Harrow COUNCIL LONDON

REPORT FOR:	**CABINET**
Date of Meeting:	12 September 2019
Subject:	Revenue and Capital Monitoring 2019/20 - as at Quarter 1 (30th June 2019).
Key Decision:	Yes
Responsible Officer:	Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Adam Swersky, Portfolio Holder for Finance and Resources.
Exempt:	No, except for Appendices 7, 8 and 9 which are exempt on the grounds that they contain "exempt information" under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information.
Decision subject to Call-in:	Yes
Wards affected:	All wards
Enclosures:	Appendix 1 - Summary of 2019/20 Revenue Budget Forecast by Directorate as at Quarter 1 (30th June 2019). Appendix 2 - Analysis of Revenue Budget Movement From the Approved February Budget. Appendix 3 - Draw Down From Reserves and Cross Divisional Adjustments Including One-Off Income. Appendix 4 - 2019/20 Savings Tracker. Appendix 5 - Capital Programme 2019/20 – as at Quarter 1. Appendix 6 – Trading Company Update 2019/20 – as at Quarter 1. Exempt Appendix 7 - Sancroft Community Care Limited's Financial Position as at Quarter 1.

Exempt Appendix 8 – Sancroft Community Care Limited's Business Plan Refresh (2017-2023).
Exempt Appendix 9 – Concillium Assets LLP's Business Plan (2018/19 - 2027/28).

Section 1 – Summary and Recommendations

This report sets out the Council's forecast financial position as at Quarter 1 (30th June 2019), and seeks approval for Capital Programme adjustments and trading structure documents.

Recommendations:

1. That Cabinet notes the revenue and capital forecast positions set out in paragraphs 1.1 and 1.2.

2. That Cabinet approve the proposed addition to the Capital Programme as set out in paragraph 3.31.

3. That Cabinet approve the proposed realignment of the Capital Programme as set out in paragraphs 3.32 to 3.36.

4. That Cabinet note the proposed budget virement of the Capital Programme as set out in paragraph 3.37.

5. That Cabinet note progress on the Council's Trading Update as at Quarter 1, as detailed in Appendix 6.

6. That Cabinet note the Sancroft Community Care Limited's financial position as at Quarter 1, as detailed in Appendix 7 (Exempt).

7. That Cabinet approve the refresh of Sancroft Community Care Limited's Business Plan (2017-2023), as detailed in Appendix 8 (Exempt).

8. That Cabinet approve the Concillium Assets LLP's Business Plan (2018/19 – 2027/28) as detailed in Appendix 9 (Exempt).

Reason: (For recommendations)

To report the 2019/20 forecast financial position as at Quarter 1 (30th June 2019), to update Cabinet on trading structure performance and to seek approval for Capital Programme adjustments which require Cabinet approval in accordance with the Financial Regulations.

Section 2 – Report

1.0 INTRODUCTION

1.1 The net forecast underspend as at Quarter 1, on the revenue budget is (£13k) after the planned use of reserves which are largely applied to fund one-off projects and cross divisional adjustments including one-off income.

1.2 The Capital Programme is reporting a forecast spend of £186.543m against a budget of £220.189m. This represents a total forecast spend of 85%. In terms of general fund capital, there is a net forecast variance of (£24.245m) which will all be requested for slippage into 2020/21. For the Housing Revenue Account, a variance of (£9.401m) is forecast of which £9.698m will be requested for slippage into 2019/20, resulting in overall pressure of £297k.

2.0 REVENUE MONITORING

2.1 The revenue forecast underspend at Quarter 1 is (£13k) which is after allowing for a net draw down from reserves and cross division adjustments including one-off income of £10.398m as detailed in appendix 3. The summary of the forecast by the division is detailed in Appendix 1.

Table 1: Summary of Revenue Budget Monitoring – as at 30th June 2019

Approved Budget as at Feb 2019	**Directorate**	**Revised Budget**	Forecast Spend	Draw Down From Reserves	Cross Divisional Adjustments Including one-off Income	**Net Forecast Spend at Month 3**	**Month 3 Variance**
£000		**£000**	£000	£000	£000	**£000**	**£000**
37,231	**Resources and Commercial**	38,296	39,428	(362)	(383)	38,683	387
	Community						
15,590	Commissioning, Environment and Culture	15,967	18,329	(727)	(812)	16,790	823
3,849	Housing General Fund	3,878	5,009	(404)	(727)	3,878	- 0
928	Regeneration, Enterprise and Planning	1,048	2,413	-	(1,365)	1,048	0
20,367	**Total Community**	**20,893**	25,751	(1,131)	(2,904)	**21,716**	**823**
	People						
62,226	Adults	61,904	66,672	(1,089)	(3,506)	62,077	173
(1,814)	Public Health	(1,814)	(791)	(1,023)	-	(1,814)	0
32,591	Children's Services	32,997	33,686	-	-	33,686	689
93,003	**Total People Directorate**	**93,087**	99,567	(2,112)	(3,506)	**93,949**	**862**
150,601	**Total Directorates Controllable Budget**	**152,276**	164,746	(3,605)	(6,793)	**154,348**	**2,072**
	Corporate and Technical						
4,976	Corporate Items	4,976	4,631	-	-	4,631	(345)
1,248	Corporate Contingency	1,248	-	-	-	-	(1,248)
17,396	Technical and Corporate Adjustment	15,722	15,019	-	-	15,019	(703)
(3,100)	Use of Capital Receipts	(3,100)	(2,600)	-	-	(2,600)	500
	One-off Income After Budget Setting		(289)	-	-	(289)	(289)
20,520	**Total Corporate and Technical**	**18,846**	16,762	**-**	**-**	**16,762**	**(2,085)**
(4,040)	**Uncontrollable Budget**	**(4,040)**	(4,040)	-	-	(4,040)	-
167,081	**Total Budget**	**167,081**	177,467	(3,605)	(6,793)	**167,069**	**(13)**

RESOURCES AND COMMERCIAL

2.1 At Quarter 1, the directorate is forecasting to overspend by £387k.

Table 2: Resources Directorate Variance

Revised Budget	Net Forecast Spend At Quarter 1	Quarter 1 Variance
£'000	£'000	£'000
38,296	38,683	387

2.2 Human Resources (HR) are reporting a £100k overspend in Quarter 1, which relates to the cost of staff engaged to manage the transfer of the HR services back in house once the contract with Buckinghamshire County Council expires by the end of September 2019.

