Resources Directorate
Newington Barrow Way

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

Meeting of		Date	Ward(s)
Executive		17 October 2019	All
Delete as appropriate	~~Exempt~~	Non-exempt	

BUDGET MONITORING 2019/20 MONTH 5

1. SYNOPSIS

1.1 This report presents the forecast outturn position for 2019/20 as at 31 August 2019. Overall, there is a forecast General Fund underspend of (-£0.237m) compared to a forecast overspend of (+£0.504m) in the previous month.

1.2 The Housing Revenue Account (HRA) is forecast to break-even over the year.

1.3 It is forecast that £120.356m of capital expenditure will be delivered in 2019/20 against the 2019/20 capital budget of £145.250m.

1.4 The latest delivery tracker ('RAG' rating) of agreed 2019/20 savings remains unchanged since Month 4, so the next detailed status update on it to the Executive is planned for the Month 6 budget monitoring report.

2. RECOMMENDATIONS

2.1. To note the forecast revenue outturn for the General Fund (**Table 1**) of an overall underspend of (-£0.237m) compared to a forecast overspend of (+£0.504m) in the previous month. (**Section 3**)

2.2. To note that management action is required over the course of the financial year to bring forecast overspends back to within agreed cash limited budgets where possible. (**Paragraph 3.2**)

2.3. To note the breakdown of the forecast General Fund outturn by individual variance at **Appendix 1** and by service area at **Appendix 2**.

2.4. To note the schedule of additional budget risks that are not included in the current forecasts. There is an ongoing financial assessment of these risks, which will be reported in future months. **(Paragraph 3.3** and **Appendix 3)**

2.5. To note the latest position on the earmarked corporate transformation reserve and to agree the £0.562m allocation from the reserve to support migration to a new telephony platform (**Paragraphs 5.4-5.5** and **Table 2**).

2.6. To note that the HRA forecast is a net break-even position. (**Table 1** and **Appendix 2**)

2.7. To note the latest capital position and key capital variances with forecast capital expenditure of £120.356m in 2019/20 against the 2019/20 capital budget of £145.250m. (**Section 7, Table 3, and Appendix 4**)

2.8. To note that the capital programme is actively under review to establish whether project milestones and deliverables are reflected in the financial profiles of the existing 3-year programme, and that this will be consolidated into the capital programme in the mid-year (Month 6) report to the Executive. (**Paragraph 7.3**)

2.9. Subject to the recommendations in the "Buying New Council Homes" report being agreed by the Executive, to agree a 2019/20 HRA property acquisition capital budget of £13.500m, offset by £23.595m slippage in the 2019/20 New Build programme budget (a net reduction of £10.095m to the 2019/20 New Build programme capital budget). (**Paragraph 7.10**)

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**.

Table 1: 2019/20 General Fund and HRA Forecast 0ver/(Under)Spend

	Month 5 £m	Month 4 £m	Change £m
GENERAL FUND			
Chief Executive's Directorate	0.064	0.038	0.026
Environment and Regeneration	2.732	2.714	0.018
Housing	0	0	0
People	(0.750)	0	(0.750)
Public Health	0	0	0
Resources Directorate	0.003	(0.033)	0.036
DIRECTORATE TOTAL	**2.049**	**2.719**	**(0.670)**
Corporate Items	(2.286)	(2.215)	(0.071)
GROSS OVER/(UNDER) SPEND	**(0.237)**	**0.504**	**(0.741)**
HOUSING REVENUE ACCOUNT			
NET (SURPLUS)/DEFICIT	**0**	**0**	**0**

3.2. All services have agreed cash limited budget allocations and therefore take responsibility for delivering a balanced budget unless a detailed business case is developed and approved for an allocation from the corporate contingency budget. Management action is therefore required over the course of the financial year to bring forecast overspends back to within agreed cash limited budgets where possible.

3.3. A schedule of additional budget risks that are not included in the current forecasts is provided at **Appendix 3**. There is an ongoing financial assessment of these risks, which will be reported in future months.

4. GENERAL FUND

Chief Executive's Directorate (+£0.064m)

4.1. The Chief Executive's directorate is forecasting a (+£0.064m) overspend, an increase of (+£0.026m) since the previous month, with the key variances and changes summarised in **Appendix 1.**

Environment and Regeneration (+£2.732m)

4.2. The Environment and Regeneration directorate is forecasting a (+£2.732m) overspend, an increase of (+£0.018m) since the previous month. The key variances and changes behind this net overspend are set out in **Appendix 1**.

4.3. The management actions being taken to control this position include:

4.3.1. Regular monitoring of spend and income trends across the department to enable effective decisions to be taken;

4.3.2. Extensive work being undertaken within Street Environmental Services (SES) to control and monitor staff related spend, particularly around sickness absence management;

4.3.3. On-going work to drive through service changes to deliver delayed savings.

Housing (Break-Even, unchanged since previous month)

4.4. The Housing General Fund is forecast to break-even, after the use of (-£0.830m) one-off grant funding carried forward from prior years in earmarked reserves. This position is summarised in **Appendix 1**.

