

CABINET

23 May 2017

Title: Revenue and Capital Provisional Outturn for 2016/17	
Report of the Cabinet Member for Finance, Growth and Investment	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Director: Kathy Freeman, Finance Director	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary	
<p>The Council's provisional final outturn expenditure for the financial year 2016/17 is £162.095m. This includes £6.839m of expenditure funded from specific reserves. After adjustments and transfers to and from reserves this results in a final outturn against the budget of £155.255m which is an overspend variance of £4.940m. This is broadly in line with the budget forecasts and, as previously reported, can be covered from within the Council's available General Fund reserve. The final reserves figures have yet to be confirmed but will be in the region of £17.9m, which is well above the minimum target balance of £15m.</p>	
<p>There are a number of requests to carry forward funding and to draw down on specific reserves which the Cabinet is asked to approve in Appendix A</p>	
<p>There is a revenue surplus on the Housing Revenue Account (HRA) of £1.92m. This is after an additional revenue contribution to capital of £0.313m. The surplus will be taken to the HRA reserve and will be available for use in future years according to the needs of the service. The HRA is a ring-fenced account and cannot make or receive contributions to/from the General Fund.</p>	
<p>The Capital Programme provisional outturn is £173.070m against a programme budget of £184.662m. The difference is mostly the result of slippage rather than underspending and the spend will be reprofiled into the 2017/18 financial year.</p>	
<p>It should be noted that the position reported at this time is provisional pending the finalisation and full audit of the Statement of Accounts for the year and all figures quoted may be subject to change.</p>	

Recommendation(s)

The Cabinet is recommended to:

- (i) Note the provisional outturn position for 2016/17 of the Council's General Fund revenue budget at 31 March 2017, as detailed in sections 2 to 4 of the report;
- (ii) Approve the requests for carry forwards and transfers to and from reserves as set out in section 5 and Appendix A of the report;
- (iii) Note the provisional outturn for the Housing Revenue Account at 31 March 2017 as detailed in section 6 of the report;
- (iv) Note the projected outturn position for 2016/17 of the Council's capital budget as at 31 March 2017, as detailed in section 7 and Appendix B of the report;
- (v) Approve the proposal to capitalise the pension strain costs arising from redundancies as detailed in section 8 of the report; and
- (vi) Note that £5.101m was allocated under the Flexible Use of Capital Receipts approach, approved by the Assembly as part of the MTFS on 22 February 2017, to support the Council's transformation programme.

Reason(s)

As a matter of good financial practice, the Cabinet should be informed about the Council's spending performance and its financial position. This will assist the Cabinet in holding officers to account and in making future financial decisions.

1 Introduction and Background

- 1.1 This report provides a summary of the provisional outturn for the Council's General Fund, Housing Revenue Account and Capital positions.

2 Revenue General Fund Summary

- 2.1 The Council's provisional outturn position for 2016/17 is £155.255m after carry forwards and transfers to and from reserves. This is an overspend of £4.940m against the approved budget which is a slight improvement but broadly in line with the previously reported forecast variance. The table below shows the impact on the Council's general reserves.

Table 1. Provisional Reserves Position – Unearmarked reserves.

Projected Level of Reserves	£'000	P10
Opening General Fund Balance	21,115	21,115
Draw down from available reserves	4,538	4,538
Total available reserves	25,653	25,653

<u>Calls on reserves:</u>		
Implementation of savings proposals	-1,400	-1,400
Return of unused Spend to Save monies to that reserve	-1,400	-1,400
Revised Level of General Fund Reserve	22,853	22,853
Reserves Drawdown to cover Overspending	-4,940	-4,992
Provisional General Fund Reserve at 31st March 2017	17,913	17,816

- 2.2 There had been a planned draw down of £2.8m to support the implementation of the 2016/17 savings. In fact, only £1.4m was required and so the remaining £1.4m will be transferred to the budget support reserve for use in future years.
- 2.3 Earmarked Reserves are approximately £23m. This is due to the fact that planned spend from Reserves such as Adult Social Care (£1.1m), Spend to save and Budget Support (£4.5m) occurred, but the ability to capitalise redundancy costs, and the underutilisation of other reserves (ICT, Budget Support) has allowed for reserves to be reprofiled.
- 2.4 The table shows the contribution of the different services to the final outturn together with a comparison to the previously reported forecast variance.