2.3 The Strategy Division is reporting an overall £493k overspend. The variance reflects a £300k overspend on communications. The remaining overspend of £193k relates to the loss of income from schools and additional staff cost to meet the organisation demand.

2.4 Procurement and Commercialisation are forecasting an over spend of £103k, which reflects the additional agency staff required in order to meet the council's demand for procurement services.

2.5 Other net overspends of £31k across the directorate relates to minor variances.

2.6 The above over spends are reduced by the Legal and Governance's net forecast underspend of (£340K). The underspend reflects projected income from Land Charges and Registration Services due to high demand and underspends within legal practice and democratic services .

COMMUNITY

At Quarter 1, Community Directorate forecast an over spends of £823k:

Table 3: Community Directorate Variance

Services	Revised Budget	Net Forecast Spend At Quarter 1	Quarter 1 Variance
	£'000	£'000	£'000
Environment & Culture	21,267	21,836	569
Commissioning & Commercial Services	(5,489)	(5,235)	254
Directorate Management	189	189	0
Housing General Fund	3,878	3,878	0
Regeneration, Enterprise & Planning	1,048	1,048	0
Total	20,893	21,716	823

Environment and Culture

2.7 Environment and Culture forecast an over spend of £569k and the main variances are detailed as follows.

- Dry recycling waste disposal – Due to un-favorable market prices for dry recyclates, the level of revenue rebate achieved from the sales of recyclates has been low, resulting in forecast pressure of £447k in the waste disposal budget.

- Health & Safety SLA income is subject to take up by Schools. There has been a drop in the number of schools taking up this service, resulting in income under achievement estimated at £52k.

- There is a MTFS target of £150k for Harrow Art Centre in 2019/20. The saving is originally expected to be achieved through additional hire income from the increase in room lettings facilities. There has been a delay in progressing the capital works on which the income generation depends. Mitigations have been identified to achieve around £80k of this saving through the projected increase in income from performances and existing room hire. Therefore, a forecast under-achievement of £70k is reported.

Commissioning and Commercial Services

2.8 Commissioning and Commercial services forecast an over spend of £254k and the main variances are detailed as follows:

- Facilities Management reports a net adverse variance of £22k. There is a forecast under achievement on School cleaning SLA income budget of £310k and on other Facilities Management SLA of £31k. These are partially mitigated by various forecast recharge income and salary capitalisation within Facilities Management totaling £319k.
- Under achievement of Commercial rent income target from Atkins House due to the necessity to re-route gas mains has led to a delay in letting the

properties and a shortfall in Depot income (as part of the MTFS), totaling £509k. These were partially mitigated by the over achievement of income in Parks Leases and existing property portfolio, resulting in a net adverse variance of £220k.

- Fleet management / Commercial transport reports an under achievement on income of £24k, partly mitigated by other underspends of £12k within the division.

Regeneration, Enterprise & Planning

2.9 Regeneration, Enterprise and Planning services forecast a break-even position. The revenue costs of the Regeneration programme (£1.365m) are funded from the £1.7m capacity already set aside for 2019/20.

Housing General Fund

2.10 At Quarter 1, Housing services is forecasting a balanced position after assuming a drawdown from Flexible Homelessness Support Grant (FHSG) of (£404k) and (£727k) cross divisional adjustments.

2.11 The main variations which, combined with utilisation of FHSG, yield an overall balanced position are as follows;

2.12 Homelessness budgets are forecasting a pressure £1.056m offset by better than budgeted net rental income (£647k) from the 100 properties purchased for temporary accommodation, £404k drawdown from FHSG for homelessness preventative works and the balance met from savings elsewhere within housing budgets.

2.13 An MTFS saving of £573k was built into the budget as a result of purchasing additional properties, over and above the original 100, for use as temporary accommodation. As a result of delays on the acquisition programme, a pressure of £519k is forecast .This is largely offset by an underspend on capital financing costs due to the delays with the acquisitions.

2.14 The 72 affordable units at Gayton Road are forecasting a shortfall in net rental income of £248k against an MTFS income target of £500k. Assuming a transfer of these units to the HRA 1st October 2019, this shortfall will be managed from the corporate contingency.

PEOPLE SERVICES

At Quarter 1, People Services is forecasting to overspend by £862k:

Table 4: People Services Variance

Services	Revised Budget	Additional Expenditure	Total Revised budget and Additional Expenditure	Net Forecast Spend At Quarter 1 including Additional Expenditure	Quarter 1 Variance
	£'000	£'000	£'000	£'000	£'000
Adults	61,904	5,027	66,931	67,104	173
Public Health	-1,814		-1,814	-1,814	0
Children's Services	32,997		32,997	33,686	689
Total	**93,087**	**5,027**	**98,114**	**98,976**	**862**

Adults Services

2.15 At Quarter 1, Adult services are reporting an over spend of £173k.

2.16 As part of the budget setting process, Adults expenditure was forecast at £66.931m. The budget was set at £61.904m which included an allocation of £5.285m growth.

2.17 The remaining assumed additional expenditure of £5.027m is funded by the newly created Adult social care reserve of £2.627m and £2.4m held within corporate budgets. This gives a total budget of £66.931m.

2.18 At period 3 the division is reporting a forecast outturn of £67.104m creating a new unplanned pressure of £173k as follows:

2.19 An indicative overspend of £97k pending a revised robust forecast in relation to transport route costs.

2.20 Increased cost of contractual arrangements in relation to mental health services provided by Rethink (The Bridge) of £100k, offset by an under spend of £24k arising from the staffing restructure.

