



Report of: Executive Member for Finance and Performance

Meeting of	Date	Agenda Item	Ward(s)
Executive	18 June 2020		All
Delete as appropriate	Exempt	Non-exempt	

2019/20 PROVISIONAL FINANCIAL OUTTURN

1. SYNOPSIS

- 1.1 This report presents the provisional financial outturn for 2019/20. Overall, there is a General Fund underspend of (-£8.405m) compared to a forecast underspend of (-£5.691m) as the previous reported position. As agreed in the 2020/21 budget report, the underspend on the 2019/20 General Fund budget will be transferred to General Fund reserves in order to improve the financial resilience of the Council.
- 1.2 The increased 2019/20 General Fund underspend is welcome and provides a much needed boost to the reserves. However, it is one-off in nature and masks a highly uncertain financial outlook for 2020/21 and over the medium term.
- 1.3 Based on the latest return to MHCLG, the Council is currently facing total COVID-19 related budget pressures of around £74m (comprising £24m additional costs and £50m income losses). The Council has received total grants of £15.575m from Government as a contribution towards our extra costs as we deliver the local response to this crisis, which leaves a gap of around £58m. This includes a potential in-year General Fund budget shortfall of £36m in 2020/21, £10m council tax and business rates income losses that would impact the 2021/22 budget and £12m HRA budget pressures. Any residual shortfall not funded by central government would weaken the Council's balance sheet and reserves, which would then need to be replenished in future financial years. There will be an early budget monitor to the Executive on 9 July 2020 to consider the latest 2020/21 budget position in more detail.
- 1.4 Beyond 2020/21, there is an estimated net budget gap of around £13m in 2021/22 and £58m over the 3-year financial planning cycle to 2023/24. It should be emphasised that this estimated budget gap is in addition to existing planned savings.

- 1.5 The provisional 2019/20 outturn for the ring-fenced Housing Revenue Account (HRA) is a surplus of (-£0.325m) and a net break-even position after transfer to HRA reserves.
- 1.6 Capital investment of £117.507m has been delivered against the revised 2019/20 budget of £153.893m. This variance is due to capital underspends of (-£7.219m), which are already reflected in 2020/21 budget setting assumptions, and (-£29.167m) re-profiling to future financial years.

2. RECOMMENDATIONS

- 2.1. To note the breakdown of the forecast General Fund outturn by individual variance at **Appendix 1** and by service area at **Appendix 2**.
- 2.2. To note the forecast General Fund underspend of (-£8.405m) compared to a forecast underspend of (-£5.691m) in the previous reported position. (**Section 3** and **Table 1**)
- 2.3. To note that the Council is facing total COVID-19 related budget pressures of around £74m and, after Government grants received to date, a net gap of around £58m (including Collection Fund and HRA pressures). (**Paragraph 3.2**)
- 2.4. To note that, in addition to the above, there is an estimated net budget gap of around £13m in 2021/22 and £58m over the 3-year financial planning cycle to 2023/24 and that the medium-term financial outlook is the most uncertain it has ever been. (**Paragraph 3.2**)
- 2.5. To agree the outturn transfers to reserves, the re-purposing of existing reserves and the provisional General Fund and HRA reserves balances, and to delegate authority to the Section 151 Officer to agree any further movements to/from reserves related to finalising the 2019/20 Statement of Accounts. (**Paragraphs 4.17-4.19, Table 2** and **Appendix 3**)
- 2.6. To note the HRA outturn surplus of (-£0.325m) and net break-even position after transfer to HRA reserves. (**Section 5** and **Appendix 2**)
- 2.7. To note the provisional 2019/20 capital outturn and agree the provisional financing of the 2019/20 capital programme, including the allocation of Strategic Community Infrastructure Levy (CIL) funding, and to delegate authority to the Section 151 Officer to agree any further capital financing adjustments related to finalising the 2019/20 Statement of Accounts. (**Section 6, Tables 4-5** and **Appendix 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 additional reserves movements at **Appendix 3** are taken into account.