People (-£0.750m)

4.5. The new People directorate (comprising Children's, Employment and Skills and Adult Social Services) is forecasting a (-£0.750m) underspend with key variances and changes set out in **Appendix 1**.

Children's, Employment and Skills - General Fund (Break-Even), Schools (-£2.264m)

4.6. Children's, Employment and Skills is forecasting a break-even position, unchanged since the previous month.

4.7. The Dedicated Schools Grant (DSG) is forecasting an underspend of (-£2.264m or -1.2%). Most of this (-£2.814m) relates to prior year contingency balances being managed on behalf of Schools Forum to either manage cost pressures in relation to high needs and provision for 2 year olds, or because of volatility in the implementation of a national funding formula for 3 and 4 year olds. This is offset by forecast DSG cost pressures of

(+£0.550m), including (+£0.520m) relating to early years Special Educational Needs and Disability (SEND) following a significant increase in applications in the summer term. Underspends and overspends against the DSG are managed through Schools Forum.

Adult Social Services (-£0.750m)

4.8. Adult Social Services is forecasting a (-£0.750m) underspend, a decrease of (-£0.750m) since the previous month. This change relates to a forecast underspend on contract costs in the current financial year based on latest contractual negotiations.

4.9. This position includes the use of one-off resources totalling (-£4.224m), including Social Care Grant, Improved Better Care Fund (Stabilising the Social Care System), Winter Pressures Funding, Direct Payments Surplus and (-£1.587m) funding carried forward from 2018/19 in earmarked reserves.

Public Health (Break-Even, unchanged since previous month)

4.10. Public Health is funded via a ring-fenced grant and forecast to break-even with no material variances from budget.

Resources Directorate (+£0.003m)

4.11. The Resources directorate is forecasting a (+£0.003m) overspend, an increase of (+£0.036m) since the previous month, with the key variances and changes detailed in **Appendix 1**. This includes the provisional use of one-off funding carried from 2018/19 in earmarked reserves (-£0.555m). It is expected that either Property Services or the Resources directorate as a whole will put in place a strategy to contain the current forecast overspend and therefore this one-off funding will not be called upon.

Corporate Items (-£2.286m)

4.12. The forecast for corporate items is a (-£2.286m) underspend, a decrease of (-£0.071m) since the previous month, with key variances and changes set out in **Appendix 1**. The main variance is a forecast underspend of (-£3.234m) relating to treasury management.

4.13. The corporate items forecast currently assumes that the agreed 2019/20 cross-cutting savings (totalling £1.380m) are fully deliverable and that service cash limits will be adjusted accordingly.

4.14. This position is before taking into account the currently unallocated 2019/20 corporate contingency budget of £5.080m. Any remaining balance on the 2019/20 contingency budget at the end of the financial year will be carried forward to future years, providing much needed financial resilience for known cost pressures over the medium term.

5. SAVINGS DELIVERY

5.1. All savings projects are owned by nominated service leads and monitored monthly by Departmental Management Teams. All projects are also reviewed monthly by the Corporate Programme Management Office to ensure they are on track, that any savings associated are deliverable and that emerging risks and issues are identified. Services are then supported corporately with any remedial action necessary to get projects back on track, or establish where savings may no longer be deliverable and replacements are needed.

5.2. The latest delivery tracker ('RAG' rating) of agreed 2019/20 savings remains unchanged since Month 4, so the next detailed status update on it to the Executive is planned for the Month 6 budget monitoring report.

5.3. The agreed 2019/20 budget includes cross-cutting savings totalling £1.380m that have still to be formally allocated across services. It is currently assumed that these cross-cutting savings are fully deliverable in 2019/20 and that service cash limits will be adjusted accordingly.

5.4. To enable the delivery of agreed savings, there is a corporate transformation reserve to provide required investment funding over the medium term. **Table 2** below summarises the latest position on this reserve.

Table 2: Corporate Transformation Reserve

	£m
Balance as at 31 March 2019	10.448
Budgeted 2019/20 transfer to reserve	5.000
2019/20 allocations	(1.675)
Balance as at Month 5	**13.773**

5.5. The 2019/20 allocations from the corporate transformation reserve include £0.562m to support migration to a new telephony platform. This requires Executive approval as it is above the £0.500m threshold for officer approval.

6. HOUSING REVENUE ACCOUNT

6.1. The forecast variance on the Housing Revenue Account, before transfers to HRA reserves, is an underspend of (-£0.600m). This relates to underspends on repairs and maintenance and general managements costs, as shown in **Appendix 2**. As this is a ring-fenced account, any underspends go into HRA balances to be used in future years, resulting in a net break-even position.

7. CAPITAL PROGRAMME

7.1. It is forecast that £120.356m of capital investment will be delivered in 2019/20 against the 2019/20 capital budget of £145.250m. This is set out by directorate in **Table 3** below and detailed in **Appendix 4**, which also includes the provisional capital programme for 2020/21 and 2021/22.

