



CABINET REPORT

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| Report Title | FINANCE AND MONITORING - PROVISIONAL OUTTURN REPORT 2018/19 |
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AGENDA STATUS: PUBLIC

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|------------------------------------|------------------|
| Cabinet Meeting Date: | 12 June 2019 |
| Key Decision: | Yes |
| Within Policy: | Yes |
| Policy Document: | No |
| Directorate: | Management Board |
| Accountable Cabinet Member: | Cllr B Eldred |
| Ward(s) | N/A |

1. Purpose

- 1.1 This report sets out the provisional financial outturn position for the Council's general fund, Housing Revenue Account (HRA), and capital programme, and for Northampton Partnership Homes (NPH) for the financial year 2018/19.

2. Recommendations

- 2.1. That Cabinet note the provisional outturn for the general fund and HRA for the financial year 2018/19 as set out at **appendix 1** and **appendix 5**.
- 2.2 That Cabinet approve the proposed revenue budget carry forwards detailed in **appendix 2**.
- 2.3 That Cabinet approve the use of and contributions to general fund revenue earmarked reserves as shown in **appendix 3**.
- 2.4 That Cabinet approve the net movement in HRA reserves and working balances as set out at **appendix 6**.
- 2.5 That Cabinet note the outturn for the Council's general fund and HRA capital programmes for 2018/19 and how the expenditure was financed as set out at **appendix 4** and **appendix 7**.

- 2.6 That Cabinet approve the proposed capital carry forwards into 2019/20 set out in **appendix 4** and **appendix 7**.
- 2.7 That Cabinet delegate authority to the Chief Executive in consultation with the Chief Finance Officer to agree any retention of underspends by NPH.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council's budget is divided across two accounts, the general fund and the HRA. These two accounts, together with their respective sources of funding, are kept entirely separate as required by statute. HRA expenditure and income relates solely to the Council's role as a housing landlord, whilst the general fund encompasses all other services.
- 3.1.2 Work is ongoing to complete the draft statement of accounts for 2018/19 and this may result in a change to the final level of general fund and HRA reserves, although this is not expected to be material.

3.2 General fund

- 3.2.1 The general fund outturn for controllable budgets shows a net overspend of £0.732m. This is listed in **table 1** below and detailed in **appendix 1**.

| Table 1 Service area | Revised budget £m | Outturn £m | Variance £m |
|---------------------------------------|------------------------------------|-----------------------------|------------------------------|
| Customers & Communities | 12.492 | 12.980 | 0.488 |
| Chief Executive | 0.921 | 0.767 | (0.153) |
| Chief Finance Officer | 10.559 | 10.457 | (0.102) |
| Economy Assets & Culture | 0.936 | 1.118 | 0.181 |
| Housing and Wellbeing | 2.734 | 3.969 | 1.235 |
| Borough Secretary | 2.480 | 2.256 | (0.225) |
| Planning | 0.613 | 0.115 | (0.497) |
| Debt Financing | 0.233 | 0.038 | (0.195) |
| Total | 30.968 | 31.700 | 0.732 |

- 3.2.2 Major variations between the revised budget and outturn are set out in more detail in **appendix 1** and below:
- 3.2.3 Within **Customers & Communities** there was an overall overspend of £0.488m. This was mainly due to an overspend of £0.312m on the environmental services contract and its management. This related to additional ad hoc works; legal costs; and costs of a risk share mechanism reflecting lower sales proceeds of recycled materials. This was partially offset by performance deductions relating to the old contract, and some variable elements of the

contract coming out under budget. There was also an overspend of £0.232m on Parks and Open Spaces due to a loss of ground maintenance recharges to NPH. Overall within the Customers & Communities area there was also some smaller variances including some underspends due to staff vacancies.

