	Financial Performance and Contracts Committee **9 October 2018**
Title	**Chief Financial Officer Report Month 4**
Report of	Director of Finance (Section 151 Officer)
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A: Revenue forecast Appendix B: Capital forecast Appendix C: Prudential indicator compliance to 31 July 2018 Appendix D: Investments outstanding as at 31 July 2018
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Summary

This report contains a summary of the Council's capital and revenue financial performance for the financial year 2018/19. It also contains information on the level of debt, debtors and treasury performance for the period to 31st July 2018. Additionally the report provides a narrative on strategic financial issues affecting the Council during the period.

Officer's Recommendations

1. The Committee is asked to note the 2018/19 revenue forecast outturn, as detailed in Table 1 and in Appendix A;

2. The Committee is asked to note the savings anticipated to be delivered in 2018/19, as detailed in Table 5;

3. The Committee is asked to note the level of reserves and balances as detailed in Tables 6 and 7;

Officer's Recommendations
4. The Committee is asked to note the 2018/19 capital forecast outturn, as detailed in Table 10 and in Appendix B;
5. The Committee is asked to note the treasury position outlined in section 2.3.
6. The Committee is asked to note the debtors position outlined in section 2.4.
7. The Committee is asked to note the strategic financial matters outlined in section 3.

1 Executive Summary

1.1 This report provides an overview of the council's forecast financial outturn for the 2018/19 financial year. In addition, the report provides a high-level update on other strategic financial matters relevant to the Council as at July 2018.

1.2 This financial forecast displays an increase in the adverse variance of £0.75m over period 3, however it should be understood that this is mainly due to correcting a budget assumption in Adults and a pension accrual from 2014/15 and that current council expenditure is not increasing against budget. The impact of these changes is to increase the cost pressure challenge the council faces. The four key reasons for movement in forecast between periods 3 and 4 are as follows:

Adults and Communities

In Period 3 an assumption was made of the costs of pay inflation which was due to be paid to staff. This cost was partially netted off in the original forecast figure by an assumption of corporate funding towards this cost. This treatment effectively double counted the additional funding to the service as inflationary funding is provided through the Adult Social Care precept. This double counting has been removed at month 4.

Central Expenses

The council has an ongoing commitment to fund historical premature retirement costs. In 2014/15 not all the outstanding invoices for the period were accrued for. As part of the programme of work to improve pension fund accounting this was uncovered. The impact of now recognising these payments means that the budget will have a one off overspend this year but this offsets an under recognition from 2014/15.

Family Services

Through the effective management of the service and demand increases for the service appearing lower than anticipated, the forecast outturn for family services has been revised downwards.

Housing Needs and Resources

The initially anticipated recharges to the HRA in relation to management overheads was reduced in July following a review of the calculation. This ensures that the actual level of recharges are appropriate and adhere to the rules of the HRA ringfence.

1.3 Since the 2017/18 outturn position was known, a number of activities have been taking place to reduce the level of expenditure incurred by the organisation. These activities include the establishment of a panel to review the usage of agency staff and the recruitment to vacancies. Additional controls were also put in place to limit the use of consultants and the introduction of a moratorium on non-essential expenditure. These activities are having a positive impact on the council's financial forecasts and these benefits will become more apparent as the financial year goes on.

1.4 The General Fund revenue forecast for 2018/19 is £300.299m, which is a net overspend of £6.958m (2.4%) compared with the revised budget of £293.341m. This forecast is stated after the net drawdown from specific and general earmarked reserves totalling £3.273m. Excluding net drawdowns from reserves, the forecast is £303.572m, which is an adverse variance of £10.231m (3.5%), compared with the revised budget of £293.341m.

1.5 When the 2018/19 budget was set, the anticipated level of the council's General Fund balance was £9m which the Council would seek in time to increase to £12m. The balance as at 1 April 2018 was £15.083m (excluding schools' balances). The forecast overspend for the year, should it materialise in full, would reduce the level of the General Fund Balance to £8.124m.