2.21 The Resilient Harrow programme seeks, through corporately funded transformation, to maintain and enhance wellbeing in families and the community so that citizens are stronger, healthier and more resilient and less reliant on formal social care services. In the longer term this should enable support to the most vulnerable residents to be provided within limited resources.

Public Health

2.22 At Quarter 1, the forecast in relation to expenditure on Public Health is expected to be balanced. However it is too early to determine robust forecasts in relation to sexual health, health checks and wider health improvement projects, and could result in an underspend being reported at year end based on previous year outturns. These services continue to be closely monitored and any variations will be reported as appropriate in due course.

2.23 During 2019/20, £1.273m of the Public Health reserve is expected to be used to support health improvement projects (£462k), wider determinants of health (£500k), prevention projects under the Adults Transformation (£250k) and (£61k) staffing pressure, and will leave an unused balance of £854k in the reserve.

Children's Services

2.24 Children's Services is forecasting an over spend of £689k. The headline pressure across the directorate is £1.819m with mitigating management actions of £1.130m. It should be noted that £300k of these management actions are one off and will not be available in future years.

2.25 The main pressures are in relation to :

- Frontline Teams Staffing and other Costs overspend of £308k: In order to manage caseloads in frontline social care teams, there is little scope for carrying vacancies. The over spend is mainly due to agency staff covering vacant posts and absence due to sickness and maternity leave. On average agency cover costs an extra £10k per annum per post and maternity cover an extra £30k per annum per post. There are around 18%-20% of frontline posts which are covered by agency. Agency costs should be kept to a minimum with the permanent recruitment of overseas social workers as well as social workers who complete the front-line and step-up programmes.

- SEN Transport £709k over spend: SEN Transport provides home to school and home to further education settings for children and young people in education with Education Health and Care Plans (EHCPs). The projected overspend of £709K is mainly due to the anticipated increase in demand. Projections include costings for an additional 40 client's at an average of £7k per client. The projections have further allowed for capacity for very high needs clients whose cost can be up to £20K per year. In addition there are agency costs to cover the shortfall in permanent driver and escort positions. SEN Transport will be subject to a whole systems review commissioned by the Corporate Director of Resources.

2.26 There are underspends anticipated within:

- Children's Placements & Accommodation underspend of £28K: The forecast is projecting the full year effect of anticipated placement numbers. Targeted actions continue to reduce the average cost of service provision through negotiation with providers. The team also endeavours to maximise the capacity available within our block contracts services and council properties.

- The forecast allows capacity for growth in numbers across all placement types. In particular there is capacity for potential secure placement with the increase in knife crime across London. Since month 2, there have been 3 remand placements. With effective monitoring protocol, if said capacity does not materialise, projections will be adjusted accordingly.

- Together With Families underspend of £300K: Together With Families have maintained a strong momentum and have secured additional grant income for its Payment by Results (PBR) with its improved trajectory performance regarding the numbers of families attached new into the programme. This funding is one off and will not be available in future years.

Dedicated Schools Grant (DSG)

2.27 The Dedicated Schools Grant (DSG) is a ring-fenced grant of which the majority is used to fund individual school budgets in maintained schools, academies and free schools in Harrow. It also funds Early Years nursery free entitlement places for 2, 3 and 4 year olds in maintained council nursery classes and private, voluntary and independent (PVI) nurseries as well as provision for pupils with High Needs including those with Education Health & Care Plans (EHCPs) in special schools and special provision and mainstream schools in Harrow and out of borough. The DSG is split into blocks: central services, schools block, early years block and high needs block.

2.28 The total notified DSG budget for 2019/20 is £137.213m. In 2019/20, the LA has set a deficit budget on the High Needs Block of £3.3m. There is a net projected overspend of £4.119m which is made up of an over spend on the High Needs Block of £4.246m partially offset by an under spend in the growth fund of £127k.

2.29 In 2019/20, the High Needs Block budget has been calculated using the new High Needs National Funding Formula which has generated funding which is £2.9m lower than the actual budget allocated to High Needs in 2017/18.

2.30 The forecast as at month 3 is a predicted over spend of £4.246m. In July 2019 CIPFA and the DfE issued a joint statement.

2.31 Since the introduction of the DSG, the DfE has allowed, through its conditions of grant, local authorities to carry forward surpluses and deficits from one year to the next. Finance regulations enable any deficit to be funded from the following year's schools budget with the agreement of the schools forum; if the forum does not agree, it is open to the authority to request this from the Secretary of State instead. The DfE does not therefore expect or require any DSG deficits to be funded from a local authority's general resources.

2.32 The LA has a SEND Strategy which aims to address these pressures but as identified by an external review there are no short term savings and any mitigation will be over a medium to longer term.

2.33 There are significant pressures across London boroughs on the DSG attributed to in the main by a shortfall within the High Needs Block. The LA has a statutory duty to make provision for children and young people with Special Educational Needs and Disabilities. It is recognized that the number of children and young people who require and are entitled to these services, as well as the price of those services, are increasing at a rate that outstrips the funding made available under current formulas.

2.34 For Harrow, there has been an increase in the HNB budget since 2013 of £6.809m (28%) compared with an increase in HNB spend of £10.048m (41%)

over the same period and increase in Education Health and Care Plans from 1,168 in January 2014 to 1,647 in January 2019 (41%).

2.35 A recent survey showed that London boroughs had a total shortfall of £78m in 2017/18 compared with high needs allocations, with 32 out of 33 boroughs reporting a shortfall. 29 boroughs had a shortfall of over 1% of their high needs allocations. With allocations only increasing by 2.3% in 2018/19, and transfers of resources between DSG blocks now capped at 0.5%, councils will be increasingly reliant on using reserves and general funding to meet this shortfall, as well as carrying forward DSG.

CORPORATE AND TECHNICAL

2.36 At Quarter 1, the corporate and technical budget is reporting an overall underspend of (£2.085m) as detailed below:

Corporate Items

2.37 A net underspend of (£345k) is currently being forecast on the following items:

- Pension augmentation costs
- External audit fees
- Levies and subscriptions

Central Contingency

2.38 The Central Contingency for unforeseen items in 2019/20 is (£1.248m) and is being applied to meet in-year forecast pressures.

