



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

Meeting of	Date	Ward(s)
Executive	28 November 2019	All
Delete as appropriate	Exempt	Non-exempt

BUDGET MONITORING 2019/20 MONTH 6

1. SYNOPSIS

- 1.1 This report presents the forecast outturn position for 2019/20 as at 30 September 2019. Overall, there is a forecast General Fund underspend of (-£0.634m) compared to a forecast underspend of (-£0.237m) 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 £144.853m of capital expenditure will be delivered in 2019/20 against the existing 2019/20 capital budget of £148.412m.
- 1.4 The latest delivery tracker ('RAG' rating) of agreed 2019/20 savings shows that of the £13.775m of savings in 2019/20, £12.595m are either on track to be delivered or have been replaced with deliverable alternatives. Only £1.180m is flagged as at risk of delay or non-delivery.

2. RECOMMENDATIONS

- 2.1. To note the forecast revenue outturn for the General Fund (**Table 1**) of an overall underspend of (-£0.634m) compared to a forecast underspend of (-£0.237m) 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 1A** 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 agree to resolve the structural budget issues in the Environment and Regeneration budget by allocating a permanent budget adjustment of up to £2.707m from the corporate contingency budget. **(Paragraph 4.4 and Appendix 1B)**
- 2.6. To note the latest position on the earmarked corporate transformation reserve and to agree the new £0.620 allocation from the reserve to continue to progress the discovery phase of the Enterprise Resource Planning project. **(Paragraphs 5.4-5.5 and Table 2).**
- 2.7. To note that the HRA forecast is a net break-even position. **(Table 1 and Appendix 2)**
- 2.8. To note the latest capital position and key capital variances with forecast capital expenditure of £144.853m in 2019/20 against the existing 2019/20 capital budget of £148.412m. **(Section 7, Table 3, and Appendix 4)**
- 2.9. To note the capital budget increases since month 5 relating to earmarked grant funding now profiled in the capital programme and to agree the following capital budget changes required to fully incorporate the current year expenditure profiles in the approved programme **(Paragraphs 7.4 to 7.13):**
 - 2.9.1. A £1.000m increase to the current year capital programme to incorporate the 49-59 Old St scheme in the capital programme (funded from capacity within the existing capital financing budget);
 - 2.9.2. A capital virement from previously reported slippage in the Housing directorate (-£0.909m) to the Bunhill II scheme in the Environment and Regeneration directorate (+£0.833m) and the 49-59 Old Street scheme in the Resources directorate (+£0.076m) in order to reflect current year expenditure profiles (no impact on the overall resources available for the Housing capital programme);
 - 2.9.3. An allocation of £4.088m from the Carbon Offset Fund (Section 106) to the Bunhill II scheme in the Environment and Regeneration directorate, subject to agreement by the Affordable Energy Board and the Borough Investment Panel;
 - 2.9.4. A capital virement (net nil within the People directorate) from the forecast underspend on the school expansion schemes contingency budget (-£1.067m) to the Central Library scheme (+£1.067m);
 - 2.9.5. A capital virement from the remaining forecast underspend in the People directorate (-£0.633) to the 49-59 Old Street scheme in the Resources directorate (+£0.633m).
- 2.10. To note that the overall increase in the capital programme, funded as set out above and from additional external income, is subject to agreement by Council on 5 December 2019 in a separate report. **(Paragraph 7.3)**
- 2.11. To agree the drawdown of £1.793m from the 'capital reserve' (an earmarked revenue reserve) for the forecast revenue costs of the 49-59 Old Street project. **(Paragraph 7.14)**

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 1A** and a breakdown by General Fund and HRA service area in **Appendix 2**.

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

	Month 6 £m	Month 5 £m	Change £m
<u>GENERAL FUND</u>			
Chief Executive's Directorate	0.064	0.064	0
Environment and Regeneration	2.749	2.732	0.017
Housing	0	0	0
People	(1.145)	(0.750)	(0.395)
Public Health	0	0	0
Resources Directorate	(0.026)	0.003	(0.029)
DIRECTORATE TOTAL	1.642	2.049	(0.407)
Corporate Items	(2.276)	(2.286)	0.010
GROSS OVER/(UNDER) SPEND	(0.634)	(0.237)	(0.397)
<u>HOUSING REVENUE ACCOUNT</u>			
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, the same as the previous month, with the key variances and changes summarised in **Appendix 1A**.

Environment and Regeneration (+£2.749m)

- 4.2. The Environment and Regeneration directorate is forecasting a (+£2.749m) overspend, an increase of (+£0.017m) since the previous month. The key variances and changes behind this net overspend are set out in **Appendix 1A**.
- 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.
- 4.4. The directorate seeks a decision to resolve the structural budget issues (detailed in **Appendix 1B**) contributing to this overspend position by allocating a permanent budget adjustment of up to £2.707m from the corporate contingency budget. The directorate will then consider options to reduce the remaining forecast overspend.