Table 2: Council General Fund Revenue Spend Position

Service Area	Revised Budget (after reserves)	Outturn After Carry Forward	Variance	Mth 10 variance
	£000	£000	£000	£000
Adults Care and Support	43,992	43,992	0	0
Children's Care and Support	48,317	50,076	1,759	2,081
Children's Central Items	11,116	11,167	51	0
Education Youth and Childcare	4,221	3,829	-392	(134)
Public Health and Community Safety	1,226	1,236	10	(14)
Healthy Lifestyles	242	302	61	0
Leisure	915	2,017	1,102	847
Clean and Green	7,484	9,328	1,844	997
Transport	277	423	145	0
Enforcement	11,647	11,813	166	298
Elevate Client Unit	15,715	15,943	228	338
Director CCSD	244	296	52	0
Growth and Homes and Regeneration	762	768	6	0
Culture and Recreation	4,905	4,976	71	(40)
Housing and Homelessness	1,322	4,372	3,050	2,900
Chief Exec, Law and Governance	333	-79	-412	(230)

Finance, Assurance and Counter Fraud	1,191	-195	-1,386	0
Assets and Investment	-2,799	-3,830	-1,031	(500)
Strategy and Programmes	601	639	39	0
Corporate and Central Costs	342	-82	-424	(1,550)
Transfers to/from reserves	-1,738	-1,738	0	
TOTAL REVENUE GENERAL FUND	150,314	155,254	4,940	4,993

3 CFO Commentary on the Revenue Position

- 3.1 This has been a challenging year for the Council as the continued reductions in Government funding have combined with external factors such as demography and the London housing market to create large budgetary pressures in many services. However, these pressures were detected early in the financial year and management plans put in place to contain and mitigate the impact on the Council's position. Forecasting was on the whole accurate and swift action was taken wherever possible. In some services such as Children's Social Care and Homelessness where the situation is complex and the issues are longstanding it can take time to effect a change in the budget position though even in those services there are clear signs of improvement resulting from the action plans put in place. The Children's position is particularly pleasing with a final outturn of £1.759m across the whole service (including Commissioning and Traded Services).
- 3.2 Many of these financial challenges will continue into the new financial year (2017/18). However, the same systems of budget monitoring and control will continue as will the management action plans. These will sit alongside the Council's programme management approach to the MTFs savings and the transformation of services set out in the Corporate Plan.

4. Major GF Variances and Risks – Overspends

Children's Care and Support

- 4.1 The final outturn in **Children's Care and Support** was **£1.8m overspent**. This is made up of an overspend of **£2.7m** in the Operations division offset by underspends in Commissioning and in Traded Services. This is an improved position from the forecast mostly as a result of a larger trading surplus in Traded Services.
- 4.2 The overspend in Operations arises from demographic and demand pressures and from difficulties in recruiting permanent social workers. These pressures are long standing, well understood and are shared by many other London boroughs. However, the SAFE programme and a strong service management response has succeeded in counteracting these pressures and the outturn forecast has reduced steadily during the year from an in-year peak of £3.3m.
- 4.3 There will continue to be a management action programme in 2017/18 to ensure this good progress continues. This will run alongside the MTFs savings programme.

Healthy Lifestyles and Leisure

- 4.4 The **Leisure service** has a provisional final outturn of an **overspend of £1.102m**. The main element is a pressure against Abbey Leisure Centre (ALC) of £0.503m which is because of potential income shortfall and £0.375m is an overspend on running costs. There was also a smaller overspend on running costs at Becontree Heath centre.
- 4.5 As previously highlighted, the original business case in 2011/12 for the new ALC was based on the premise that the centre would be self-financing with high income targets. However, the opening was delayed and since the business case was drawn up, the leisure market in Barking has changed with other rival establishments being set up in the area. Since its opening the centre has grown its income but is not yet back on track with the original targets. In addition, as relatively small LA owned services there it has been difficult to contain running costs which have been increasing. The Council is about to award a contract to a not for profit partner with sector specific expertise and more scope for making efficiencies to run this and other leisure facilities.