1.6 The council has set aside specific amounts as reserves for future policy purposes or to cover contingencies. As at 31 March 2018, the council held reserves of £75.755m. Net drawdowns from earmarked reserves of £20.554m are forecast as at month 4 which would result in total earmarked reserves as at 31 March 2019 of £54.384m.

1.7 The forecast as at 31 July 2018 on the council's 2018/19 capital programme is £303.469m, £260.522m of which relates to the General Fund programme and £42.947m to the HRA capital programme. This is £21.005m less than the approved 2018/19 budget of £324.474m.

1.8 The Prudential Indicators have not been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The Local Government Act 2003 requires the council to set an Affordable Borrowing Limit (the Authorised limit), irrespective of its indebted status. This is a limit which should not be breached. During the period to 31 July 2018, there were no breaches of the Authorised Limit and the Operational Boundary.

1.9 Investment deposits are managed internally. As at 31 July 2018, deposits outstanding were £91.500m, achieving an average annual rate of return of 0.69% against a benchmark average (London Interbank Bid Rate - LIBID) of 0.36%.

1.10 The total sundry debt owed to the Council as at 31st July 2018 was £24.9m. Between June and July 2018 overall debt decreased by £806k. The value of debts aged over 90 days however, increased by £4.1m as a result of a small number of high value invoices raised at year end remaining outstanding to the end of July.

1.11 The Council suffered fraudulent transactions of £2.06m which were identified during December 2017. Since then a series of actions have been put in place to both investigate the transactions and to implement additional internal controls. The Council has recovered the value and the perpetrator of the fraud was charged with two counts of fraud by abuse of position under the Fraud Act 2006. The perpetrator was found guilty of the offence and has since been jailed.

1.12 We are currently in the process of undergoing a Priorities and Spending Review (PSR) which was initiated in July 2017. The PSR aims to develop a clear strategic plan for how the council delivers services, within budget, between 2019 and 2024. The next Medium Term Financial Strategy, which will be approved by Council in March 2019, will include financial plans to deliver a balanced budget over the period. Progress is being made on identifying options for members to consider as part of the normal budget setting process.

2 Financial Management

2.1 Revenue Forecast

General Fund

2.1.1 The General Fund revenue forecast for 2018/19 is £300.299m, which is a net overspend of £6.958m (2.4%) compared with the revised budget of £293.341m (see table 1 below). This forecast is stated after the net drawdown from specific and general earmarked reserves totalling £3.273m. Excluding net drawdowns from reserves, the forecast is £303.572m, which is an adverse variance of £10.231m (3.5%), compared with the revised budget of £293.341m.

2.1.2 All proposed reserve drawdowns and contributions will be considered and approved, if appropriate, by the Director of Finance. It is important to note that these reserve movements are over and above the planned use of £4.040m of reserves approved by the Council in March 2018 to achieve a balanced budget.

2.1.3 The original budget approved by Council in March of each year is revised during the year to reflect virements between budgets and the allocation of contingency held within central expenses. All virements from contingency above £0.250m must be approved by Policy and Resources Committee. Significant allocations from contingency during 2018/19 to date include £2.333m allocated to fund pressures in Family Services.

Table 1: General Fund Revenue Forecast

Service	Revised Budget £000	Month 4 Forecast £000	Variance from Revised Budget Adv/(fav) £000	Reserve Movts £000	Month 4 Forecast after Reserve Movts £000	Variance after Reserve Movts Adv/(fav) £000	Variance after Reserve Movements Adv/(fav) %
Adults and Communities	95,410	96,802	1,392	(600)	96,202	792	0.8
Assurance	6,127	7,391	1,264	(846)	6,545	418	6.8
Central Expenses	51,075	48,224	(2,851)	150	48,374	(2,701)	(5.3)
Commissioning Group	33,845	35,815	1,970	(1,977)	33,838	(7)	0.0
CSG and Council Managed Budgets	21,506	28,128	6,622	-	28,128	6,622	30.8
Education and Skills	6,576	6,576	-	-	6,576	-	0.0
Family Services	59,201	59,364	163	-	59,364	163	0.3
Housing Needs and Resources (Barnet Homes)	6,859	7,012	153	-	7,012	153	2.2
Re	196	1,540	1,344	-	1,540	1,344	686.9