Housing (Break-Even, unchanged since previous month)

- 4.5. The Housing General Fund is forecast to break-even, after the use of (-£0.735m) one-off grant funding carried forward from prior years in earmarked reserves. This position is summarised in **Appendix 1A**.
- 4.6. The Housing General Fund budget has decreased by £0.498m since month 5, relating to a budget virement to corporate items for the borrowing costs of the temporary accommodation acquisitions programme.

People (-£1.145m)

- 4.7. The new People directorate (comprising Children's, Employment and Skills and Adult Social Services) is forecasting a (-£1.145m) underspend, a decrease of (-£0.395m) since previous month. The key variances and changes are set out in **Appendix 1A**.

Children's, Employment and Skills - General Fund (-£0.395m), Schools (-£3.416m)

- 4.8. Children's, Employment and Skills is forecasting a (-£0.395m) underspend compared to a break even position the previous month. The Children's, Employment and Skills budget has increased by £0.150m since month 5, relating to a budget virement from corporate items for contract inflation held corporately at 2019/20 budget setting.
- 4.9. The Dedicated Schools Grant (DSG) is forecasting an underspend of (-£3.416m or -1.7%). Most of this (-£3.416m) 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 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)

- 4.10. Adult Social Services is forecasting a (-£0.750m) underspend, a stand still position compared to the previous month.
- 4.11. 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)

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

Resources Directorate (-£0.026m)

- 4.13. The Resources directorate is forecasting a (-£0.026m) underspend, an improvement of (-£0.029m) since the previous month, with the key variances and changes detailed in **Appendix 1A**. This includes the provisional use of one-off funding carried from 2018/19 in earmarked reserves (-£0.450m). 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 (-£2.276m)

- 4.14. The forecast for corporate items is a (-£2.276m) underspend, a decrease of (+£0.010m) since the previous month, with key variances and changes set out in **Appendix 1A**. The corporate items budget has increased by £0.348m since month 5. This is due to a £0.498m budget virement from Housing for the borrowing costs of the temporary accommodation acquisition programme, offset by a £0.150m budget virement to Children, Employment and Skills for contract inflation held corporately at 2019/20 budget setting.
- 4.15. 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.
- 4.16. This position is before taking into account the corporate contingency budget. The recommended contingency allocation of £2.707m to structural budget issues in the Environment and Regeneration directorate will reduce the 2019/20 corporate contingency budget from £5.080m to £2.373m. Any remaining balance of the 2019/20 contingency budget at the end of the financial year will be carried forward to future years, providing much needed financial resilience 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 shows that, of the £13.775m savings programme in 2019/20, £12.595m is either on track to be delivered or has been replaced with deliverable alternatives where they were undeliverable. Only £1.180m is flagged as at risk of delay or non-delivery.
- 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	(3.119)
Balance as at Month 6	12.329

- 5.5. The 2019/20 allocations from the corporate transformation reserve include an additional £0.562m to continue to progress the discovery phase of the Enterprise Resource Planning project (bringing the total amount allocated to date to this project to £0.800m). 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 a net underspend of (-£0.600m). This relates to additional income from rents as well as underspends on repairs and maintenance and general management costs. These are offset by making additional provision for bad debts 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 £144.853m of capital investment will be delivered in 2019/20 against the existing 2019/20 capital budget of £148.412m. 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 6 Forecast

Directorate	2019/20 Budget	2019/20 Spend To Date	2019/20 Forecast Outturn	Forecast Capital Variance
	£m	£m	£m	£m
Environment and Regeneration	17.259	6.178	22.719	5.460
Housing	114.171	40.045	104.076	(10.095)
People	14.007	5.711	13.374	(0.633)

Directorate	2019/20 Budget	2019/20 Spend To Date	2019/20 Forecast Outturn	Forecast Capital Variance
Resources	2.975	1.165	4.684	1.709
Total	148.412	53.099	144.853	(3.559)

- 7.2. As at the end of month 6, £53.099m of capital expenditure had been spent against the existing 2019/20 capital budget of £148.412m.
- 7.3. The paragraphs below cover the outcome of the mid-year review of the capital programme and the capital budget changes required to fully incorporate the current year expenditure profiles in the approved programme. The overall increase in the capital programme as a result of these changes is subject to agreement by Council on 5 December 2019 in a separate report.