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

	Month 12	Month 10	Change
	£m	£m	£m
<u>GENERAL FUND</u>			
Chief Executive's Directorate	(0.078)	(0.026)	(0.052)
Environment and Regeneration	1.249	(0.035)	1.284
Housing	0.000	0.000	0.000
People	(3.112)	(2.027)	(1.085)
Public Health	0.000	0.000	0.000
Resources Directorate	(1.233)	0.000	(1.233)
DIRECTORATE TOTAL	(3.174)	(2.088)	(1.086)
Corporate Items	(1.593)	(1.230)	(0.363)
Unused Contingency	(2.373)	(2.373)	0.000
COVID-19 grant applied	(1.265)	0.000	(1.265)
CORPORATE TOTAL	(5.231)	(3.603)	(1.628)
NET OVER/(UNDER) SPEND	(8.405)	(5.691)	(2.714)
<u>HOUSING REVENUE ACCOUNT</u>			
(Surplus)/Deficit	(0.325)	(0.585)	0.260
Transfer to HRA reserves	0.325	0.585	(0.260)
NET POSITION	0.000	0.000	0.000

2020/21 and Medium-Term Financial Outlook

3.2. The 2019/20 outturn position is welcome and provides a much needed boost to reserves. However, it is one-off in nature and masks a highly uncertain financial outlook for 2020/21 and over the medium term. In particular:

- None of the 2019/20 underspend is expected to re-occur in 2020/21 as all significant ongoing impacts (e.g. the underlying surplus on the corporate financing account, previously unbudgeted social care grants) have now been factored into the 2020/21 base budget position.
- Base budget savings totalling £5.168m were covered in 2019/20 from one-off resources and underspends and therefore have not yet been secured. This poses a significant budget risk going into 2020/21 and highlights the need for resilience in our corporate reserves to manage the impact of delays to the savings programme.
- Based on the latest return to MHCLG, the Council is currently facing total COVID-19 related budget pressures of around £74m (comprising £24m additional costs and £50m income losses). The Council has received total grants of £15.575m from Government as a contribution towards our extra costs as we deliver the local response to this crisis, which leaves a gap of around £58m. This includes a potential in-year General Fund budget shortfall of £36m in 2020/21, £10m council tax and business rates income losses that would impact the 2021/22 budget and £12m HRA budget pressures. Any residual shortfall not funded by central government would weaken the Council's balance sheet and reserves, which would then need to be replenished in future financial years. There will be an early budget monitor to the Executive on 9 July 2020 to consider the latest 2020/21 budget position in more detail.

- Beyond 2020/21, there is an estimated net budget gap of around £13m in 2021/22 and £58m over the 3-year financial planning cycle to 2023/24. It should be emphasised that this estimated budget gap is in addition to existing planned savings of £11.349m across 2021/22 and 2022/23.
- The medium-term financial outlook is the most uncertain it has ever been and subject to change significantly as further information emerges on key budget variables. Key budget variables include both internal factors (e.g. ongoing COVID-19 financial pressures, delivery of agreed savings) and external factors (Government Spending Review, reset of business rates retention growth, other local government reforms such as the fair funding review).

4. GENERAL FUND

Chief Executive's Directorate (-£0.078m)

- 4.1. The Chief Executive's directorate outturn position is a (-£0.078m) underspend, as broken down in **Appendix 1**.

Environment and Regeneration (+£1.249m)

- 4.2. After the application of previously agreed contingency funding, the Environment and Regeneration outturn is a (+£1.249m) overspend compared to a previous reported (-£0.035m) underspend. The key variances and changes behind this position are set out in **Appendix 1**.
- 4.3. This overspend position is wholly due to the loss of income and exceptional items of expenditure in March 2020 related to the COVID-19 pandemic. This included reduced levels of parking income (+£0.983m), loss of rental income and cost support for our leisure centres (+£0.185m), additional agency spend to cover front line services (+£0.060m) and Personal Protective Equipment (PPE) expenditure (+£0.029m).
- 4.4. This position is after unspent budgets totalling £0.376m have been transferred to earmarked reserves (**Appendix 3**), including funding from external bodies with restrictions on how it is spent.

Housing (Break-even, unchanged since previous reported position)

- 4.5. The Housing General Fund outturn is a break-even position, after the use of (-£0.143m) one-off grant funding carried forward from prior years in earmarked reserves. This position is summarised in **Appendix 1**.
- 4.6. This position is after unspent Voluntary and Community Sector (VCS) grant budgets of £0.496m have been transferred to earmarked reserves to meet the financial commitments of the VCS grants programme 2020-24 (**Appendix 3**).