Service	Revised Budget £000	Month 4 Forecast £000	Variance from Revised Budget Adv/(fav) £000	Reserve Movts £000	Month 4 Forecast after Reserve Movts £000	Variance after Reserve Movts Adv/(fav) £000	Variance after Reserve Movements Adv/(fav) %
Street Scene	12,546	12,720	174	-	12,720	174	1.4
Total	**293,341**	**303,572**	**10,231**	**(3,273)**	**300,299**	**6,958**	**2.4**

2.1.4 The forecast as at month 4 (after reserve movements) has increased by £0.749m since the forecast reported at quarter 1. The main movements are in shown in Table 2 below.

Table 2: Movement from Quarter 1 Forecast

Service	Quarter 1 forecast variance £000	Month 4 forecast variance £000	Increase / (Decrease) £000	Explanation for significant movements
Adults and Communities	667	792	125	At month 3, a lower assumption about pay inflation was forecast. Partially offset by a reduction in the placements forecast.
Central Expenses	(3,632)	(2,701)	931	In month 4 it was identified that a number of prior year invoices for pension strain payable to the pension fund totalling £1.089m had not been paid nor provided for in previous years. These have been included in the month 4 forecast.
Family Services	613	163	(450)	Additional mitigations for placement pressures have been identified since month 3
Housing Needs and Resources	13	153	140	Change in estimate of recharges to the HRA
Services with no significant variation in forecast	8,548	8,551	3	
Total	**6,209**	**6,958**	**749**	

2.1.5 The movement from period 3 is set out above. In summary this relates to four key changes in assumption and has not been caused by a material change in spending levels. The changes are described below:

<u>Adults and Communities</u>

In Period 3 an assumption was made of the costs of pay inflation which was due to be paid to staff. This cost was partially netted off in the original forecast figure by an assumption of corporate funding towards this cost. This treatment effectively double counted the additional funding to the service as inflationary funding is provided through the Adult Social Care precept. This double counting has been removed at month 4.

<u>Central Expenses</u>

The council currently spends around £3.6m per year in relation to historical premature retirement costs. In 2014/15 not all the outstanding invoices for the period were accrued for. As part of the programme of work to improve pension fund accounting this was uncovered. The impact of now recognising these payments means that the budget will overspend this year but this offsets an under recognition from 2014/15.

Family Services

Through the effective management of the service and demand increases for the service appearing lower than anticipated the forecast outturn for family services has been revised downwards.

Housing Needs and Resources

The initially anticipated recharges to the HRA in relation to management overheads reduced in July following a review of the calculation. This ensures that the actual recharges are appropriate and adhere to the rules of the HRA ringfence.

2.1.6 The main reasons for the forecast overspend of £6.958m as at month 4 are set out below.

2.1.7 The revenue budget for **Adults and Communities** is projected to overspend by £0.792m which represents 0.8% of the overall budget. The overspend is driven mainly by an overspend of £1.437m in the care placements budgets as Adult Social Care (ASC) has experienced increasing complexity and demand for services since 2014/15.

2.1.8 As at month 4, Older Adults' services are projected to overspend by £0.399m. Despite mitigating actions factored in to reduce spend, including various increases to income, there are significant pressures in homecare placements. Older Adults' services have experienced activity growth of 10% in homecare. There were 38% more new homecare packages in quarter one of 2018/19 than in quarter one of 2017/18 and the average cost for new homecare packages was also 10% higher than last year. The favourable movement of £0.486m since month 3 is largely due to residential care clients' packages ending (£0.242m), nursing care (£0.173m) and direct payments (£0.073m).

2.1.9 The Mental Health service is projecting to overspend by £0.298m in supported living due to activity growth. Physical Disabilities services are overspending by £0.693m due to the full year effect of new clients in 2017/18. Pressures are partly mitigated by underspends in Supported Living Learning Disabilities (£0.618m) relating to lower than expected growth from 2017/18.