Environment and Regeneration

- 7.4. Since month 5, £0.187m of the leisure capital programme has been re-profiled from 2020/21 to 2019/20 to reflect latest expenditure profiles.
- 7.5. As reported in previous months, the Combined Heat and Power scheme ('Bunhill II') has been under review. The expected project cost (to partial completion, expected to be 21 January 2020), is now £16.311m (including prior year expenditure), which is £6.486m above the agreed total scheme budget of £9.825m. The variance against budget results from additional costs for project delays, changes to project scope, and changes to the technical solution (£5.2m); materials, services & approvals (£0.6m) and establishing a robust contingency (£0.8m).
- 7.6. The expected project cost includes a contingency of £0.810m. This represents 34% of the remaining planned expenditure on the project and is based on a refreshed set of quantified and weighted risks. This level of contingency is supported by all of the Council's professional advisors, but will be tightly managed and only expensed as required.
- 7.7. The forecast expenditure profile of the additional budget requirement is £5.460m in 2019/20 and £1.026m in 2020/21. It is recommended that the 2019/20 capital budget for this scheme is increased by the required £5.460m. The sources of funding for this budget increase are £4.088m from the Carbon Offset Fund (a form of Section 106 funding, subject to agreement by the Affordable Energy Board and the Borough Investment Panel); £0.539m forecast additional external income from the scheme; and £0.833m from previously reported Housing slippage (General Fund element) on the current year new build capital programme. The additional budget requirement in 2020/21 (£1.026m) will be factored into the revised capital programme to be included as part of the 2020/21 budget report.

Housing

- 7.8. The Housing capital programme has been updated to reflect the now agreed 2019/20 HRA property acquisition capital budget of £13.500m, offset by £23.595m previously reported slippage in the 2019/20 new build programme budget. This represents a £10.095m reduction in the 2019/20 new build programme capital budget. It is recommended that £0.909m of this slippage on the current year new build programme (General Fund) is vired

to the Bunhill II scheme in the Environment and Regeneration directorate (£0.833m) and the 49-59 Old Street scheme in the Resources directorate (£0.076m) and the remainder is profiled in 2020/21 pending a full review of financial profiles as part of 2020/21 budget setting. This is a current year budget adjustment to reflect expenditure profiles and does not affect the overall resources available for the new build programme.

People – Children’s, Employment and Skills

- 7.9. 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.
- 7.10. The Central Library has been undergoing a refurbishment to enable a new project to run in the building. Phase 1 work has been completed with Phase 2 out to tender. In total, a capital budget of £1.067m is required, of which £0.500m will be funded from external contributions and existing budgets and £0.567m will be funded from capacity within the existing capital financing budget. It is recommended that the required capital budget for this scheme is created by way of a £1.067m capital virement from the forecast underspend on the school expansion schemes contingency budget (net nil within the People directorate). This leaves a remaining forecast capital underspend of £0.633m in the People directorate.
- 7.11. Since month 5, the provisional Children’s, Employment and Skills capital programme for 2020/21 and 2021/22 has been updated to include the following earmarked capital grant funding that was not included at 2019/20 budget setting (**Table 4** below).

Table 4: Additional Education Grant Funding Profiled in 2020/21 and 2021/22

	£m
School condition grant	1.459
Basic need grant	2.595
Special provision fund 2018/19 to 2020/21	1.326
Total	5.380

Resources

- 7.12. Since month 5, a new earmarked grant funded project to replace the cladding on the flats that the Council owns on the Bridge School campus has been added to the 2019/20 capital programme.
- 7.13. The expected total capital cost of the project to renovate and upgrade 49-59 Old Street ready for commercial letting is £2.423m (£0.714m prior year expenditure plus £1.709m to be profiled in the current year capital programme). It is recommended that the current year capital programme is increased by £1.000m for this scheme (funded from capacity within the existing capital financing budget) and that the scheme budget is increased to the required £1.709m by way of a £0.633m capital virement from the remaining forecast underspend in the People directorate and £0.076m previously reported Housing slippage (General Fund element) on the current year new build capital programme.

- 7.14. The 49-59 Old Street project includes forecast revenue costs of £1.793m in 2019/20. This is funded from the existing 'capital reserve' (an earmarked revenue reserve) and it is recommended that this is now drawn down to the Resources directorate revenue budget.

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)).
- 8.3. The Executive may agree an increase in the capital programme of up to £1m and alterations of up to £1m to departmental allocations. Full council approval is required where the increase or alteration exceeds £1m (Financial Regulations 4.19, 4.22 and 4.24).

Environmental Implications and contribution to Zero Net Carbon by 2030:

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

Resident Impact Assessment


- 8.5. 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.
- 8.6. 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 1A – General Fund Revenue Monitoring by Individual Variance
- Appendix 1B – Environment and Regeneration Structural Budget Pressures
- 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:		20 November 2019
	Councillor Andy Hull Executive Member for Finance, Performance and Community Safety	Date

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