People (-£3.112m)

- 4.7. The People directorate (comprising Children's, Employment and Skills and Adult Social Services) is forecasting a (-£3.112m) underspend, an increase of (-£1.085m) since the previous reported position. The key variances and changes are set out in **Appendix 1**.

Children's, Employment and Skills - General Fund (-£1.696m), Schools (-£2.680m)

- 4.8. Children's, Employment and Skills is forecasting a (-£1.696m) underspend, an increase of (-£1.069m) since the previous reported position. This position is after unspent budgets totalling £3.444m have been transferred to earmarked reserves (**Appendix 3**), including funding from external bodies with restrictions on how it is spent.

- 4.9. This (-£1.696m) underspend includes four significant one-off underspends totalling £0.887m in relation to secure remand contingency, SEN transport contingency, redundancy provision not required and the lower than budgeted cost of the Children's social care transformation programme. The majority of the movement since the previous reported position relates to the continued low level of young people placed in secure remand by the courts and the crystallisation of potential underspends in early years following the spring census.
- 4.10. The Dedicated Schools Grant (DSG) is forecasting an underspend of (-£2.680m or -1.5%), a decrease of (+£0.159m) since the previous reported position. This ring-fenced DSG underspend is held on the balance sheet as a Receipt in Advance. The majority of the underspend relates to prior year 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. The movement since the previous reported position reflects an increased number of children in high needs provision funded by the Council in the spring term. Within the schools provisional outturn position, total schools balances (the element of the General Fund balance related to schools) have decreased from £11.840m to £11.212m in 2019/20.

Adult Social Services (-£1.416m, unchanged since previous reported position)

- 4.11. The Adult Social Services outturn a (-£1.416m) underspend. This position includes the use of one-off resources totalling (-£3.599m), including Social Care Grant, Improved Better Care Fund, Winter Pressures Funding, Direct Payments Surplus and (-£0.410m) funding carried forward from prior years in earmarked reserves.

Public Health (Net break-even, unchanged since previous reported position)

- 4.12. There is a (-£0.160m) underspend on the public health grant in 2019/20, which has been transferred to earmarked reserves (**Appendix 3**) to spend on public health in future financial years (net break-even position). The main forecast variances on the public health grant in 2019/20 are summarised in **Appendix 1**.

Resources Directorate (-£1.233m)

- 4.13. The Resources directorate outturn is an underspend of (-£1.233m) compared to a previous reported break-even position, with key variances and changes set out in **Appendix 1**.
- 4.14. The movement mainly relates to vacancy savings and reduced running costs that had not been factored into the previous position in case they were needed to fund year end commitments.

Corporate (-£5.231m, including unused contingency and after use of COVID-19 grant)

- 4.15. The provisional corporate items outturn is a (-£1.593m) underspend, an increase of (-£0.363m) since the previous reported position, with key variances and changes set out in **Appendix 1**. In addition, there is an underspend of (-£2.373m) on the corporate contingency budget.
- 4.16. The corporate position is further improved by applying (-£1.265m) of COVID-19 Government grant funding to offset the impact that the pandemic has had on the 2019/20 General Fund outturn position. The remaining COVID-19 Government grant funding at year end (-£7.684m) has been transferred to a new COVID-19 earmarked reserve towards the significant COVID-19 budget pressures in 2020/21.

General Fund Reserves

4.17. The 2020/21 budget report highlighted the need to increase General Fund reserves to provide additional resilience for significant budget risks over the medium term. The impact of COVID-19 has made this an immediate priority. As a first step to addressing this, it is recommended that:

- £5.808m of the 2019/20 underspend is used to increase the General Fund balance from £10.881m to £16.689m pending further review of the target General Fund balance commensurate to the Council's overall level of budget risk. In the view of officers, the Council's General Fund balance is currently too low, particularly in the context of the COVID-19 pandemic and other risks that the Council faces over the medium term.
- The previous Services Specific reserve is re-designated as a corporate Budget Risk and Insurance reserve with the exception of the ring-fenced element related to Public Health that will now be held in a separate reserve. This reflects the need to manage reserves more strategically in light of the significant budget pressures and risks facing the Council immediately and over the medium term (including delays to budgeted savings).
- The previous earmarked transformation, Invest to Save and capital reserves and the remaining £2.597m of the 2019/20 underspend are consolidated into a new corporate Budget Strategy reserve to provide one-off funding linked to the delivery of the Medium-Term Financial Strategy (e.g. one-off investment costs, revenue impact of capital expenditure, redundancy costs).