2.1.10 The forecast overspend on placements has reduced by £0.217m from month 3, largely due to additional Ordinary Residence income (£0.427m) and additional Direct Payments refunds (£0.101m). This reduction was partly offset by movements in weekend day care (£0.080m), an increase in costs for existing clients turning 25 (£0.143m) and an increase in the provision for bad debts (£0.057m).

2.1.11 The non-placements budgets are projected to underspend by £0.646m in 2018/19. There is a projected underspend in the Adults and Communities workforce of £0.460m. The adverse movement of £0.351m from Month 3 is due to the inclusion of inflation at month 4.

2.1.12 The underspends projected in community equipment (£0.247m) and telecare (£0.173m) are a result of planned capitalisation of the cost of large items of equipment via the Disabled Facilities Grant (DFG) budget. Voluntary Organisations budgets are also projecting underspends of £0.307m due to planned reductions in prevention contracts. Deprivation of Liberty Safeguards (DOLS) continues to be a cost pressure (£0.131m) in 2018/19 because of Supreme Court judgements in 2014/15 and a loss of grant funding since 2015/16.

2.1.13 The overspend of £0.418m in **Assurance** is driven by increased costs of the HB Public Law contract. This is a demand-led service and in this year to date, demand has exceeded the available budget.

2.1.14 **Central Expenses** is projecting an underspend of £2.701m which represents 5.3% of the overall budget. The underspend relates mainly to capital financing costs, due to slippage on the capital programme, and levies. In month 4 it was identified that a number of prior year invoices for pension strain payable to the pension fund had not been paid nor provided for in previous years. These have been included in the forecast as at month 4 which results in an adverse movement of £1.089m from month 3.

2.1.15 The total underspend for the **Commissioning Group** is £0.007m.

2.1.16 There are pressures in information management resulting from consultancy based advice on current capital projects such as Customer Transformation, Mosaic and TW3.

2.1.17 Human Resources is projecting an overspend of £0.614m. The activity in this area is greater than budgeted, including an ongoing commitment for organisational development resources and a one-off cost pressure resulting from implementation of a new recruitment system. The costs of an additional pension resource and the Guaranteed Minimum Pension (GMP) reconciliation are being charged to the Pension Fund.

2.1.18 Registrars has continuing pressures in achieving their income target as a direct impact of changes in legislation. The service transferred back to Barnet from 1 July so there are also one-off project costs built in this financial year. The total forecast overspend is £0.272m.

2.1.19 These overspends are offset by additional income from Housing Benefits overpayments (£0.278m) which is partially offset by gainshare costs projected within CSG.

2.1.20 The Special Parking Account is expected to exceed its income target resulting in an underspend of £1.097m.

2.1.21 The total Public Health allocation for 2018/19 is £17.156m. The Public Health grant is ring fenced and is used for improving local population health outcomes which includes prevention services and improving the take-up of treatment services. The grant is expected to be spent in full.

2.1.22 The overspend for **CSG and Council Managed Budgets** is £6.622m, 30.8% of the overall budget.

2.1.23 Estates managed budgets are projected to overspend by £3.6m. The overspend is due to the Council renting additional space for recycling, waste and cleaning services for Street Scene and highways and winter maintenance services in Harrow (£0.548m), additional security across the estate (£0.322m), the cost of management of some vacant properties (£0.427m), repairs and maintenance across the estate and including some backdated pressures from works required for Fremantle (£0.952m). There is also a net cost pressures of £1.4m from rent and rate increases across Council office buildings and anticipated costs arising from the move to the Colindale office. These costs are ‘one-off’ in nature and will not recur in future years once the Council has moved into the new building.

2.1.24 The CSG management fee is projected to overspend by £1.3m. The forecast includes indexation and core fees, which will be allocated from contingency, change requests and volume increases. Gainshare is estimated at £0.467m over budget. The overspend is offset against estimated income from the Comensura rebate and administration recharge of £1.1m.

2.1.25 Due to historical income targets built into the budget, retained income is showing an under-achievement of income in Corporate Programmes of £0.467m, the schools traded service of £0.740m and document centre recharges of £0.164m. The total net overspend in retained income is £0.872m.