Clean and Green

- 4.6 There is a provisional **overspend of £1.8m within Clean and Green**. This is partly the result of a pause in the implementation of the Green Garden Waste saving while a consultation was carried out on a paid for service. The collection of green garden waste was due to end in September 2015 which would have delivered a £0.22m saving in a full year. This service continued to the end of September 2016 at a cost of £0.125m in 2016/17. A consultation on future options for the service has been carried out and a paid for service has been introduced. The saving will therefore be achieved in full in 2017/18.
- 4.7 The balance of the overspend (£1.7m) relates to pre-existing service pressures. The Clean and Green service has been managing significant staffing pressures brought forward from previous years including from previous savings not delivered in full. It has taken some time to collate all these historical issues but there is now confidence that all have been identified. At the beginning of the year it was clear that the total staffing cost was exceeding the budgeted establishment and managers have been working to reduce this through restructuring and staff turnover. Funding has been provided in the MTFs to address some of this budget shortfall and the service under the new interim management is currently formulating a plan to ensure that it can remain within budget in the next financial year.
- 4.8 There are also other pressures including on transport and fleet costs and income pressures in Cemeteries and Park Sports. Further analysis is ongoing with the service to better understand the patterns and formulate plans to improve income.

Passenger Transport Service

- 4.9 This is an inhouse traded service that provides transport for Education and Social Care clients. The commissioners have been seeking to reduce their usage of this service in line with their new models of personalised care provision. Over time this should allow savings to be made in conjunction with changes in the way the service

is delivered. This has not been achieved this year resulting in an overspend – partly offset by a draw down from the Adults reserve.

Enforcement

- 4.10 There is a forecast **overspend of £0.106m within Enforcement** which is an improvement on the previous forecast. The service has been managing income pressures within parking where the implementation of the parking review has not yet delivered the expected savings and there has been a reduction in Penalty Charge Notice income. This pressure has been successfully offset by underspends elsewhere in the service as managers have sought to contain the impact. This has resulted in an overall overspend of £0.1m
- 4.11 £0.076m of this results the delay in the implementation of the School Crossing patrol service. As requested by members the service have used the time to examine other options such as external funding and sponsorship. No external sources have been found and so the service ceased in March 2017.

Elevate/Revenues and Benefits

- 4.12 There is an **overspend of £0.228m** at year end which is mainly with respect to **Council Tax Court Costs income underachievement**. This forms part of the Elevate Contract. This first occurred in 2015/16 due to court summonses being cancelled as an incentive for Council Tax payers to repay their debts. This practice has continued into 2016/17, although cancellations are reducing and thus the underachievement also is reducing.

Housing General Fund

- 4.13 The **Housing General Fund** has a provisional outturn **overspend of just over £3.0m** at the year end. This is a small worsening from the forecast which is the result of a more prudent bad debt provision. This results in a higher charge in 2016/17 but will offer more protection against the cost of debt write off in 2017/18. Without this provision, the outturn would have been slightly under the forecast (around £2.8m.)
- 4.14 The overspend is largely due to the net cost of placing people in accommodation provided by private sector landlords, which is the largest source of temporary accommodation. The income that the Council can collect from tenants is constrained by the level of Housing Benefit payable which has been frozen for several years and is now below the cost of most accommodation in the borough and neighbouring areas.
- 4.15 This issue is also a widespread one in London and has been forecast throughout the year. The November 2016 Cabinet meeting received a report on the Homelessness situation and approved the high-level strategy and an outline recovery plan. This was followed by presentation of a more detailed plan at PAASC on 5 December. Given the nature of the service it was not expected that this would reduce the overspend immediately but the pressures have been successfully contained and slightly decreased and this is expected to continue into the new year although there are many risks and external factors.

