

Report for: Overview and Scrutiny 21st July

Item number: 9

Title: 2015/16 Final Outturn

Report authorised by : Tracie Evans – Chief Operating Officer

Lead Officer: Anna D'Alessandro, Interim Deputy CFO

1. Describe the issue under consideration

1.1. This report sets out the 2015/16 Final Outturn position, the impact on the Council's General Fund and Earmarked Reserves, and the movement from the provisional outturn provided to Cabinet on 15th March.

2. Cabinet Member Introduction

- 2.1. The Council has suffered from the impact of substantial reductions in government funding, combined with demographic pressures and demand growth. The speed of transformation in the demand-led areas in Adults, Children's and Temporary Accommodation, needs to pick up pace substantially in 2016/17.
- 2.2. Financial prudence in prior financial years has meant that we were able to use Reserves in 2015/16 to balance the impacts of the cuts. We need to continue the focus on growth in Council Tax and Business Rates over the medium-term to provide us with future resilience.
- 2.3. I will be working closely with the CFO and Interim Deputy CFO to ensure that there are plans in place to accelerate the delivery of the Medium-Term Financial Strategy.
- 2.4. The Provisional Outturn report to Cabinet on 15th March 2016 set out a draft Period 10 (January 2016) position of a net £11.1m overspend requiring an additional £3.9m additional drawdown from General Fund Reserves. At the time of the report we indicated that based on previous years' experience that the final outturn would likely result in an improved position.
- 2.5. The final 2015/16 end of year outturn position in this report shows the Council had an overall deficit (overspend) of £6.8m. This is a c£4.3m improvement on the previously reported provisional outturn. The overspend is significant in light of our financial strategy to reduce spend and requires strong and rapid mitigating strategies to turnaround the position in 2016/17.
- 2.6. This final outturn will be reflected in the Council's Statement of Accounts, which will be signed for audit by the Chief Financial Officer before 30th June 2016.
- 2.7. The Government's reduction of the Public Health Grant has added pressure to the Council's already financially challenging position.

3. Recommendations

That the Committee note and comment on the following:-

- 3.1. Consider the report and the Council's 2015/16 Final Outturn position in respect of net revenue and capital expenditure;
- 3.2. Agree the revenue transfers (Appendix 1) and capital carryforwards (Appendix 2);
- 3.3. Note 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
- 3.4. Note the 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. A strong financial management framework, including oversight by Members and senior management, is an essential part of delivering the Council's priorities.

5. Alternative options considered

- 5.1. This is the 2015/16 Final Outturn report, as such there are no alternative options.

6. Background information

- 6.1. Following the conclusion of Period 10 (January 2016) management reporting, the Council's forecast revenue outturn position for 2015/16 was £256.059m, an overspend of £11.1m against budget. In order to balance the 2015/16 budget, an additional draw down from General Fund Reserve of £4.2m had already been included. Cabinet further agreed in September that £7.2m could be drawn down from; the Services Reserve (£4.5m), Financing Reserve (£0.5m) and the balance from the Risk Reserve (£2.2m).
- 6.2. To deliver a balanced position, the forecast overspend would therefore have necessitated an additional drawdown from the General Fund Reserve of £3.9m.

7. Final Revenue Outturn 2015/16

- 7.1. The closing position for 2015/16 has now been determined. After all closing adjustments, the Council's final net position is a £6.8m deficit (overspend). The revenue position is summarised in Table 1 below, more detailed is provided in Appendix 1.
- 7.2. The entirety of the approved reserve draw down was not required as the overspend was lower than identified in provisional outturn report. As such, after application of agreed reserves, £4.5m Service Area, £0.5m Financing Reserve, and £1.8m from the Risk Reserve, the balance of the Risk Reserve (c£0.4m) will be carried forward into 2016/17.