2.1.26 The forecast for **Education and Skills** as at quarter 1 is broadly in line with budget.

2.1.27 The projected overspend of £0.163m for **Family Services** represents 0.3% of the total Delivery Unit budget (£59.201m) and relates to the non-achievement of adoption savings for regionalisation. Pressures relating to external high cost specialist placements and associated services are being mitigated. Forecast pressures are being offset in the main by additional resources of £2.333m approved by the Policy and Resources Committees of February and June 2018 and additional one-off grant funding.

2.1.28 The forecast overspend of £0.152m for **Housing Needs and Resources** represents 2.2% of the total Delivery Unit budget (£6.859m). The projected net overspend on temporary accommodation is £1.292m. The overspend reflects the ongoing cost pressures associated with the rising cost of temporary accommodation (TA) in the borough set against restrictions on rents that can be charged and remain eligible for housing benefit. Whilst current prevention activities and new affordable supply are projecting a long-term downward trend on the volume of households in TA, to sustain this, expenditure on preventative work has increased. This coupled with ongoing inflationary pressures, and the loss of affordable supply such as RSL leased and regeneration units means that although gross expenditure is decreasing, net expenditure remains high. Additional validation and assurance measures are in place to track and validate inputs into forecasting the overall homelessness budget pressure from period one, to include elements managed by all parties (The Barnet Group, Re and London Borough of Barnet) involved in managing homelessness expenditure.

2.1.29 Mitigations in place include acquisition of affordable properties to replace temporary accommodation, additional Flexible Homelessness Support Grant and additional appropriate recharging of costs to the HRA.

2.1.30 The forecast overspend of £1.344m for **Re** represents 686.9% of the total delivery Unit budget (£0.196m). £1.190m of the overspend relates to a shortfall in net income compared to the total income generated by Re that is budgeted within both the General Fund and the HRA.

2.1.31 The remainder of the overspend relates to unbudgeted client costs that the council is liable to pay (£0.153m). These client costs relate mainly to legal expenses and an increase in the provision for bad debts.

2.1.32 The overspend of £0.175 for the **Street Scene** service represents 1.4% of the total Delivery Unit budget (£12.546m). The bottom line forecast overspend is due to delays in withdrawing the separate food waste collection service which was approved by Environment Committee in June and was planned for the end of July. The delay has been as a result of Mayor Khan's request that Barnet enter consultation with his office regarding the withdrawal. As such the savings, a significant proportion of which would have been made in the school holidays by a reduction in agency spend to cover annual leave, are yet to be made.

2.1.33 In year pressures within waste and recycling are being offset by savings across the rest of the service while the collection round reorganisation is being planned and implemented.

2.1.34 There are a number of risks inherent in forecasting, in particular at an early stage in the year. The risks highlighted as at quarter one are detailed in Appendix B.

Housing Revenue Account (HRA)

2.1.35 The Housing Revenue Account (HRA) has a budgeted contribution from balances of £0.754m in 2017/18. The forecast for the year as at 31 July 2018 is a deficit of £0.417m, thus there is a forecast balance of £14.586m as at 31 March 2019.

Table 3: Housing Revenue Account Forecast

	Revised Budget £000	Month 4 Forecast £000	Variance from Budget Adv/(Fav) £000
Dwelling rents	(49,810)	(49,990)	(180)
Service and other charges	(9,133)	(8,640)	493
Housing management	20,499	19,996	(503)
Repairs and maintenance	7,446	7,571	125
Provision for bad debts	250	250	-
Regeneration	837	589	(248)
Capital charges	30,760	30,760	-
Interest on balances	(95)	(119)	(24)
Total	**754**	**417**	**(337)**

2.1.36 The main reasons for the variance from budget are set out below.

Income - Dwelling rents are projected to over recover by £0.180m compared with the revised budget. This is mainly due to lower than expected rental loss from stock loss through sales and the regeneration programme. Tenant service charges, leasehold contributions and other non-dwelling income are currently projected to under recover by £0.493m based on activity to month 4.

Expenditure - Housing management costs mainly reflect the core management fee of £17m paid to Barnet Homes to manage the housing stock. There is a forecast underspend of £0.503m.