Technical and Corporate Adjustments

2.39 A net underspend of (£703k) is forecast which is largely savings against capital financing charges due to underspends within the Capital Programme and taking on a loan from the Public Works Loans Board at a rate lower than budgeted for.

Capital Flexibility

2.40 The 2019/20 budget assumes £3.1m of capital flexibilities using capital receipts. At Quarter 1, the actual receipts available are £2.6m leaving a shortfall of £0.5m.

2.41 One-Off Income After Budget Setting

The council has also received £289k one-off income from the West London Waste Authority after the budget was set in February 2019. This payment relates to a rebate on the 2018/19 waste levy.

EARMARKED RESERVES

2.42 There are also a number of earmarked reserves The main ones are highlighted in Table 5 below:

Table 5: Earmarked Reserves

Description	Opening balance as at 1/04/2019	Estimated Draw Down at Month 3	Projected Balance at Month 3	Comment
	£'000	£'000	£'000	
Business Risk Reserve	-7,526	0	-7,526	Earmarked to fund the risk around the assumption of not being able to increase Council Tax by 5% per annum for the next two years.
Budget Planning Reserve	-6,829	4,200	-2,629	£4.2m is built into the 2019/20 budget. The remaining balance of £2.629m is to support the two years budget strategy and earmarked for ‘budget smoothing
Capacity Building Reserve	-4,261	1,492	-2,769	£4m is earmarked for organisation transformation costs and the £261k balance from last year is earmarked for Community. The drawn down at month 3 relates to the following transformation projects: PMO, Health & Safety work, HR, IT infastructure and transformation work in Adult services.
MTFS Implementation Reserve	-2,067	238	-1,829	Earmarked for the implementation cost of MTFS savings / efficiencies /initiatives.
Commercialisation Reserve	-1,265		-1,265	Earmarked to support commercial risks.
Total	**-21,947**	**5,930**	**-16,017**	
Other Earmarked Reserves	-31,061	8,597	-22,464	Earmarked for specific purposes.
Total Earmarked Reserves	-53,008	14,527	-38,481	
General Reserve Balance	-10,008		-10,008	
Total Reserves	-63,016	14,527	-48,489	

MTFS IMPLEMENTATION TRACKER

2.43 The 2019/20 budget includes approved MTFS savings of £5.946m.

2.44 Appendix 4 shows a list of the individual red, green, and blue rated savings in the MTFS. The definition used to classify savings ratings in this report are detailed in table 6 below:

Table 6: Savings Definition

Green - Low or no risk to delivery of	Clear delivery plans in place
	Project running to timescale
Amber - Medium/some risk to delivery	Potential for slippage but project will be delivered as originally intended but not within timescale, so saving will not be fully realised.
Red - High risk to delivering forecast savings	Project may have started but will deliver **no** savings in the current financial year
	Project cannot be delivered but underspends found else where to mitigate savings.

2.45 Table 7 below shows the summarised position for each directorate as at Quarter 1.

Table 7: Savings Tracker 2019/20 – Directorate Summary

	Resources	**People**	**Community**	**Total at Quarter 1**	**Total at Month 2**	**Movement**	**% Split**
	£000	£000	£000	£000	£000	£000	
Red	0	0	-501	-501	-501	0	8.4%
Amber	-30	-2,082	-1,230	-3,342	-2,842	-500	56.2%
Green	-793	-150	-1,160	-2,103	-2,603	500	35.4%
Total	**-823**	**-2,232**	**-2,891**	**-5,946**	**-5,946**	**0**	**100%**

2.46 As at Quarter 1, 35.4% of the 2019/20 savings are rated green, 56.2% are rated as amber, whilst 8.4% are rated as red.

2.47 The movement in the RAG rating between Month 2 and Quarter 1 relates to the Gayton Road Income savings of £500k from the 72 affordable units which are currently being used as temporary accommodation in the general Fund. This saving has moved from being green to amber and reflects an estimated shortfall in net rental income of £248k on the basis of the properties being transfered to the HRA on 1st October 2019. This shortfall will be managed from corporate budgets.

Housing Revenue Account

2.48 As at period Quarter 1, HRA forecasts a balanced positon. Emergent pressures on repairs are being reviewed and will be reported once completed and are likely to be offset by underspends on the affordable housing programme as a result of more costs becoming eligible for capitalisation than budgeted. It has been assumed the management restructure will be in place on the 1st October 2019 as a result of service reviews aimed at achieving permanent revenue cost reductions of £1.9m by March 2020 which are currently on track. The impact of the four year's statutory rent reductions, of which 2019/20 is the final year, combined with the new Housing IT system and Council's house building programme to accord with the Mayor of London's Building Council Houses for Londoners' (BCHfL) programme, necessitates continual review of revenue and capital expenditure. This will ensure adequate reserves are in place to support the BCHfL without which the Council's HRA would become unviable

Table 8: Housing Revenue Account Variance

HRA Revenue Balances	Outturn 2018-19	Budget	Forecast	Variance
	£000	£000	£000	£000
Balance brought forward	(7,474)	(5,173)	(7,474)	(2,301)
Net (Surplus) deficit	(198)	279	279	0
Transfer to/(from) reserves	198	0	0	0
Balance carry forward,pre-audit	**(7,474)**	**(4,894)**	**(7,195)**	**(2,301)**

3.0 **CAPITAL PROGRAMME**

3.1 The 2019/20 Capital Programme agreed by the Council in February 2019 totalled £124.280m. After allowing for agreed slippage of £93.616m from 2018/19 outturn and other approved amendments of £2.293m, the programme now totals £220.189m at Quarter 1.