Offsetting Underspends

- 4.16 The **Law and Governance Service** has generated an income surplus resulting in an **underspend of £0.4m**. This performance is better than forecast.
- 4.17 There is an **underspend of £1.3m** shown against **Finance**. This relates to a technical adjustment regarding Housing Benefit overpayments where the contribution required at year end was less than budgeted for. There are no significant variances in the Finance service itself.
- 4.18 The **Assets and Investment division** has achieved an **underspend of £0.9m** from increased levels of commercial rents including income from Reside. This includes £1.080m one off income in relation to some back dated rent reviews.
- 4.19 There is an underspend of **£0.8m within Corporate and Central Costs**. This arises from interest on borrowing costs being better than budget due to required borrowing being lower than anticipated and procurement savings.

5. Requests for Carry Forwards and Transfers to and from reserves

- 5.1 Services may request income or budget to be carried forward where it has been granted for a specific purpose that has not been fulfilled within the financial year but which will be achieved in future years. Three requests have been received totalling £0.750m and are detailed in Appendix A. Cabinet are asked to approve these requests.
- 5.2 The Council also maintains reserves for specific purposes or for the use of certain services. These may be drawn down by services with Cabinet approval. Three requests have been received requesting draw down of £1.967m. These are detailed in Appendix A and Cabinet are asked to approve these requests.
- 5.3 Three requests have been received to transfer money into reserves for potential future use. These are also detailed in appendix A and Cabinet are asked to approve these requests.

6. Housing Revenue Account (HRA)

- 6.1 The provisional outturn for the Housing Revenue Account is an additional revenue contribution to capital of £0.313m and an in year surplus of £1.92m as shown in the table below. This is slightly lower (£0.05m) but broadly in line with forecast.

Table 3: HRA Summary

HRA Classification	Budget	Outturn	Variance	Variance P10
	£'000	£'000	£'000	£'000
Rent	(90,538)	(90,868)	(330)	(280)
Non-Dwelling Rents	(807)	(755)	52	57
Other Income	(19,285)	(20,250)	(965)	(168)
Interest Received	(336)	(454)	(118)	(101)
Income	(110,966)	(112,327)	(1,361)	(492)

Repairs and Maintenance	17,093	16,382	(711)	(250)
Supervision and Management	42,572	45,092	2,520	(1,190)
Rent, Rates and Other Taxes	700	333	(367)	(350)
Bad Debt Provision	2,772	892	(1,880)	0
Interest Charges	10,059	9,625	(434)	0
Corporate and Democratic Core	685	685	0	0
Expenditure	73,881	73,009	(872)	(1,790)
Net Income	(37,085)	(39,318)	(2,233)	(2,282)
Revenue Contribution to Capital	37,085	37,398	313	362
Transfer to HRA Balances	0	1,920	1,920	1,920

- 6.2 Total **income** was £1.361m better than budgeted. Most of this relates to “other income” – that is water charges and service charges – and is offset by additional costs. However, there has also been additional rent income from lower than expected void levels. The higher level of cash balances has also resulted in higher interest income.
- 6.3 There is an underspend of £0.872m on total HRA **Expenditure**. In the same way as the rest of the Council, the Housing Service is working to reduce costs and improve services for tenants and residents. This included a voluntary redundancy programme funded from HRA budgets. The Improvement programme has contributed to the creation of a large overall underspend on expenditure especially within repairs and maintenance.
- 6.4 The apparent large change since the month ten forecast is because costs of implementing the transformation and the costs of redundancy payments and pension strain are now shown against supervision and management rather than funded from the revenue surplus.

7. Capital Programme 2016/17

- 7.1 The Capital Programme provisional outturn is £173.070m against a programme budget of £184.662m. This does not include expenditure on the Gascoigne programme which was monitored and reported in year but has now been moved onto the Reside capital programme. Both the budget and expenditure have therefore reduced by £37m from previously reported figures. The table below summarises the provisional position and more detail is provided in Appendix B. The variances are mostly the result of slippage and will be reprofiled.