2.1.37 The repairs and maintenance budget of £7.446m relates to the management fee paid to Barnet Homes for the repair and maintenance of housing stock and refurbishment of properties when they become void. The current forecast is a slight overspend of £0.125m.

2.1.38 The housing regeneration forecast as at quarter one is an underspend of £0.248m due to costs being partially recovered from developers on a number of regeneration schemes at Dollis Valley, Grahame Park, Stonegrove, West Hendon and Granville Road.

2.1.39 Capital charges which includes depreciation and borrowing costs are projected to budget at this stage.

Dedicated Schools Grant (DSG)

2.1.40 The DSG budget for 2018/19 has been revised to take into account the brought forward reserve of £0.501m. All blocks are forecast to spend to budget as at month 4, other than high needs, where there is a forecast overspend of £0.450m due to top-up funding for high needs pupils. The £0.501m carry forward has been offset against this figure, giving a total projected overspend as at quarter one of £0.450m. Table 4 below summarises the DSG position:

Table 4: Dedicated Schools Grant

	Revised Budget £000	Q1 Forecast £000	Variance from Budget Adv/(Fav) £000
Schools			
- Individual Schools Budget	141,056	141,056	-
- Growth Fund	984	984	-
- Central schools expenditure	1,268	1,268	-
- ESG retained funding	852	852	-
Sub-total	**144,160**	**144,160**	**-**
Early Years Block	28,392	28,392	-
High Needs Block	44,309	44,759	450
Sub-total	**216,861**	**217,311**	**450**
DSG Income	(216,360)	(216,360)	-
DSG c/f	(501)	(501)	-
DSG Total	**-**	**450**	**450**

Savings

2.1.41 In 2018/19 the council budgeted to deliver £11.287m of savings. Table 5 below summarises by Theme Committee the value of savings that are expected to be achieved against the savings programme. In total, £9.455m of savings is expected to be delivered by year end, representing 83.7% of the target. Delivery of these savings is included in the forecasts reported in table 1.

Table 5: Savings 2018/19

Service	2018/19 MTFS Savings Target £000	Savings Expected to be Achieved £000	Savings Unachiev-able £000	Savings Expected to be Achieved %
Adults and Safeguarding	2,980	2,315	665	77.7
Assets, Regeneration and Growth	2,355	1,855	500	78.8
Children, Education and Safeguarding	2,692	2,525	167	93.7
Environment	1,915	1,915	-	100.0
Policy and Resources	1,345	845	500	62.8
	11,287	**9,455**	**1,832**	**83.7**

2.1.42 Commentary on the delivery of savings is included within the explanation of variance from budget above.

Reserves and Balances

General Fund Balance

2.1.43 When the 2018/19 budget was set, the anticipated level of the council's General Fund balance was £9m which the Council would seek in time to increase to £12m. The balance as at 1 April 2018 was £15.083m (excluding schools' balances). The forecast overspend for the year, should it materialise in the way outlined in this report, would reduce the level of the General Fund Balance to £8.124m.

Table 6: General Fund Balance

	£000
General Fund Balance brought forward 1 April 2018	**(15,083)**
Forecast adverse variance	6,958
Forecast General Fund Balance 31 March 2019	**(8,125)**

Earmarked Reserves

2.1.44 The council has set aside specific amounts as reserves for future policy purposes or to cover contingencies. As at 31 March 2018 the council held reserves of £75.755m. Net drawdowns from earmarked reserves of £20.554m are forecast as at month 4 which would result in total earmarked reserves as at 31 March 2019 of £54.384m.