Table 9: Capital Outturn Summary

Directorate	Original Programme	CFWD's	Other Adjustment (Additional)	TOTAL BUDGET	Forecast Spend	Forecast Variance	Slippage	Underspend after slippage
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TOTAL GENERAL FUND	97,674	83,432	2,293	183,399	159,154	-24,245	-24,245	0
TOTAL HRA	26,606	10,184	0	36,790	27,388	-9,401	-9,698	297
TOTAL GENERAL FUND & HRA	124,280	93,616	2,293	220,189	186,543	-33,646	-33,943	297

3.2 The forecast spend at Quarter 1 is £186.543m, 85% of the total capital programme. The forecast variance on the General Fund at Q1 is (£24.245m), (13%) which will all be slipped into 2020/21.The forecast variance on the Housing Revenue Account budget is a variance of (£9.401m), £9.698m will be slipped into 2020/21 resulting in an overall pressure of £297k.

3.3 Tables 10 and 11 below summarise the capital forecast position and Appendix 5 shows the Capital Programme in more detail.

Table 10: Summary of Capital forecast by Directorate

Directorate	Original Programme	CFWD's	Other Adjustment (Additional)	TOTAL BUDGET	Forecast Spend	Forecast Variance	Slippage	Underspend after slippage
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
RESOURCES TOTAL	**30,700**	**10,321**	**1,500**	**42,494**	**42,494**	**0**	**0**	**0**
COMMUNITY								
Environment and Commissioning	28,994	26,529	-479	55,071	55,071	0	0	0
Housing	3,149	15,258	0	18,407	14,120	-4,287	-4,287	0
Culture	4,038	978	407	5,423	4,691	-733	-733	0
Regeneration	22,169	10,776	0	32,945	30,522	-2,423	-2,423	0
COMMUNITY TOTAL	**58,350**	**53,541**	**-72**	**111,846**	**104,403**	**-7,443**	**-7,443**	**0**
PEOPLE								
Adults	200	191	0	391	291	-100	-100	0
Public Health	0	135	0	135	135	0	0	0
Schools and Children	8,424	19,244	866	28,534	11,832	-16,702	-16,702	0
PEOPLE TOTAL	**8,624**	**19,569**	**866**	**29,059**	**12,257**	**-16,802**	**-16,802**	**0**
TOTAL GENERAL FUND	**97,674**	**83,432**	**2,293**	**183,399**	**159,154**	**-24,245**	**-24,245**	**0**
TOTAL HRA	**26,606**	**10,184**	**0**	**36,790**	**27,388**	**-9,401**	**-9,698**	**297**
TOTAL GENERAL FUND & HRA	**124,280**	**93,616**	**2,293**	**220,189**	**186,543**	**-33,646**	**-33,943**	**297**

Table 11: Analysis of Forecast Outturn Variance

Project Definition	Forecast Variance	Outturn variance split by funding		Slippage	Slippages by funding		Over/ Underspend	Underspend by funding	
		Grant/ sec106	LBH		Grant /Sec 106	LBH		Grant	LBH
	£000	£000	£000	£000	£000	£000	£000	£000	£000
COMMUNITY									
Housing	-4,287	-87	-4,200	-4,287	-87	-4,200	0	0	0
Culture	-733	-150	-583	-733	-150	-583	0	0	0
Regeneration	-2,423	-670	-1,753	-2,423	-670	-1,753	0	0	0
Total Community	-7,443	-907	-6,536	-7,443	-907	-6,536	0	0	0
PEOPLE									
Adults	-100	-100	0	-100	-100	0	0	0	0
School and Children	-16,702	-6,949	-9,753	-16,702	-6,949	-9,753	0	0	0
TOTAL PEOPLE	-16,802	-7,049	-9,753	-16,802	-7,049	-9,753	0	0	0
TOTAL GENERAL FUND	-24,245	-7,956	-16,289	-24,245	-7,956	-16,289	0	0	0
TOTAL HRA	-9,401	0	-9,401	-9,698	0	-9,698	297	0	297
Total General Fund and HRA	- 33,646	- 7,956	- 25,690	- 33,943	- 7,956	- 25,987	297	-	297

RESOURCES AND COMMERCIAL

3.4 As at Quarter 1 the Resources Directorate is forecasting an overall spend of £42.494m, which is 100% of the approved capital budget.

COMMUNITY

3.5 As at Quarter 1 the Community Directorate is forecasting overall spend of £104.425m, which is 93% of the approved £111.868m capital budget.

3.6 The forecast variance is (£7.443m) which will all be slipped to 2020/21. The main items of slippage are detailed below:

Commissioning and Environment & Culture

3.7 The services forecast to spend £59.784m in 2019/20 and to slip a budget of £733k to 2020/21.

3.8 There is a budget allocation of £0.150m for the refurbishment of libraries, the cost of which is assumed to be funded from NCIL. Project planning and engagement with relevant ward councillors are planned to be undertaken in the latter part of the financial year, with refurbishment work anticipated in 2020/21. Therefore, the budget is slipped to 2020/21. The slippage has no implications on the revenue budget.

3.9 The improvement works at Harrow Arts Centre has a budget allocation of £1.488m in 2019/20, funded from GLA Good Growth Fund and BCIL. The Masterplan now sets out the delivery of purpose built buildings rather than modular units as originally planned, which has contributed to the delay in the construction works. Therefore the budget needs to be re-profiled based on the updated milestones of the project, and £0.583m is forecast to be slipped to 2020/21. A partial achievement of this forecast is due to the delay in the construction work and this is included in the revenue forecast within community.

Regeneration, Enterprise & Planning

3.10 In Enterprise and Planning, the services forecast to spend £1.829m (52%) in 2019/20 and to slip a budget of £1.670m to 2020/21.

3.11 Three projects are forecast to be slipped to 2020/21. There is no revenue budget implication of the slippage.

3.12 The Lyon Road public square and pop up restaurant project is funded by the GLA Good Growth Fund, S106 contributions and NCIL funding. The public square work is expected to be completed in 19/20. Within the 2019/20 budget of £739k, there is a sub-allocation of £20k for the design fees of the new pop up test trade restaurant. Due to the delay in identifying a suitable operator, this funding is unlikely to be spent in 19/20 and will be slipped to 2020/21.