Table 3: 2019/20 Capital Programme Month 5 Forecast

Directorate	2019/20 Budget	2019/20 Spend To Date	2019/20 Forecast Outturn	Forecast Capital Variance
	£m	**£m**	**£m**	**£m**
Environment and Regeneration	17.072	5.528	17.471	0.399
Housing	114.171	32.440	90.578	(23.593)
People	14.007	4.781	12.307	(1.700)
Total	**145.250**	**42.749**	**120.356**	**(24.894)**

7.2. As at the end of month 5, £42.749m (29%) of capital expenditure had been spent against the 2019/20 capital budget of £145.250m. Hypothetically, if expenditure continued at the same pace for the remainder of the financial year, this would lead to a capital outturn of around £103m (71% of the 2019/20 capital budget).

7.3. The capital programme is actively under review to establish whether project milestones and deliverables are fully reflected in the financial profiles of the existing 3-year programme 2019/20 to 2021/22. The work to date has identified projects that are a mix of revenue and capital expenditure. Before the capital programme can be revised, the estimated split between capital and revenue expenditure (both General fund and HRA) needs further review to confirm the funding available and ensure the most efficient use of resources. This will be consolidated into the capital programme in the mid-year (month 6) report to the Executive.

Environment and Regeneration

7.4. The Environment and Regeneration capital budget has increased by £1.045m since the previous month. This is due to additional capital funding from Transport for London (£0.102m) and Crossrail (£1.300m), offset by a reduction in programmed Section 106 capital schemes (£0.357m).

7.5. There is an ongoing review of the outturn forecast on the Bunhill II capital scheme. Consultants Inner Circle have been commissioned by the Programme Delivery Board (PDB) to undertake an independent review of the project and construction contract. Recommendations will be made to a future Executive meeting following consultation with the Affordable Energy Board.

Housing

New Build Programme

7.6. Housing has a delivery target of building 550 genuinely affordable homes by 2022 and this is still considered achievable. However, within the programme there is forecast slippage of £23.593m on the New Build programme budget of £76.046m. In addition to delays due to planning and re-design issues, this slippage arises primarily as a result of contractors including a very high premium in their bids to reflect Brexit uncertainty, which in turn requires the new build team to carry out protracted value engineering exercises and/or price negotiations with contractors in order to try and secure value for money.

Discussions with other Local Authority developers, housing associations and the GLA indicate that these price increases are prevalent across the sector.

7.7. A further significant impact on increased prices are the number of site offices required within a single scheme as the contractor effectively needs to set up several site offices and provide extra personnel to make those sites secure and safe.

7.8. In order to mitigate the uncertainty caused by Brexit and the related increase in construction costs, the Council is currently considering reviewing its new build contracts (this would likely require the commissioning of external procurement expertise) with a view to securing a position whereby the Council ultimately either only pays for any actual cost increases arising from Brexit or enters into a risk/cost sharing arrangement with the contractor, as opposed to paying in advance for maximum unrealised risk.

7.9. Alternatively, or in addition to the above, where agreement has not or is unlikely to be reached with the contractor, consideration could be given to delaying procurement for some schemes until the new contractor framework is in place at the end of the year. This new framework will bring in new contractors who are likely to want to price competitively and in an environment where some of the Brexit uncertainty may have been resolved. It should be noted that delaying procurement could lead to further slippage in the region of £9.000m.

Temporary Accommodation Acquisitions

7.10. The report entitled "Buying New Council Homes" being considered elsewhere on the agenda seeks Executive approval to increase the supply of social housing by extending the property acquisition programme within the HRA for the purposes of providing temporary accommodation. This requires a 2019/20 HRA property acquisition budget of £13.500m, to be financed from Right to Buy 141 receipts (£4.000m) and HRA borrowing (£9.500m). However, after taking into account the forecast slippage of £23.595m on the existing New Build programme, the net effect is a reduction of £10.095m to the 2019/20 New Build programme budget. This adjustment to the 2019/20 capital programme will be reflected in month 6, subject to the recommendations in the "Buying New Council Homes" report being agreed by the Executive.

People

7.11. The Children's Employment and Skills capital programme is forecasting an underspend of £1.700m in 2019/20. This represents the forecast balance on the school expansion schemes contingency budget. These schemes are due to be completed by the end of the summer, and it is not anticipated that the remaining contingency budget will be used.

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 (section 28 Local

Government Act 2003; the Council's Financial Regulations 3.7 to 3.10 (Revenue Monitoring and Control).

Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

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

Resident Impact Assessment

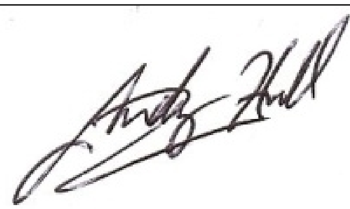
8.4. The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (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 2019/20 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 – General Fund Revenue Monitoring by Individual Variance
Appendix 2 – Revenue Monitoring by Service Area
Appendix 3 – Additional General Fund Budget Risks
Appendix 4 – Capital Monitoring 2019/20 to 2021/22

Background papers: None

Final report clearance:

Signed by:		8 October 2019
	Executive Member for Finance, Performance and Community Safety	Date

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