Table 7: Reserves

Service Area	Reserves b/fwd 1 April 2018 £000	Estimated Drawdown* £000	Estimated Contrib-utions/ new reserves raised/ transfers* £000	Reserves c/fwd 31 March 2019 £000
Central - Community Infrastructure Levy	22,560	(20,000)	10,000	12,560
Total Capital Reserves (GF)	**22,560**	**(20,000)**	**10,000**	**12,560**
Central - MTFS	30,374	(4,185)	-	26,189
Central - Service Development	2,056	(670)	-	1,386
Central – council tax and NNDR smoothing	3,038	-	-	3,038
Central - Transformation	3,432	(3,000)	-	432
Service - Central Expenses	880	(616)	150	414
Service – Family Services	1,079	(395)	-	684
Service - Commissioning	462	-	-	462
Service - Other	1,028	(200)	-	828
Total Revenue Reserves (GF)	**42,403**	**(9,066)**	**150**	**33,486**
Sub-total General Fund Earmarked Reserves	**64,963**	**(29,066)**	**10,150**	**46,047**

Service Area	Reserves b/fwd 1 April 2018 £000	Estimated Drawdown* £000	Estimated Contrib-utions/ new reserves raised/ transfers* £000	Reserves c/fwd 31 March 2019 £000
Service - DSG	501	(817)	-	(316)
Service - Housing Benefits	3,542	(430)	-	3,112
Service - NLSR	567	-	-	567
Service – local welfare provision	644	(500)	-	144
Service – GLL contract	341	-	-	341
Service – Syrian VPR	213	-	-	213
Service - Other	444	(13)	-	431
Service - Public Health	2,392	(620)	-	1,772
Special Parking Account (SPA)	2,148	(75)	-	2,073
Sub-total Ring-fenced Reserves	**10,792**	**(2,455)**	**-**	**8,337**
Total Earmarked Reserves	**75,755**	**(31,521)**	**10,150**	**54,384**

* subject to approval

Public Health Reserve

2.1.45 Included within earmarked reserves is the ring fenced public health reserve which, after proposed drawdowns, totals £1.772m. The service is identifying proposals for the use of the reserve.

Housing Revenue Account Balance

2.1.46 The Housing Revenue Account (HRA) has a budgeted contribution to balances of £0.754m in 2018/19. The forecast outturn for the year as at 31 July is a deficit of £0.337m, thus there is a forecast balance of £14.586m as at 31 March 2019.

Table 8: HRA Balance

	£000
HRA Balance brought forward 1 April 2018	**(15,003)**
Budgeted deficit	754
Favourable variance from budget	(337)
Forecast HRA Balance 31 March 2019	**(14,586)**

Dedicated Schools Grant Balance

2.1.47 The DSG reserve as at 1 April 2018 was £0.501m which was budgeted to be drawn down. In addition, as at month 4, an in-year overspend is forecast which would result in the DSG balance being in deficit by £0.316m.

Table 9: DSG Balance

	£000
DSG Balance brought forward 1 April 2018	**(501)**
Budgeted drawdown	501
In-year overspend	316
Forecast DSG Balance 31 March 2019	**316**

2.1.48 The Schools Forum need to approve any carry forward of a DSG deficit on central expenditure to the following year, if it is to be funded from the schools' budget. Otherwise, the deficit will fall on the General Fund.

The options to reduce / limit the forecast deficit are as follows:

- Move 0.5% or less from the school block to the high needs block with Schools Forum approval. If the Schools Forum do not agree with the Council's proposal they may appeal to the Secretary of State who would adjudicate. A recovery plan will be needed. Internally the council already requires all services with an overspend to develop a recovery plan.

- Reduce the high needs top up rates for SEN pupils/ reduce out of borough education places, review central services and operate full cost recovery charging.

2.1.49 From the autumn term, there will be a new requirement for local authorities to report on how they will bring any deficit position back in line if the deficit is more than 1% of total DSG as at 31 March 2019; for LBB this figure is £2m.

2.2 Capital Programme

2.2.1 The forecast as at 31 July 2018 on the council's 2018/19 capital programme is £303.469m, £260.522m of which relates to the General Fund programme and £42.947m to the HRA capital programme. This is £21.005m less than the approved 2018/19 budget of £324.474m. Table 10 below summarises the actual expenditure, budget and variance by service.