Table 4: Capital Programme and Flexible Use of Receipts

	Revised 2016/17 Budget	Actuals	Variance
	£000	£000	£000
Adults Care and Support	2,003	2,090	88
Leisure	311	210	(101)

Education Youth and Childcare	59,719	64,891	5,172
Enforcement and Public Realm	3,670	2,320	(1,349)
Parks	344	83	(261)
ICT	5,132	5,184	52
Assets and Investment	24,592	25,151	559
Culture and Recreation	3,541	336	(3,205)
Regeneration	16,811	13,635	(3,176)
Housing General Fund	4,160	57	(4,103)
Capitalisation of Pension Strain	1,723	1,723	0
General Fund Capital Programme	122,003	115,679	(6,324)
Housing Revenue Account	62,659	57,391	(5,268)
TOTAL Capital Programme	184,662	173,070	(11,592)
Flexible Use of Capital Receipts	5,101	5,101	0

- 7.2 Expenditure on the education is £6.4m above the profiled budget due to accelerated works in some of the major school expansion schemes - primarily the Barking Riverside Secondary Free School, Eastbury Secondary, Gascoigne (Greatfields) Secondary and Robert Clack Expansion. There is sufficient budget available in future years to cover this accelerated spend.
- 7.3 The Enforcement programme is showing an overall slippage of £1.56m primarily due to delays in finalising procurement and programme for Street Light Column and LED replacement.
- 7.4 The IT End User project has an overspend of £0.919m primarily due to increase in Hardware and Software purchases as part of the Smarter Ways of Working roll out. This has been offset by underspends in other IT capital budgets.
- 7.5 The main element of Assets and Investment programme is the Corporate Accommodation Strategy which has accelerated spend of £.0588m due to Town Hall Refurb being ahead of schedule. The Land Acquisition and Purchase of Royal British Legion building is within the agreed budgets.
- 7.6 Expenditure on the Culture and Recreation programme is under profile largely as the result of slippage – for example the deferment of the demountable pools project while the Leisure tender process is underway and the Youth Zone Development as a result of a planning delay.
- 7.7 A number of Regeneration schemes such as the Barking Town Centre, Barking Riverside Trans Link and Gurdwara Way are showing slippage. Gurdwara way is due to delays in the Environment Agency giving approval for works to commence, the Barking Trans Link project being a month behind schedule due to late sign off from the GLA and BRL - however the project is anticipated to complete on time. BTC - uncertainties around the lay out of the new Market Place and laying the ducting for the power cables.
- 7.8 The HRA programme overall is reporting a slippage of £5.27m. This is largely due

to slippage on a number of New Build schemes.

8. Capitalisation of Pension Strain

- 8.1 Cabinet is asked to approve the capitalisation of the pension strain costs incurred in year as a result of early severance. When an employee over the age of fifty-five is made redundant (either on a voluntary or a compulsory basis) they become eligible to draw their pension early which results in additional costs to the pension fund. This is charged to the employer at the point of retirement but the option exists to capitalise this pension strain to spread the costs over a longer period (reflecting the fact that redundancy programmes usually result in longer term savings.) It is recommended that the Council exercise this option this year. This will mean a charge of £0.345m in 2017/18 and following years. The total sum if paid in full immediately would be in the region of £1.723m.

9 Flexible Use of Capital Receipts

- 9.1 As part of the MTFs the Council has adopted a strategy for the flexible use of capital receipts to support its transformation programme. The costs funded by this method in 2016/17 are £5.101m as shown in table 4.

9. Financial Implications

Implications completed by: Kathy Freeman, Finance Director

- 9.1 This report details the financial position of the Council.

10. Legal Implications

Implications completed by: Fiona Taylor, Director of Law and Governance

- 10.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.

Public Background Papers Used in the Preparation of the Report:

- Oracle monitoring reports

List of Appendices

- **Appendix A** – Requests for Carry Forwards and Transfers to/from reserves
- **Appendix B** – Capital Programme