- 3.2.4 Within the **Chief Executive** area there was an overall underspend of £0.153m associated with the senior management restructure that took place during the year.
- 3.2.5 Within the **Chief Finance Officer** area there was an overall underspend of £0.102m, mainly due to a saving on the LGSS contract related to new insurance premiums. There was also a significant pressure of £0.400m in the Benefits area due to subsidy loss resulting from the increased demand in temporary accommodation – this was forecast during the year. This overspend has been offset by an underspend on rent allowances due to increased recovery rates.
- 3.2.6 Within the **Economy, Assets and Culture** area there was an overall overspend of £0.181m. This was made up of overspends in the Asset Management area (0.377m) due to vacant posts being covered by interims, valuation work being carried out by external companies and additional maintenance costs in relation to water hygiene at the Racecourse. There was also an overspend in Programmes & Enterprise (£0.154m) partly due to the write off of a large debt. These overspends were partially offset by underspends against Car Parking (£0.263m) and Facilities Management (£0.120m) due to savings on postage associated with a reduction in post sent by the authority.
- 3.2.7 Within the **Housing & Wellbeing** area there was an overall overspend of £1.235m. This mainly relates to the Housing Options and Advice area and is due to pressures resulting from the increased demand in temporary accommodation and includes the associated increased charge in the bad debt provision. This pressure was forecast during the year. This pressure was partly offset by additional homelessness grants received from central government in March 2019.
- 3.2.8 Within the **Borough Secretary** area there was an overall underspend of £0.225m, mainly due to vacancies within the Legal Team.
- 3.2.9 Within the **Planning** area there was an overall underspend of £0.497m. This was partly due to an underspend in the Planning Policy & Heritage area (£0.252m) due to an underspend on the Local Plan Part 2 – the service has requested to carry forward some of this underspend (see **appendix 2**). There was also an underspend on Development Control (£0.206m) due to additional planning income and some vacancies.
- 3.2.10 On the **Corporate** budget there was an underspend of £0.195m due to greater interest income generated from cash balances due to cash balances remaining higher than forecast, and an interest rate rise.
- 3.2.11 All outturn variations will be reviewed as part of a robust review of the current 2019/20 budget and medium term financial plan going forward.
- 3.2.12 Specific carry forwards totalling £0.302m have been requested for use in 2019/20. While there was an overall overspend on the council's general fund budget, these requests to carry budgets forward all come from individual underspends. These requests are detailed in **appendix 2**.

3.2.13 **Table 2** below sets out the proposed funding of the 2018/19 overspend.

| Table 2 | £m |
|----------------------------------------------------------|--------------|
| Funding of 2018/19 overspend | |
| Total outturn position | 0.732 |
| Carry forward requests | 0.302 |
| Total to be funded from the MTFP cashflow reserve | 1.034 |

General fund balances and earmarked reserves

3.2.14 The latest risk-based assessment of reserves suggests that, taking all known risks into account along with the Council's gross expenditure requirement, the minimum level of balances should remain in the order of £4.0m. The unaudited outturn shows that this can be achieved as at 31 March 2019.

3.2.15 The Council also holds general fund earmarked reserves of just over £25m to mitigate against specific risks to which the Council may be exposed and for investing in service improvement. These are detailed in **appendix 3**. The total includes £9.00m that was set aside to fund vehicles and equipment to be used in the new environmental services contract. This is to be drawn down at £1.000m per year over the ten years of the contract. The other key corporate reserves are set aside to fund the delivery of the efficiency plan (£1.783m); to fund any delays in delivering savings over the medium term (MTFP cashflow reserve £1.123m); and £5.0m set aside against the recovery of money relating to the Sixfields case.

3.3 General fund capital

3.3.1 The Council's final approved budget for general fund capital programme expenditure in 2018/19 was £20.0m, reflecting carry forwards from 2017/18, in year changes and re-profiling approved as part of the setting of the 2019/20 capital programme in February.

3.3.2 The overall capital programme includes revenue expenditure funded from capital under statute (REFCUS). This is expenditure, such as grants to homeowners for disabled facilities, which can be funded from capital resources under statute and regulations.

3.3.3 Capital expenditure for 2018/19 totalled £14.0m against the final approved budget of £20.0m, a net variance of £.6.0m (30%). A large proportion relates to schemes that are currently underway or still planned to take place and these budgets will be carried forward into the next financial year (2019/20). The majority of this carry forward is due to the timing of approvals and the timescales for letting contracts and funding agreements.