Table 1 – Summary Revenue Position

	2015/16 Final Outturn		
	Budget	Outturn	Variance
	£'000	£'000	£'000
Leader and Chief Executive	2,932	2,312	(620)
Deputy Chief Executive	144,769	161,245	16,476
Chief Operating Officer	69,565	75,166	5,601
Dir of Regeneration, Planning & Development	19,240	18,351	(890)
TOTAL FOR SERVICE AREAS	236,506	257,074	20,567
Non Service Revenue (NSR)	17,451	3,660	(13,790)
TOTAL	253,957	260,734	6,777
Application of Approved Reserves			6,777

7.3. As part of the year-end corporate closure process a number of requests are made by Services to carry forward underspend budgets. In the current environment, and where these requests relate to General Fund resources, we are proposing as a principle not to allow any carry forwards. There will be some exceptions:

- Where the carry forward relates to external grant funding that would otherwise be lost
- Where funding for a specific project has been previously approved by Cabinet and the spend will inevitably be incurred across more than one year

In these cases the Chief Finance Officer (s151) will approve these requests. The transfers to/from reserves (for revenue expenditure) can be found at Appendix 1 and Appendix 2 outlines carryforwards in relation to capital expenditure.

8. Analysis of key movements

Leader and Chief Executive -£0.6m underspend

8.1. There was a underspend in this Service Area of £0.6m, a further £0.3m underspend compared to the provisional outturn. This was driven broadly by an overachievement of income in Legal Services.

Deputy Chief Executive - £16.5m overspend

8.2. The Deputy Chief Executive's area includes two of the Council's largest budgets with significant demand-led pressures. Overall, this Service Area had an overspend of £16.5m, a reduction of £0.1m from the provisional outturn. The key overspends are within Adults (£11.8m) and Children's (£4.1m).

Adults Services - £11.8m overspend

8.3. The final outturn for Adults Services was £11.8m. This was an improvement on the provisional estimate but still represents a significant overspend.

8.4. Adults Social Care is a Service Area that is under great pressure both locally and nationally. Demographic changes including the ageing population and

improvements in medical service is creating additional need for services. At the same time the cost of care is rising steeply in London.

- 8.5. These pressures have been experienced strongly in Haringey. The Service began the year in an overspend position and demand continued to rise through the first half of the year. The Service put in place an action plan to manage these pressures including a programme of “best practice review” based on principles of promoting independence. In addition a new brokerage team was formed to support contract negotiation and improve VFM.
- 8.6. In 2016/17 there are a number of programmes of work underway to ensure that savings plans are delivered, demand is better managed, the cost of care is reduced and the underlying pressure is better managed. However, in order to turnaround this financial position all these activities need to be delivered at a pace in 2016/17.

Children’s Services - £4.1m overspend

- 8.7. Having undergone an ambitious transformation programme over the past three years together with determined effort by officers, a previous significant overspend has significantly reduced. Expenditure in 2015/16 was in aggregate around £4m less than in the previous year.
- 8.8. Although progress has been made, spending is not yet in line with the plans set out in the budget with overspends in the Looked After Children and Care Leavers budgets.
- 8.9. In addition, the Service has experienced difficulty in attracting and retaining permanent staff and the additional costs of agency workers has led in particular to staffing overspends, although this did improve between months 10 and 12. There are also pressures on services for Disabled Children including Home to School Transport.
- 8.10. There are further savings expected from Children’s services in 2016/17 and there is a high risk that although the Service will continue to deliver cost reductions, it may not be sufficient to avoid further overspends. More focus needs to be given to the prioritisation of activities which will deliver rapid benefits in 2016/17.

Other Deputy Chief Executive areas - £0.5m overspend

- 8.11. HM Government imposed a £1.2m in year reduction of the Public Health grant in 2015/16. The Public Health Directorate was able to deliver an underspend against the original budget of £0.4m but there is still a net pressure of £0.8m. The remaining Public Health Reserve will be drawn down to meet this pressure with the balance forming part of the corporate overspend.
- 8.12. Schools Trading Services were able to deliver a modest over achievement of income against their first years trading targets while Commissioning produced an underspend of £0.1m from early achievement of savings.

Chief Operating Officer - £5.6m overspend

Overall, there was an overspend of £5.6m in this Service Area, broadly in line with the provisional outturn. The Chief Operating Officer leads a range of services including Homes for Haringey, Commercial and Operations (Environmental Services) and Shared Service Centre and Customer Services. The main variance in this area is in Housing Temporary Accommodation (£5.9m

overspend); however there are also some pressures in the Shared Services Centre (£0.9m) offset by net underspends in other back office Services of £1.2m.

