the Housing Revenue Account (HRA) the estimated outturn position is an **underspend of £378k** which reflects an improvement against the budgeted surplus agreed by the Council in February 2015.

7.5. 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 marginally improved 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)	(16,693)	(378)

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 £1.1m 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.

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 £2.5m pressure.

Adults Services (Deputy Chief Executive)

- 8.3. The projection from Adults services indicates a net overspend of £12.5m.
- 8.4. 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.
- 8.5. 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.
- 8.6. The service continues to take action across all client groups to assist with the management of costs including:
- Contract re-negotiations
 - Reducing dependency of existing clients on existing packages through reablement
 - Improving VFM for spot contracts.
- 8.7. 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.
- 8.8. As part of the 2015 Medium Term Financial Strategy members proposed further savings in 2016/17 amounting to £5.5m. However, in accordance with the budget set for 2016/17 at the Full Council meeting in February 2016, an amount of £1.7m has been added to the Adults budget, based on the yield from the Adult Social Care precept; this funding will go some way towards meeting the cost of care packages for Older People and Younger Adults with complex needs and learning disabilities. A further £1.2m in recognition of additional funding for Care Act duties has also been added to the Adult Social Care budget in 2016/17.

Other Deputy Chief Executive areas

- 8.9. The Commissioning budget is showing a £210k 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 £5.1m. 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.

Customer Services (Chief Operating Officer)

- 8.13. 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
- 8.14. 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)

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

Non Service Revenue

- 8.16. At this stage an underspend of c£10.3m is available representing the clear need to utilise contingencies and the remaining inflationary provision as a strategy for offsetting service budget pressures.
- 8.17. 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 additional resources in this year.

Housing Revenue Account (HRA)

- 8.18. The Housing Revenue Account is showing a minor underspend of £378k, which will be added to the projected surplus in order to fund additional capital works to maintain and enhance the Council's building stock.

9. Capital Outturn

- 9.1. Currently there is a projected underspend of £10.7m against the 2015/16 approved General Fund Capital Programme, the HRA is also projecting an underspend of £13.9m.
- 9.2. 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'

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%).

- 11.2. For 2015/16 the surplus or deficit attributable to the Council's revenue position is based on the performance of the Collection Fund (covering both Council Tax and Business Rates) in 2014/15 and to a more limited effect 2013/14. Overall taking together the performance in those years compared to the budgeted position results in a deficit of £0.856m which will form part of the Council's overall 2015/16 outturn position.
- 11.3. In part this reflects the significant uncertainty surrounding business rates appeals following the implementation of the Business rate Retention Scheme.

12. Financial Risks

- 12.1. In setting the 2016/17 budget the Chief Finance Officer considered the overall adequacy of the Council's reserves. Depending on the final outturn position the level of the Council's general reserves (un-earmarked reserves) are anticipated to be £19.6m which assumes the application of a further £2m to cover the final overspend following the closure of the 2015/16 year end. This is above the assumed use of £4.2m of General Fund reserves assumed in the Medium Term Financial Strategy for 2015/16.
- 12.2. The overview and Scrutiny Committee also recommended that a comprehensive risk register should be maintained and reported to the Cabinet on a quarterly basis. The latest key financial risk register is included as Appendix 2.

13. Summary/ Conclusions

- 13.1. Overall a General Fund projected overspend of £11.1m is being reported which, through the application of reserves, can be reduced to £3.9m. The final overspend will represent a call on the Council's General Fund reserve and, in assessing the adequacy of the reserves, it has been assumed that a sum of £2m will be needed; this reflects a number of assumptions that will become apparent only once the final outturn position has been settled.
- 13.2. 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.
- 13.3. For capital expenditure within the General Fund the primary source of general 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.
- 13.4. 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 2.

14. Contribution to strategic outcomes

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

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

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

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

16. Use of Appendices

Appendix 1 - Financial Risk Register.

17. Local Government (Access to Information) Act 1985

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

- Budget management papers
- Medium Term Financial Planning Reports

17.2. For access to the background papers or any further information please contact Neville Murton – Lead Finance Officer.

Appendix 1

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 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.	Head of Corporate Finance and CFO	February 2016	7	2	14	The local government settlement has been announced and confirms the accuracy of our 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.	Heads of Finance	January 2016	9	9	81	Projected overspending in both Adults and Children's Services have been identified. Temporary Accommodation pressure is also apparent. All areas have further additional savings in 2016/17
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.	Head of Corporate Finance and CFO	February 2016	8	2	16	A strategic review of the Council's MTFS is being undertaken in 2016. This will include consideration of the government's 4 year 'funding guarantee'.
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	