3.3.4 The net underspend after taking account of proposed carry forwards is around £0.05m.

3.3.5 The capital expenditure position by Head of Service is summarised in **Table 3** below, with further details set out in **appendix 4**, along with explanations of the reasons for any significant variances.

| Table 3 General fund capital expenditure 2018/19 | Final approved budget £m | Outturn £m | Carry forward £m | Variance £m |
|-------------------------------------------------------------------|-------------------------------------|-----------------------|-----------------------------|------------------------|
| Borough Secretary | 0.21 | 0.02 | 0.19 | 0 |
| Chief Finance Officer | 0.34 | 0.20 | 0.14 | 0 |
| Customers & Communities | 12.46 | 8.64 | 3.84 | 0 |
| Economy, Assets and Culture | 5.31 | 3.86 | 1.42 | 0.05 |
| Housing and Wellbeing | 1.65 | 1.28 | 0.37 | 0 |
| Total | 19.97 | 14 | 5.96 | 0 |

3.3.6 **Table 4** below shows how the capital programme for 2018/19 has been funded. In line with the approved capital strategy and the treasury management strategy, capital receipts and revenue reserves have been utilised to fund expenditure on short-life assets whilst prudential borrowing has been used where assets have a longer life.

| Table 4 Financing of capital programme 2018/19 | General fund £m |
|-----------------------------------------------------------------|----------------------------|
| Borrowing | 3.54 |
| Capital receipts | 7.58 |
| Grants | 2.5 |
| Section 106 contributions | 0.4 |
| Total | 14.0 |

3.4 Housing Revenue Account (HRA)

3.4.1 The HRA outturn position shows an underspend on controllable spending of £0.884m. After technical accounting adjustments this position moves to an underspend of £0.620m. This has reduced the required net contribution to reserves from the budgeted amount of £0.922m to £0.620m, while the HRA working balance remains unchanged at £5m.

3.4.2 It should be noted that this outturn position includes the £0.388m underspend Northampton Partnership Homes (NPH) are reporting in the total management fee. The Council has options under the management agreement to take this

surplus back into the HRA to reinvest in the housing stock or agree for NPH to retain them for future use as part of the delivery plan.

- 3.4.3 It should be noted that NPH have managed most of the HRA expenditure budgets in 2018/19 and the actual expenditure incurred is therefore reflected in the summary HRA accounts as management fee payments to NPH. The NPH outturn figures are shown separately (see 3.6 below).
- 3.4.4 **Appendix 5** provides summary of the main variances against the HRA budget. All outturn variations are already being reviewed to identify ongoing issues which need to be reflected within the current forecast and future year budgets. The major variations between the revised budget and outturn are as follows:
- 3.4.5 Income – additional income generated as a result of accounting on an accruals basis rather than cash basis. Also extra income generated as a result of increased charges for leaseholder major works.
- 3.4.6 Repairs and maintenance – increased expenditure on professional fees and outsourced voids works, offset by savings in staffing costs and materials in the in-house (NPH) voids team.
- 3.4.7 General Management and Special Services – underspend primarily reflects savings in staffing costs and utilities costs (NPH) offset by management recharge (NBC) from general fund to HRA.
- 3.4.8 Other variances:
- Lower contribution to the bad debt provision than budgeted reflecting the good performance of managing arrears and the further delay on full implementation of the welfare reforms and universal credit.
 - Lower interest and financing costs reflecting the higher level of balances held on the HRA for the year.
 - Lower support service recharges reflect savings within general fund services.
 - Increased depreciation/MRA costs compared to budget
 - Lower use of Revenue Contributions to Capital (RCCO)
- 3.4.9 Further details regarding recommended budget revisions and management actions required to ensure that the budget remains in balance will be included in the next budget monitoring report to Cabinet.

Contribution to HRA working balances and reserves.

- 3.4.10 The draft total balance on all HRA reserves and balances at 31 March 2019 is £14.388m. **Appendix 6** details the movement to and from HRA reserves, excluding working balances. Contributions to and from working balances and earmarked reserves are summarised in **table 5** below. Cabinet are asked to approve these contributions from reserves.

| Table 5 HRA working balances and reserves | Balance 1 April 2018 £m | Movement in year £m | Balance at 31 March 2019 £m |
|------------------------------------------------------|----------------------------------------|------------------------------------|------------------------------------------------|
| Working balances | 5.000 | 0 | 5.000 |
| HRA reserves | 6.968 | 0.620 | 7.588 |
| Leaseholders reserve | 0.500 | 0 | 0.500 |
| Service improvement and project reserve | 1.000 | 0 | 1.000 |
| Insurance reserve | 0.300 | 0 | 0.300 |
| Total HRA balances | 13,768 | 620 | 14,388 |

