



Report of: Executive Member for Finance, Performance and Community Safety

Meeting of	Date	Ward(s)
Executive	21 May 2019	All

Delete as appropriate	Exempt	Non-exempt
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FINANCIAL MONITORING 2018-19 - PROVISIONAL OUTTURN

1. SYNOPSIS

- 1.1 This report presents the financial outturn position for 2018-19. Overall, there is a gross General Fund underspend of £5.485m and a net break-even position after transferring £2.807m to the Insurance Fund provision in 2018-19 and £2.678m into an Insurance Fund earmarked reserve to be applied to the provision in 2019-20.
- 1.2 The Housing Revenue Account (HRA) is forecast to break-even over the year.
- 1.3 The capital programme delivered £113.1m of capital investment in 2018-19.

2. RECOMMENDATIONS

- 2.1. To note the revenue outturn for the General Fund (**Table 1**) of a gross underspend of £5.485m and a net break-even position after transferring £2.807m to the Insurance Fund provision in 2018-19 and £2.678m into an Insurance Fund earmarked reserve to be applied to the provision in 2019-20.
- 2.2. To note the breakdown of the forecast General Fund outturn by individual variance at **Appendix 1** and by service area at **Appendix 2**.
- 2.3. To agree the 2018-19 revenue outturn carry forwards and transfers to reserves (where there is a specific and agreed purpose for this) detailed at **Appendix 3**.

- 2.4. To agree to the transfer of £2.807m to the Insurance Fund provision in 2018-19 and £2.678m into an Insurance Fund earmarked reserve to be applied to the provision in 2019-20, following the outcome of the Insurance Fund year-end review by External Fund Advisors. (**Paragraphs 3.2-3.3**).
- 2.5. To note that the HRA forecast is a break-even position. (**Section 5, Table 1**)
- 2.6. To note that the Council delivered £113.1m of capital investment in 2018-19, to note how this was financed, and to agree re-profiling of capital budgets between 2018-19 and future financial years. (**Section 6, Tables 2-3, and Appendix 4**)
- 2.7. To note the earmarked reserves transfers that have been agreed under delegated authority during the closing of accounts period and the latest summary of available reserves and balances, and to delegate authority to the Section 151 Officer/Deputy Section 151 Officer to agree any further budget virements, movements to/from earmarked reserves and changes to capital financing related to finalising the 2018-19 Statement of Accounts. (**Section 7, Table 4**)

3. REVENUE POSITION: SUMMARY

- 3.1. A summary position of the General Fund and HRA is shown in **Table 1**, a breakdown by individual General Fund variance in **Appendix 1** and a breakdown by General Fund and HRA service area in **Appendix 2**. This position is after the revenue outturn carry forwards and transfers to reserves for use in future financial years (detailed at **Appendix 3** for agreement) are taken into account.

Table 1: 2018-19 General Fund and HRA Outturn

	Over/(Under) Spend (£000)
<u>GENERAL FUND</u>	
Resources Directorate	(256)
Chief Executive's Directorate	(440)
Core Children, Employment and Skills	(1,325)
Environment and Regeneration	597
Housing and Adult Social Services	0
Public Health	0
DIRECTORATE TOTAL	(1,424)
Corporate Items	(2,061)
Unused 2018-19 Contingency Budget	(2,000)
GROSS OVER/(UNDER) SPEND	(5,485)
Transfer to Provision/Earmarked Reserve	5,485
NET OVER/(UNDER) SPEND	0
<u>HOUSING REVENUE ACCOUNT</u>	
NET (SURPLUS)/DEFICIT	0

- 3.2. It is recommended that £2.807m is transferred to the Insurance Fund provision in 2018-19 and £2.678m into an Insurance Fund earmarked reserve to be applied to the provision in 2019-20. The Council has appointed new Insurance Fund Advisors during the financial year 2018-19. Their analysis of the Council's Self-Insurance Funds showed a deficit on the Insurance Fund provision in 2018-19 which is balanced to zero in that year by the recommended transfer to the 2018-19 provision, and a requirement for a further fund injection in-year 2019-20, with the precise amount to be determined following an additional in-year Insurance Fund review.
- 3.3. The worsening Insurance Fund position has been due in the main to a significant increase in the number and value of public liability and tree root claims - 2018 is already considered as an event year in the insurance industry for tree root claims, due to the long, hot and dry summer experienced. Tree root claims tend to be high in terms of average value. In addition, the number of property (mostly housing) claims, generally fires or floods, has increased greatly over the period and the trend is not reducing.

4. GENERAL FUND

Resources Directorate (-£0.3m)

- 4.1. The Resources Directorate is forecasting, after management actions, an underspend of (-£0.3m) over the financial year with the key variances detailed in **Appendix 1**.

Chief Executive's Directorate (-£0.4m)

- 4.2. The Chief Executive's Directorate is forecasting an underspend of (-£0.4m) over the financial year with the key variances detailed in **Appendix 1**.