3.13 There is a budget allocation of £750k for Harrow High Street Fund project in 19/20, the cost of which is to be funded from NCIL (£650k) and borrowing (£100k). Consultation on project proposals has commenced, with delivery anticipated in Q4. The eligibility of the use of NCIL will be assessed once the detailed project proposals are drawn up. At this stage, it is forecast that £0.1m will be spent in 2019/20 and the rest to be slipped to 2020/21.

3.14 There is a budget allocation of £1m for the replacement of the Planning IT system. A project manager has been appointed to take forward the scoping work and prepare the IT specifications for approval before going out to procurement. It is anticipated that the implementation will be in 2020/21, and therefore the budget is forecast to be slipped to 2020/21.

3.15 In December 2018 a revised capital programme set for 2 years, reflecting current activity was reported to Cabinet. In 2019/20, the main Regeneration programme is forecast to spend £28.692m against a budget of £29.446m.

3.16 The variance of £753k, is attributable to Haslam House and as a result of a delay in the appointment of a suitable contractor, this budget is unlikely to be spent in 2019/20 and will be slipped into 2020/21. At the time of setting the budget it was assumed a capital receipt of £4.290m as a result of sale of the units would arise in 2019/20, this has now slipped to 2020/21.There are no implications on the revenue budget as a result of this slippage in 2019/20.

<u>Housing General Fund</u>

3.17 As at Quarter 1 the outturn forecast for Housing General Fund is £14.120m which is 77% of the approved £18.407m capital budget in 2019/20. The resulting forecast variance of £4.287m attributable to the Property Acquisition Programme will be slipped into 2020/21.

3.18 Cabinet approved drawdown of up to £10.8m of the original £15m on acquisition of additional properties to alleviate the costs of homelessness pressures. The remaining £4.2m will be unlocked on the proviso financial viability can be demonstrated. Market conditions remain uncertain and financial modelling is in progress. At this stage there is no reason not to assume the remaining funds will not be drawn down, therefore, an unspent budget of £4.2m has been assumed as slippage.

3.19 There are no implications on the revenue budget as a result of this slippage in 2019/20.

<u>PEOPLE SERVICES</u>

3.20 As at Quarter 1 People Services is forecasting overall spend of £11.391m, which is 40% of the approved £28.193m capital budget.

3.21 The forecast variance is (£16.802m) will be slipped to 2020/21. The main items of slippage are detailed below:

<u>Adults Services</u>

At Quarter 1 the outturn forecast for Adult Services is £291k resulting in a planned slippage of £100k for In House Residential Services which was originally allocated as 2020/21 funding. There are no revenue budget implications as a result of this slippage.

<u>Public Health</u>

3.22 Public Health is forecasting spend of £135k being 100% of the overall 2019/20 capital budget.

Children's Service

3.23 The total budget for the capital programme in 2019/20 is £27.668m. It is anticipated that approx. £16.7m of this will be slipped to future years.

3.24 Bulge Classes, Amalgamations & Capital Maintenance - Bulge class funding is for schools opening temporary additional classes in year and may be required for any bulge classes required in September. Amalgamation funding is for infant and junior schools amalgamating in the year. Capital maintenance is for reactive and proactive maintenance in respect of maintained schools. Much of this slippage relates to the resolution of the SEP2 programme described below.

3.25 School Expansion Programme (SEP) 2 - Engie (formerly Keepmoat) was commissioned to deliver the majority of the Phase 1 (SEP1) and Phase 2 (SEP2) construction projects. The projects have reached project completion and the schools are occupying their new accommodation. There are a number of building defects and on-going contractual issues and the council has appointed legal and commercial advisers to secure a resolution. For the purposes of budget monitoring, these programmes are forecast to budget but there is a risk to the capital programme that the final outturn is higher than the budget.

Slippage

3.26 The total slippage is £16.7m. Of this, £12.378m relates to funding set aside for secondary expansions. As reported to the Cabinet in July 2019, the projections for Year 7 places indicate that there will be a shortfall of up to 5 forms of entry in 2022/23. This reduces to 1 form of entry in 2025/26. However, at this time there are a higher number of Year 7 places than required which is resulting in vacancies being concentrated in a small number of schools. It is proposed to slip the funding to future years and ensure that the situation is monitored and that once there is greater clarity about changes on the borough boundaries that a local solution to meet the growing need is developed with the High Schools.

3.27 Special Educational Needs provision slippage totals £4.324m. Funding has been included in the capital programme to support additional in-borough SEN provision which is driven by the SEND Strategy. As part of the implantation of the strategy, a whole system review of in-borough provision will be undertaken in conjunction with the changing and growing needs of the population to inform additional in-borough solutions. It is estimated that £1.495m will be spent in 2019-20 and the remainder of this funding will be programmed over future years in line with the SEND Strategy.

Housing Revenue Account

3.28 At Quarter 1, the outturn forecast for the Housing Revenue Account is £27.388m which is 74% of the approved £36.790m capital budget in 2019/20.

Table 12: Summary of HRA Capital Budget Forecast at Quarter 1

Description	Budget	Forecast	Variation	Slippage	Under/ Over spend
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Planned Investment	9,784	9,784	0	0	0
Infill programme	3,438	1,455	-1,983	1,768	-215
Grange Farm	9,118	6,220	-2,898	2,898	0
Gayton Road	7,696	8,208	512	0	512
BCHfL	6,754	1,722	-5,032	5,032	0
HRA total	**36,790**	**27,389**	**-9,401**	**9,698**	**297**

3.29 The forecast net variance is (£9.401m) of which £9.698m will be slipped into 2020/21 resulting in an overall pressure of £297k made up of £511k additional expenditure for the transfer of seventy two Gayton Road units from General Fund offset by £214k underspend on the Infill programme. This overspend will be funded from additional approved HRA borrowing which is affordable and with no impact on General Fund. Details of the HRA Capital Programme which now includes substantial budgets for new Council housing is given below.

- Planned Investment programme – full spend against the budget of £9.784m is expected although refresh of programme which includes health & safety works and the new housing IT system is in progress and will be reported at Quarter 2.