3.5 HRA capital

- 3.5.1 The Council's final approved budget for HRA capital programme expenditure in 2018/19 was £25.694m, a net increase of £0.878m from the original budget of £24.817m. The budget increased due to carry-forwards from 2017/18.
- 3.5.2 HRA capital expenditure for 2018/19 totalled £25.319m against the final approved budget of £25.694m, a net underspend of £0.375m. This underspend relates mainly to the repurchase of former council houses (£0.410m) to be carried forward into 2019/20 and an NPH managed schemes overspend (£0.035m). The NPH overspend is made of underspends for improvement to homes (£0.523m) and information and communication technology (£0.105m) offset by a spend brought forward from 2019/20 budget for improvement to environment (£0.663m). It is proposed that the £0.035m overspend is carried forward into 2019/20 to offset against the NPH managed schemes budget for 2019/20.
- 3.5.3 Further details are provided in **appendix 7**.
- 3.5.4 **Table 6** below shows the proposed funding of the HRA capital programme for 2018/19.

| Table 6 Financing of HRA capital programme 2018/19 | HRA £m |
|-------------------------------------------------------------------|-------------------|
| Capital receipts | 5.021 |
| Major repairs reserve | 11.615 |
| Revenue financing | 4.698 |
| Borrowing | 3.985 |
| Total | 25.319 |

- 3.5.5 Any HRA capital resources becoming available as a result of the underspend and the next revision of the 30-year business plan will be allocated to priority improvements and/or new provision.
- 3.5.6 The carry forward schemes will be incorporated into the 2019/20 agreed capital programme and monthly monitoring processes.

3.6 Northampton Partnership Homes (NPH) outturn

- 3.6.1 The NPH outturn for the year 2018/19 is a £0.388m underspend on the total management fee (general fund overspend £0.080m offset by HRA underspend £0.468m). In accordance with the management agreement, this is adjusted back into the retained HRA in 2018/19 to be reinvested in the HRA stock.

3.7 Choices (options)

- 3.7.1 Cabinet is invited to note the report and the explanations of the actual outturn on controllable income and expenditure for the general fund, HRA, capital programme and NPH.
- 3.7.2 Cabinet is asked to approve the movements in the general fund and HRA reserves.
- 3.7.3 Cabinet is asked to approve the capital and revenue budgets to be carried forward to 2019/20.
- 3.7.4 In determining the recommendations set out in the report the Chief Finance Officer and Corporate Management Board, in conjunction with the appropriate Cabinet Member, have considered the options open to the Council. The recommendations made ensure the Council:
- continues to support its capital programme projects by seeing them to completion,
 - manages its financial/service risks through the creation of appropriate reserves,
 - supports NPH by reinvesting unspent monies.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1. Actual outturn impacts upon the level of reserves.

4.2 Resources and risk

- 4.2.1 This report informs Cabinet of the outturn for the general fund, Housing Revenue Account (HRA), capital programme and NPH for 2018/19. The impact of individual outturn variances needs to be assessed against current and future years' budgets.

4.3 Legal

- 4.3.1 There are no specific legal implications arising from this report.

4.4 Equality and health

- 4.4.1 There are no specific equality and health implications arising from this report.

4.5 Consultees (internal and external)

4.5.1 Chief Executive and Heads of Service have been consulted.

4.6 How the proposals deliver priority outcomes

4.6.1 Annual outturn reporting contributes to the priority of delivering value for money to protect local services by sustaining effective and prudent financial management.

4.7 Appendices

4.7.1 The Appendices are set out as follows:

1. General fund revenue budget outturn 2018/19
2. General fund carry forward requests 2018/19
3. General fund earmarked reserves movements 2018/19
4. General fund capital programme outturn and carry forwards 2018/19
5. Summary of HRA outturn position 2018/19
6. Summary of HRA earmarked reserves and balances 2018/19
7. HRA capital programme outturn and carry forwards 2018/19

5. Background Papers

5.1 Cabinet Reports – Budget setting and budget monitoring throughout 2018/19

Stuart McGregor

Chief Finance Officer (Section 151 Officer)