4.18. **Table 2** sets out the General Fund reserves at the end of 2019/20, which includes the above recommended reserves movements and the additional reserves movements at **Appendix 3**.

Table 2 – General Fund Reserves and Balances 2019/20

	Opening Balance 1 April 2019 £m	2019/20 Movements £m	Closing Balance 31 March 2020 £m
Earmarked Reserves			
BSF PFI Smoothing	4.184	0.795	4.979
Budget Risk and Insurance (formerly services specific)	21.920	(4.714)	17.206
Budget Strategy (formerly transformation/Invest to Save/capital)	16.537	4.500	21.037
Cemeteries Trading Account	1.063	0.571	1.634
Community Infrastructure Levy	3.769	5.658	9.427
COVID-19	0.000	7.684	7.684
Housing Benefit	7.999	(0.252)	7.747
NNDR Smoothing	13.521	(5.796)	7.725
Public Health (formerly part of services specific)	0.000	2.123	2.123
Street Markets	0.579	(0.319)	0.260
General Balances			
General Fund (non-schools)	10.881	5.808	16.689
Schools Balances	11.840	(0.628)	11.212
Total	92.293	15.430	107.723

- 4.19. The Executive is asked to delegate authority to the Section 151 Officer to agree any further movements to/from reserves related to finalising the 2019/20 Statement of Accounts.

5. HOUSING REVENUE ACCOUNT (HRA)

- 5.1. The provisional 2019/20 outturn for the HRA is a surplus of (-£0.325m), compared to a forecast surplus of (-£0.585m) in the previous reported position. This is summarised in **Appendix 2**. As the HRA is a ring-fenced account, the underspend is added to HRA reserves to be used in future years, resulting in a net break-even position.
- 5.2. **Table 3** sets out the movement in HRA reserves during 2019/20. The most significant HRA reserve is the 'Risk Equalisation' reserve, which is set aside to address the financial impact of new housing legislation and other significant financial risks over the 30-year HRA business planning period. In future financial years the HRA will be able to draw on this reserve in order to finance the maintenance of the housing stock and reduce the level of savings that would otherwise need to be made.

Table 3 – HRA Reserves 2019/20

	Opening Balance 1 April 2019 £m	2019/20 Move ment s £m	Closing Balance 31 March 2020 £m
HRA Working Balance	17.521	0.000	17.521
Housing PFI 1	5.510	0.000	5.510
Tenants Heating	1.575	(0.088)	1.487
HRA Risk Equalisation	70.589	13.303	83.892
Total	95.195	13.215	108.410

6. CAPITAL PROGRAMME

- 6.1. Capital investment of £117.507m has been delivered against the revised 2019/20 budget of £153.893m. This variance is due to capital underspends of (-£7.219m), which are already reflected in 2020/21 budget setting assumptions, and (-£29.167m) re-profiling to future financial years. This is set out by directorate in **Table 4** below and detailed in **Appendix 3**, and the key capital budget variances are summarised in the paragraphs below.

Table 4 – 2019/20 Provisional Capital Outturn

Directorate	Budget £m	Expenditure £m	Capital Variance (Under) /Over £m
Environment and Regeneration	20.757	13.797	(6.960)
Housing	114.259	90.666	(23.593)
People	13.661	10.692	(2.969)
Resources	5.216	2.352	(2.864)
Total	153.893	117.507	(36.386)