Children, Employment and Skills - General Fund (-£1.3m, -1.5%), Schools (-£3.8m, -2.5%)

- 4.3. The Children, Employment and Skills Directorate is forecasting a General Fund underspend of (-£1.3m). The key variances are set out in **Appendix 1**. This underspend consists mainly of the early delivery of 2019-20 savings. In addition, there were a number of one-off underspends to fund underlying cost pressures against SEN transport, UASC with appeal rights exhausted and inter-agency adoption.
- 4.4. The schools' dedicated schools grant position is a forecast underspend of (-£3.8m), of which (-£0.7m) relates to prior-year balances being managed on behalf of Schools Forum. Of the remaining (-£3.1m) in-year underspend on the dedicated schools grant, the most significant element is a (-£2.0m) underspend on early years funding. This is the result of the bedding in of the recent increase in the statutory entitlement for early education and childcare for 3 and 4 year olds and reforms to early years funding by the ESFA that have created volatility in the early years funding regime that is challenging to mitigate. Underlying cost pressures remain against the high needs block as the numbers of children and young people with special educational needs and disabilities and the complexity of need increase at a faster rate than funding allocations from the ESFA. In 2018-19 this was offset by the late award of additional time-limited funding by the Government in December. Cost pressures against high needs is a national issue that will continue into

the future. Underspends against the dedicated schools grant are managed through Schools Forum.

Environment and Regeneration (+£0.6m)

- 4.5. The Environment and Regeneration Directorate is forecasting a (+£0.6m) net overspend after management action to control pressures. The key variances behind this net overspend are set out in **Appendix 1**.

Housing and Adult Social Services (Break-Even)

- 4.6. Housing and Adult Social Services is forecasting a break-even position. The key variances within this are set out in **Appendix 1**.
- 4.7. Whilst Adult Social Services is forecasting a break-even position, this is heavily reliant on the application of one-off resources, primarily the Improved Better Care Fund and 2018-19 Winter Pressures funding.
- 4.8. Adult Social Services will continue to face a challenging future with the delivery of savings coupled with demographic pressures, increasing demand for services, increased need of acute care, and rising resident expectations in levels of service provided.
- 4.9. At the 2018 budget, £240 million of new funding was announced for Adult Social Services in 2019-20. The allocation for Islington is £1.3m. A further £410m will be made available to support both adult and children's social care in 2019-20. MHCLG have stated this funding should be used to ensure adult social care pressures do not create additional demand in the NHS. Councils can also use it to improve their social care offer for older people, people with disabilities, and children. The allocation for Islington is £2.2m. All of this announced funding appears to be one-off resources and therefore does not provide a long-term solution to the funding problems in adults and children's social care.
- 4.10. The Housing General Fund is also reporting a break-even position; however, large elements of this budget are demand led with homelessness being a highly volatile pressure. Increases in homelessness numbers, market changes affecting rates and supply and demand issues may have an adverse effect on the future position of the Housing General Fund.

Public Health (Break-Even)

- 4.11. There is a forecast net break-even position for the financial year after the carry forward of ring-fenced public health grant to 2019-20.

Corporate (-£4.1m)

- 4.12. The forecast for corporate items, before any call on corporate contingency budgets, is a net underspend of (-£2.1m), as set out in **Appendix 1**.
- 4.13. In addition to the corporate items underspend of (-£2.1m), there is an underspend (-£2.0m) on the 2018-19 contingency budget to bring into the forecast outturn position.

5. HOUSING REVENUE ACCOUNT

- 5.1. The Housing Revenue Account is forecast to break-even after a planned £15.0m transfer to HRA reserves, as set out in **Appendix 2**.

6. CAPITAL PROGRAMME

- 6.1. The capital programme delivered £113.1m of capital investment in 2018-19. This is set out by directorate in **Table 2** below and detailed in **Appendix 4**.

Table 2: 2018-19 Capital Outturn

Directorate	Revised Capital Budget (£000)	Capital Expenditure (£000)	Re-profiling to Future Years (£000)
Children, Employment and Skills	18,568	11,154	(7,413)
Environment and Regeneration	14,767	11,575	(3,191)
Housing and Adult Social Services	95,470	89,820	(5,651)
Resources	524	524	0
Total	129,329	113,074	(16,255)

- 6.2. Under the Council's financial regulations, the re-profiling of capital budgets between financial years over £1m on an individual capital scheme is a function of the Executive and, where relevant, this is noted below.

6.2.1. The Children, Employment and Skills capital programme remains on time and on budget and the 2018-19 outturn includes re-profiling to future years of £1.7m on the Tufnell Park School scheme and £2.2m of schools capital contingency funding.

6.2.2. The Environment and Regeneration 2018-19 capital outturn includes re-profiling to future years of £2.8m on the vehicles replacement programme due to delays in the delivery lead times on ordered vehicles.