- Grange Farm Regeneration phase 1 – Forecast spend £6.220m against budget (including carry forwards) £9.118m resulting in slippage of £2.898m; planning consent obtained and successful tenderer expected to start on site August. MHCLG and GLA have now approved the £10m Housing Infrastructure Fund (HIF) funding and the grant agreements are being finalised.

- Infill programme – estimated spend £1.455m against budget (including carry forwards) £3.438m resulting in slippage of £1.769m with remaining £214k underspend. Underspend relates to phase 1 which has now completed.

- Gayton Road – estimated spend £8.207m against budget £7.696m resulting in pressure £511k; expenditure based on revised valuation and takes account of HRA funding already provided; additional capital receipt to General Fund counts towards Community savings target of £500k by reducing capital financing costs.

- Other new build schemes – broader spectrum of schemes in line with Mayor of London's Building Council Houses for Londoners' (BCHfL) programme, estimate spend of £1.722m against the budget £6.754m resulting in slippage of £5.032m, predominately arising from re-profiling of Chichester court following the appointment of a contractor.

3.30 Slippage on new build and regeneration schemes, resulting mainly from delays in securing necessary external funding and planning consents, will result in delays in associated rental streams and new build units for use as social and affordable housing as well as in mitigating the impact of homelessness on the Council's General Fund. HRA Business Plan, which sets out the longer term financial position based on range of assumptions, is in the process of being updated and will be reported to Cabinet in October as part of the broader budget setting framework.

Amendments to the Capital Programme

Addition to the Capital Programme

3.31 A S106 developer's contribution of £22,335 will be used to provide new play equipment and safety surfaces in Priestmead Recreation Ground. This will supplement the 3-year playground improvement work that is being undertaken. It is therefore requested that the budget for Playground Infrastructure in the capital programme is increased by £22,335.

Capital Budget Re-Profile

3.32 In the current capital programme, there is a total budget of £10m for the Highway Programme which is profiled as £3.3m in 2019/20 and £6.7m in 2020/21 respectively. In order to better reflect the asset management priorities, it is proposed that £1.7m of the £6.7m budget currently profiled in 2020/21 is brought forward to 2019/20 in order to provide £5m budget in each of the financial years.

3.33 The current capital programme has £46.3m for the HRA Grange Farm regeneration scheme which spans two phases. External funding of £10m from the Housing Infrastructure Fund (HIF) will support the scheme and latest expenditure profiles, submitted to HIF as part of the funding package, indicate re-profiling of budgets will be required to better reflect the incidence of expenditure on infrastructure, professional fees and construction.

3.34 The table below shows £8.946m will have to be moved into 2020/21 from 2019/20 and later years based on a review conducted by the Council's professional advisers:

Table 13: Grange Farm Capital Programme Re-Profile

Re-profiling, all in £m	**Approved budget**	**Re-profiling**	**Revised budget**
	£'000	£'000	£'000
2019/20, including carry forward	9.118	-2.898	6.220
2020/21	12.383	8.946	21.329
2021/22	16.709	-1.652	15.057
2022/23	8.099	-4.396	3.703
Total budget, all phases	**46.309**	**0.000**	**46.309**

3.35 The above also includes the diversion of budget from phase 2 of the scheme of £19.738m in 2020/21 and 2021/22 to phase 1 £18.794m and preparatory costs for subsequent phases of the scheme of £944k to provide sufficient resources for infrastructure works, affecting all phases, to commence in accordance with the conditions of the £10m HIF grant. These adjustments will reflect the results of a review conducted by the Council's professional advisers:

3.36 The re-profiling and adjustments between the respective phases of the scheme will add no cost to the approved budget and will add no further borrowing requirement on the HRA or General Fund. Spend profiles will be kept under review as the scheme progresses with adjustments submitted to Cabinet for approval as appropriate

Budget virement

3.37 A tendering exercise has been undertaken to procure a fit out contractor for the new library and pavilion space. The total costs to complete the project in 2019/20 are estimated to be £2.544m, which is £400k above the budget. Cabinet is to note a budget virement of £400k from a capital allocation of £2m for the fit out of commercial space for the Gayton Road scheme to support the delivery of the Town Centre library project.

4.0 COUNCIL TRADING STRUCTURE UPDATE 2019/20 – QUARTER 1

4.1 The Council's Trading Structure update for quarter 1 is attached at Appendix 6.

4.2 Appendix 7 (exempt) details Sancroft Community Care Limited's financial position as at Quarter 1 which Cabinet is recommended to note. Appendix 8 (exempt) details Sancroft's Business Plan Refresh (2017-2023) which Cabinet is recommended to approve.

4.3 In November 2018 Cabinet approved the use of Concilium Assets LLP as the Council's Private Rented Sector (PRS) investment vehicle to operate the Council owned 53 PRS units at Gayton Road. The LLP started trading on 01 January 2019 and the 53 units were transferred to the LLP in July 2019 on a 10 year lease. The LLP Business Plan (2018/19 to 2027/28) (Appendix 9 exempt) is recommended to Cabinet for approval. Over three quarters of the 53 units are already let. The Business Plan shows a significant contribution of £641k to the Medium Term Financial Strategy profiled as £450k, £144k and £47k for 2020/21, 2021/22 and 2022/23 respectively to support core service provision.

4.4 The Trading Structure update summarises the high level financial position from appendices 7 to 9 (exempt). The Business Plans in appendices 8 & 9 (exempt), albeit covering periods in the future, will be brought to Cabinet annually for approval.

5.0 Reporting for the 2019/20 Financial Year

Cabinet will receive Quarterly monitoring reports during the year as follows:

- Quarter 2 December 2019
- Quarter 3 February 2020

- Outturn report June 2020.

6.0 **Implications of the Recommendation**

Implications of recommendation are set out in the body of this report.

7.0 **Performance Issues**

Good financial monitoring is essential to ensuring that there are adequate and appropriately directed resources to support delivery and achievement of Council priorities and targets as set out in the Corporate Plan. In addition, adherence to the Prudential Framework ensures capital expenditure plans remain affordable in the longer term and that capital resources are maximized.