- 6.2. The Environment and Regeneration capital variance (-£6.960m) relates in full to re-profiling to future financial years and includes the following:
- Bunhill Energy Centre Phase 2 (-£1.115m)
 - Traffic and engineering schemes (-£2.964m)
 - Fleet replacement (-£1.178m)
 - Greenspace projects (-£0.607m)
- 6.3. The Housing capital variance (-£23.593m), broadly unchanged at an overall level since the previous reported position, comprises:
- (-£30.152m) net re-profiling on the new build programme to future financial years. As previously reported, this was primarily due to contractors including a very high premium to reflect Brexit risk, which in turn led to schemes being put on hold while they were re-assessed in term of value for money and financial viability. Prior to COVID-19, many of the delayed schemes had been re-designed and independently reassessed as value for money and progressing through key decisions/contract award towards start on site;
 - (+£15.695m) increased expenditure on the major works and improvements programme compared due to a combination of planned cyclical expenditure in 2020/21 incurred early (c£10.3m) and the cost of urgent fire safety works (c£2.6m) and the renewal of the housing repairs fleet (c£2.8m) that were not anticipated at 2019/20 budget setting but are funded within the HRA 30-year business plan;
 - (-£3.100m) re-profiling of the HRA property acquisition programme to future financial years; and
 - (-£6.036m) underspend on the original General Fund temporary accommodation acquisitions budget, reflecting that these properties are now being purchased under the Housing Revenue Account capital budget.
- 6.4. The People capital variance (-£2.969m) comprises:
- (-1.183m) underspend on the capital contingency budget for the Tufnell Park school expansion scheme; and

- (-£1.786m) re-profiling of expenditure to future financial years relating to planned works across schools (-£1.259m), early years (-£0.256m) and libraries (-£0.271m).
- 6.5. The Resources capital variance (-£2.864m) predominantly relates to re-profiling of the Government grant funded project to replace the cladding on the flats on the Council-owned Bridge School campus. This is a budget profiling issue rather than a delay.
- 6.6. The provisional financing of the 2019/20 capital programme is summarised in **Table 5** below.

Table 5 – Provisional Financing of 2019/20 Capital Programme

	£m
Capital grants and third party contributions	7.595
Section 106/Community Infrastructure Levy	17.587
Capital Receipts	30.112
HRA Reserves	46.328
Revenue contributions	0.161
General Fund borrowing	15.724
Total	117.507

- 6.7. The financing of the 2019/20 capital programme includes the allocation of Strategic Community Infrastructure Levy (CIL) funding totalling £3.078m towards the Tufnell Park (£2.302m) and Highbury Grove (£0.776m) school expansion schemes, as recommended by the Borough Investment Panel and for agreement in this report.
- 6.8. The Executive is asked to delegate authority to the Section 151 Officer to agree any further capital financing adjustments related to finalising the 2019/20 Statement of Accounts.
- 6.9. Beyond 2019/20, the Council has approved a capital programme totalling £479m over the three years 2020/21 to 2022/23. It is expected that the delivery of this programme will be delayed by the COVID-19 lockdown and ongoing social distancing measures. The approved capital programme will be reviewed and re-profiled as part of budget monitoring in the new financial year, including for the impact of the above re-profiling from 2019/20.

Treasury Management

- 6.10. During the financial year, the Council complied with the treasury limits and prudential indicators set out in the Council's Treasury Policy Statement and Annual Treasury Strategy Statement.
- 6.11. The Council's total long-term debt increased by £24.9m over the course of the financial year to £302.1m as at 31 March 2020 (comprising £227.6m from the Public Works Loan Board, £20m commercial loan and £54.5m from other local authorities). The average interest rate on the Council's long-term debt decreased from 4.14% to 3.87% over the year.
- 6.12. In addition to long-term debt, the Council had £44m of temporary debt (for periods ranging from 5 days to 6 months) at an average interest rate of 0.57%.
- 6.13. The Council held £148.8m of temporary investments as at 31 March 2020. These investments were for periods ranging from overnight to 362 days at an average interest rate of 0.8%.
- 6.14. As at 31 March 2020, the Council had total gross debt (long-term and temporary) was £346.1m and net debt (gross debt less investments) was £197.3m.

7. IMPLICATIONS

Financial Implications

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

Legal Implications

- 7.2. 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

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

Resident Impact Assessment

- 7.4. 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.
- 7.5. A resident impact assessment (RIA) was carried out for the 2019/20 Budget Report agreed 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 Transfers to/(from) Earmarked Reserves
Appendix 4 – 2019/20 Capital Programme

Background papers: None

Final report clearance:

Signed by:		
	Executive Member for Finance and Performance	Date

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