6.2.3. The Housing and Adult Social Services 2018-19 capital outturn includes re-profiling from future years of £1.3m on the 2018-19 major works and improvements budget of £31.0m, and re-profiling to future years of £6.4m on the revised 2018-19 new homes programme budget of £45.0m. It is challenging to accurately forecast the profile of expenditure on new build schemes at this point in the programme as many schemes are at the feasibility stage where we are still discovering issues.

- 6.3. The financing of the 2018-19 capital programme is shown in **Table 3** below.

Table 3: Financing of 2018-19 Capital Programme

Funding Source	(£000)
Capital Receipts	21,863
Major Repairs Reserve	44,604
Government Grants and Other External Contributions	21,219
Earmarked Reserves and Revenue Contributions	3,193
General Fund Borrowing	22,195
Total	113,074

Treasury Management

- 6.4. The Council had £115m of temporary investments as at 31 March 2019. These investments were for periods from overnight to 8 months at an average interest rate of 1.00%. Temporary debt of £16m was outstanding at 31 March 2019 for a period of 2 months at an average interest rate of 0.83%.
- 6.5. The Council's total long-term debt has increased by £19m to £277.2m as at 31 March 2019 (£212.6m Public Works Loan Board, £53.5m from other local authorities and a £11.1m commercial loan). The average rate of interest on debt has decreased slightly from 4.38% to 4.14% over the course of the year.
- 6.6. The overall borrowing position of the Council as at 31 March 2019 was gross borrowing of £293.2m and net borrowing (gross borrowing net of investments) of £178.2m.
- 6.7. During the financial year, the Council complied within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement.

7. RESERVES AND BALANCES

- 7.1. The following earmarked revenue reserves transfers over £500k have been actioned to date under delegated authority during the closing of accounts period:
 - 7.1.1. Drawdown from capital reserve for capital financing (£6,363,567.96) and funding transfers from capital to revenue (£1,687,995.84).
 - 7.1.2. Drawdown from capital reserve (£927,280.63) for commercial property revenue project expenditure.
 - 7.1.3. Transfer to capital reserve (£568,000.00) for the cost of bike hangars in the capital programme that will secure an ongoing income stream for the Council.
 - 7.1.4. Transfer to transformation reserve (£2,500,000.00) from a comprehensive balance sheet review, as assumed in 2019-20 budget setting assumptions. The transformation reserve will provide up-front investment for the delivery of transformational revenue savings over the medium-term.
 - 7.1.5. Transfer of planned pensions savings in 2018-19 (£775,000.00) to services specific reserve towards funding the increase in the future service rate in 2019-20, as assumed at the last Pension Fund triennial revaluation.

- 7.1.6. Transfer to Building Schools for the Future Smoothing reserve (£1,098,562.00) for budgeted scheme lifecycle costs in future financial years.
- 7.1.7. Additional net transfer to Housing Benefit reserve to reflect the final Housing Benefit subsidy outturn (£965,845.18)
- 7.1.8. Transfer of 2018-19 Community Infrastructure Levy (CIL) income to Neighbourhood CIL reserve (£925,323.03)
- 7.2. The Executive is asked to delegate authority to the Section 151 Officer/Deputy Section 151 Officer to agree any further budget virements, movements to/from earmarked reserves and changes to capital financing related finalising the 2018-19 Statement of Accounts.
- 7.3. The estimated levels of earmarked budget reserves and general balances available for use in 2019-20, after taking into account budgeted and latest estimated transfers and commitments, are shown in **Table 4**.

Table 4 – Earmarked Reserves and General Balances 2019-20

Reserve	(£m)
Transformation	15.4
Housing Benefit	3.6
General Fund Balances (excluding schools)	10.7
Schools Balances	11.8
Total	41.5

8. IMPLICATIONS

Financial Implications

- 8.1. These are included in the main body of the report.

Legal Implications

- 8.2. The law requires that the Council must plan to balance its spending plans against resources to avoid a deficit occurring in any year. Members need to be reasonably satisfied that expenditure is being contained within budget and that the savings for the financial year will be achieved, to ensure that income and expenditure balance.

Environmental Implications

- 8.3. This report does not have any direct environmental implications.

Resident Impact Assessment

- 8.4. The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage

people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

- 8.5. A resident impact assessment (RIA) was carried out for the 2018-19 Budget Report approved by Full Council. This report notes the financial performance to date but does not have direct policy implications, so a separate RIA is not required for this report.

Appendices:

Appendix 1 – 2018-19 General Fund Revenue Outturn by Individual Variance

Appendix 2 – 2018-19 Revenue Outturn by Service Area

Appendix 3 – 2018-19 Revenue Outturn Carry Forwards

Appendix 4 - 2018-19 Capital Outturn

Background papers: None

Signed by:



13 May 2019

Executive Member for Finance,
Performance and Community
Safety

Date

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