The forecast position at Quarter 1 is showing an under spend position of (£13k).

For the 2019/20 savings built into the MTFS, the overall position is that 35.4% of the savings are RAG rated as Green (Clear delivery plans in place and project running to timescale), 56.2% amber (Potential for slippage, project will be delivered as originally intended but not within timescale, so saving will not be fully realise) and 8.4% red (Project may have started but will deliver no savings in the current financial year).

The Capital Programme is projecting spend of 85% as at Quarter 1.

8.0 **Environmental Implications**

There is no direct environmental impact.

9.0 **Risk Management Implications**

The risks to the council and how they are being managed are set out in the report.

Risks included on Directorate risk registers? Yes

10.0 **Procurement Implications**

There are no procurement implication arising from this report

11.0 **Legal Implications**

Section 151 of the Local Government Act 1972 states that without prejudice to section 111, every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". Section 28 of the Local government Act 2003 imposes a statutory duty on a billing or major precepting authority to monitor, during the financial year, its income and expenditure against budget calculations.

12.0 **Financial Implications**

Financial matters are integral to this report.

13.0 **Equalities implications / Public Sector Equality Duty**

Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. The equalities impact will be revisited on each of the proposals as they are developed. Consideration of the duties should precede the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
  The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.
  Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- Tackle prejudice, and
- Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act. The relevant protected characteristics are:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race,
- Religion or belief

- Sex
- Sexual orientation
- Marriage and Civil partnership

Equality assessments were undertaken for proposals where relevant, in relation to both the proposals listed as part of the MTFS process and an overall equality assessment was undertaken on the MTFS. It is not considered that this report will have any further equality implications.

14.0 **Council Priorities**

The Council's vision:

Working Together to Make a Difference for Harrow
This report deals with the Revenue monitoring which is key to delivering the Council's new priorities:

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local business's
- Making a difference for families

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Date: 12th August 2019	x	Director of Financial
Name: Jessica Farmer Date: 2nd September 2019	x	on behalf of the Monitoring Officer
Name: Nimesh Mehta Date: 2nd September 2019	x	Head of Procurement
Name: Charlie Stewart Date: 2nd September 2019	x	Corporate Director

Ward Councillors notified:	**NO**
EqIA carried out: **EqIA cleared by:**	**NO** .

Section 4 - Contact Details and Background Papers

Contact: Sharon Daniels,Head of Strategic and Technical Finance (Deputy S151), Telephone 020 8424 1332, Sharon Daniels@harrow.gov.uk

Background Papers:

- **MTFS 2019/20 to 2021/22**
- **2019/20 Budget Report**

Call-In Waived by the Chair of Overview and Scrutiny Committee	**NOT APPLICABLE**

Summary of 2019/20 Revenue Budget Forecast as at Quarter 1 — Appendix 1

	Revised Budget	Outturn	Drawdown From Reserves	Cross Divisional Adjustment including one-off Income	Net Forecast Spend at Month 3	Month 3 Variance
	£000	£000	£000	£000	£000	£000
Resources and Commercial						
Controllable Budget						
Customer Services	24,758	25,265	(180)	(318)	24,767	9
Business Support	3,323	3,332	0	0	3,332	9
Director of Resources	658	658	0	0	658	(0)
Assurance	610	602	0	0	602	(8)
HRD & Shared Services	997	1,279	(182)	0	1,097	100
Procurement & Commercial	273	376	0	0	376	103
Legal & Governance	3,073	2,732	0	0	2,732	(341)
Strategic Commissioning	2,206	2,764	0	(65)	2,699	493
Finance	2,398	2,420	0	0	2,420	22
Total Controllable Budget	**38,296**	**39,428**	**(362)**	**(383)**	**38,683**	387
Uncontrollable Budget	(18,285)	(18,285)	0	0	(18,285)	0
Total Directorate Budget	**20,011**	**21,143**	**(362)**	**(383)**	**20,398**	387
Community						
Controllable Budget						
Commissioning & Corporate Estate	(5,489)	(4,775)	(460)	0	(5,235)	254
Environment &Culture	21,267	22,639	(267)	(536)	21,836	569
Directorate Management	189	465		(276)	189	(0)
Housing General Fund	3,878	5,009	(404)	(727)	3,878	(0)
Regeneration, Enterprise and Planning	1,048	2,413	0	(1,365)	1,048	0
Total Controllable Budget	**20,893**	**25,751**	**(1,131)**	**(2,904)**	**21,716**	**823**
Uncontrollable Budget	22,347	22,347			0	**0**
Total Directorate Budget	**43,239**	**48,098**	**(1,131)**	**(2,904)**	**44,063**	**823**
People						
Controllable Budget						
Adult Services	61,904	66,672	(1,089)	(3,506)	62,077	173
Public Health	(1,814)	(791)	(1,023)		(1,814)	0
Children's Services	32,997	33,686	0	0	33,686	689
Total Controllable Budget	**93,087**	**99,567**	**(2,112)**	**(3,506)**	**93,949**	**862**
Uncontrollable Budget	14,760	14,760			14,760	0
Total Directorate Budget	**107,847**	**114,327**	**(2,112)**	**(3,506)**	**108,709**	**862**
Total Directorate Budgets	**171,098**	**183,568**	**(3,605)**	**(6,793)**	**173,170**	**2,072**
Corporate Items	4,976	4,631			4,631	(345)
Corporate Contingency	1,248	0			0	(1,248)
Technical and Corporate Adjustment	15,722	15,019			15,019	(703)
Use of Capital Receipts	(3,100)	(2,600)			(2,600)	500
One-Off Income After Budget Setting		(289)			(289)	(289)
Total Controllable Budget	18,847	16,762	0	0	16,762	(2,085)
Uncontrollable Budget	(22,862)	(22,862)	0	0	(22,862)	0
Total Corporate Budget	(4,015)	(6,100)	0	0	(6,100)	(2,085)
Total Budget Requirement	**167,082**	**177,467**	**(3,605)**	**(6,793)**	**167,069**	**(13)**