General Fund Housing Services - £5.9m overspend

- 8.13. The Housing Service in the General Fund has a final overspend position of £5.9m which is largely attributable to the costs of Temporary Accommodation (TA). This is worse (by around £0.7m) than the provisional outturn, suggesting that the pressures in the Service are continuing to increase. This is largely because the number of households accommodated in TA is relatively stable however the cost of procuring suitable housing is rising steeply.
- 8.14. 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. The Government's Welfare Reform agenda is holding the levels of housing benefit down the gap between rent paid out and collected is growing further apart, in common with the rest of London.

Regeneration, Planning and Development (Director of Regeneration) - £0.9m underspend

- 8.15. Overall the Regeneration, Planning and Development Service has delivered an underspend of £0.9m, this is £1.3m higher than the provisional outturn due to budget transferred from reserves the Regeneration budget for Development Vehicle, Wood Green regeneration and worklessness schemes.

Non Service Revenue (NSR) - £13.8m underspend

- 8.16. Non Service Revenue income and expenditure budgets are those held corporately which are not related to services but to a number of corporate activities including Treasury and Risk contingencies. There are underspends on some of these budgets along with increased income.
- 8.17. Slippage on the capital programme has reduced the level of Minimum Service Provision (MRP). This together with the achievement of significant benefits from the Council's successful Treasury Management strategy has also provided addition resources in this year.
- 8.18. Taken together, these items have provided a £13.8m underspend.
- 8.19. Due to not having the full complement of capital information at time of the provisional outturn to Cabinet on 15th March, MRP was understated by c£1m, as a result the NSR figure reported should have been £11,243m not £10,329m. This has been rectified in the current report.

9. Housing Revenue Account (HRA)

- 9.1. For the HRA, the planned surplus to finance the HRA Capital Programme of £15.3m has been exceeded £5.6m. This surplus, as set out in Table 2 below, will be transferred to HRA Reserve.

Table 2 – Housing Revenue Account

2015/6			
	Revised Budget £000s	Actual £000s	Variance £000s
Housing Revenue Account	(15,252)	(20,864)	(5,612)

10. Dedicated Schools Budget (DSB)

- 10.1. The provisional outturn position for the DSB is an overall draw down on reserves of £1.6m, of which £1m represents a decrease in schools' delegated budgets (Schools Balances) and the remainder (£0.6m) is in respect of centrally held items within the DSB.
- 10.2. The reduction in Schools Balances (by £1m) is evidence that school budgets are under pressure from cost increases. Costs will increase during 2016/17 as pressure from the increase in employers National Insurance contributions is felt. There will be a further expected pressure on school balances in 2017/18 as the National Funding Formula is introduced.
- 10.3. The £0.6m centrally held items includes; a drawdown of £0.8m from the Early Years reserve to fund an enhanced hourly rate for childcare for two year olds and in year take up of places. In addition there was an overspend of c£1m on the High Needs Block, which arising from similar demand pressures as experienced in Social Care: rising costs and increasing complexity of need. These were offset in year by a £1.2m underspend on the Schools Block. Following these movements the balance on the DSB non-schools reserve stands at £3.3m.
- 10.4. Overall, the year-end balances held in schools' delegated budgets now stands at £11.7m.

11. The Collection Fund

- 11.1. The overall position on the Collection Fund was a surplus of £4m. This comprises two elements: Council Tax which ended the year with a surplus of £7m, and Non Domestic rates (NDR), which ended the year with a deficit of £3m.
- 11.2. The Council Tax surplus can be largely attributed to growth in Council Tax Base and the continued better than anticipated performance against the Council Tax Reduction Scheme assumptions, resulting in the Council Tax surplus. The deficit in NDR, was largely brought about by the additional charge incurred in meeting the cost of, and the provision for, a significantly higher number of appeals than expected, increased because of the deadline for backdating appeals and an unavoidable sector wide settlement for Surgeries and Health Centres.
- 11.3. Cabinet is reminded that in respect of NDR, the forthcoming changes to the Retention Scheme could potentially see an increase in the share borne by the Authority of any deficit made, thereby increasing our risk of financial challenge.

12. Final 2015/16 General Fund Capital Outturn

- 12.1. The 2015/16 final General Fund Capital Outturn is a £51m underspend against the approved budget of £94m, a further £40.3m underspend over and above that reported in the provisional outturn. This is matched by the total General Fund financing requirement of £51m underspend, the largest components being, prudential borrowing £23m and £11m HRA financing Priority 2 and 5 Housing activities.

Table 3 – Summary Capital Outturn and Financing

Capital Outturn 2015/16	Budget	Outturn	Variance
	£'000	£'000	£'000
Priority 1 - Childrens	12,026	8,044	(3,982)
Priority 2 - Adults	2,969	2,325	(644)
Priority 3 - Safe & Sustainable	14,698	13,533	(1,165)
Priority 4 - Growth & Employment	13,149	8,507	(4,642)
Priority 5 - Homes & Communities	42,500	5,635	(36,865)
Priority 6 - Enabling	8,757	4,622	(4,135)
General Fund Capital	94,099	42,666	(51,433)
General Fund	Budget	Outturn	Variance
Capital Grants from Central Government Departments (inc SCE(C))	11,132	8,432	(2,700)
Grants and Contributions from Private Developers & Leaseholders	300	316	16
Section 278 funding	500	317	(183)
Grants & Contribs from Non-departmental Public Bodies	500		(500)
Capital Grants from the National Lottery	331	145	(187)
Capital Funding from GLA Bodies	11,211	5,430	(5,781)
Use of Capital Receipts Other	12,807	8,050	(4,757)
Housing Revenue Account	17,103	6,380	(10,723)
Section 106 Funding	749	124	(625)
General Fund Revenue Account	1,061	1,193	132
Use of Reserves	4,280	1,511	(2,769)
Prudential Borrowing	34,125	10,768	(23,356)
Total Financing General Fund	94,099	42,666	(51,433)

- 12.2. The largest element of the capital underspend (£37m) is in Priority 5 which relates to Housing, specifically two projects: the proposed new build/new supply programme and buying-out Leaseholders on the High Road West Regeneration area. For the new build programme a carry forward request has been made which relates to phase 1 of the scheme which is in contract and committed and the remaining funding returned to the HRA. High Road West scheme is long-term for which firm plans for expenditure are difficult to predict with certainty. The purchase of leaseholder properties at High Road West will continue throughout 2016/17.
- 12.3. Over the course of 2016/17 we will be putting in place a process to ensure that capital projections are readily reviewed and potential slippage is strongly challenged.

13. Summary/ Conclusions

- 13.1. Overall, at the end of the 2015/16 financial year there is a General Fund revenue overspend of £6.8m. Although c£4.3m lower than that reported provisionally, is still a significant deficit. For 2015/16, this can be met from the Reserve draw down approved by Cabinet in the Autumn. The use of Reserves should always be regarded as a short-term measure and priority must be given to proactively and swiftly managing the underlying cost drivers.
- 13.2. 2016/17 is likely to see the continuation of significant budget pressures within Adults and Children's Services, which is of serious concern given the further

ambitious savings targets in 2016/17 and beyond. There are also significant pressures being reported in the Temporary Accommodation area which similarly has future years' savings targets and demand-led pressures.

- 13.3. In order to ensure we don't overspend to these levels in 2016/17, the current MTFS has been reviewed and will provide to the Cabinet Member for Finance, CFO and Deputy CFO, a list of proposals which will close the savings gaps and address projected overspends.

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)

Finance

- 15.1. The CFO has signed off this report.

Legal

- 15.2. The Assistant Director of Corporate Governance has not yet been consulted on this report. However we do not believe that there are any specific legal implications arising from this report.

Equalities

- 15.3 There are no equality implications in this report.

16. Use of Appendices

- Appendix 1 – Transfers To/From Reserves
- Appendix 2 – 2015/16 Capital Carryforwards

17. Local Government (Access to Information) Act 1985

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

- Year-end financial reports

- 17.2. For access to the background papers or any further information please contact Anna D'Alessandro – Lead Finance Officer.