Table 10: Capital Forecast

Service	2018/19 Revised Budget £000	Additions/ (Deletions) £000	(Slippage)/ Accelerated Spend £000	Forecast £000	Variance from Approved Budget £000	Variance from Approved Budget %
Adults and Communities	4,200	-	(1,350)	2,850	(1,350)	(32.1)
Commissioning Group	64,274	453	(80)	64,647	373	0.6
Education and Skills	37,519	-	-	37,519	-	0.0
Family Services	13,478	-	-	13,478	-	0.0
Housing Needs and Resources (Barnet Homes)	69,631	15,077	(33,695)	51,013	(18,618)	(26.7)
Parking and Infrastructure	1,480	-	(42)	1,438	(42)	(2.8)
Re	86,757	90	(2,224)	84,623	(2,134)	(2.5)

Service	2018/19 Revised Budget £000	Additions/ (Deletions) £000	(Slippage)/ Accelerated Spend £000	Forecast £000	Variance from Approved Budget £000	Variance from Approved Budget %
Street Scene	5,623	240	(909)	4,954	(669)	(11.9)
General Fund Programme	**282,962**	**15,860**	**(38,300)**	**260,522**	**(22,440)**	**(7.9)**
HRA (Barnet Homes)	41,512	1,435	-	42,947	1,435	3.5
Total Capital Programme	**324,474**	**17,295**	**(38,300)**	**303,469**	**(21,005)**	**(6.5)**

2.2.2 Forecast capital expenditure for 2018/19 as at quarter one totals £303.469m which is £21.005m (6.5%) lower than the latest approved budget. The majority of service areas are forecasting on budget as at month 4, with a number of areas forecasting slippage and the HRA forecasting an overspend. The principal variances from budget and the reasons for these are as follows:

- **Adults and Communities** - Additional funding of £4.2m for the procurement of a new delivery partner to complete the implementation of the adults case management system was approved by Policy and Resources Committee in July. £2.850m of the budget is currently forecast to be spent in 2018/19.
- As at 31 July, the **Commissioning Group** capital programme is forecasting a small overspend on the customer services transformation programme currently in phase two and expected to be completed by February 2019. Further scope is currently being considered for phase three.
- As at month 4, the **Schools** capital programme totalling £37.519m is forecast on budget. There is a risk on the St Mary's and St John's project in relation of potentially irrecoverable VAT.
- The **Family Services** capital programme totalling £13.478m is also currently forecast to be on budget.
- The **Housing Needs and Resources** capital programme as at month 4 is showing slippage of £18.618m. There is slippage of £33.695m on the Open Door Homes loan as there have been delays in getting schemes on site with only eight schemes on site, compared to the planned 19 schemes. This is mainly due to land transfers taking longer than anticipated and, in some cases, decanting existing tenants to appropriate accommodation.

  The direct acquisitions programme was established to acquire properties from the open market in order to increase the supply of affordable temporary accommodation to meet housing demand. This is now forecast to spend £24.2m, £15.020m more than reported last month as the Cheyne project is now expected to bring on units at a much slower rate in this financial year. As a result, the direct acquisition programme has been re-prioritised and is expected to achieve 55 acquisitions, 28 more than the 27 forecast at month 3.
- The **Re** capital programme has decreased by £2.134m overall. The Brent Cross land acquisitions project is showing slippage of £2.500m as at month 4. This forecast is based on the current expected spend profile following the conclusion of CPO challenges.

- As at month 4, forecast capital expenditure on the **HRA** capital programme is £42.947m against a revised budget of £41.512m, resulting in a forecast variance of £1.435m. The main programme, which includes major works, regeneration, mechanical and electrical / gas works and the fire safety programme is forecasting full spend against the revised budget of £32.393m.

  The new build programme is forecasting increased spend of £1.435m. Moreton Close is expected to be delivered by the end of December 2018. This scheme is currently being reported on budget, however approval for an additional £0.360m for fit out costs is to be requested. The budget for the Development Pipeline - Stag House project will be spent on the completion of Burnt Oak Broadway in quarter three. The extra care pipeline is expected to be at the first stage of scoping during this financial year and the majority of expenditure in this year will be Barnet Homes' development fees.

Funding of Capital Programme

2.2.3 Table 11 below shows the how the 2018/19 forecast capital programme is being funded.

Table 11: Funding of 2018/19 Capital Programme

Service Area	Grants £000	S106/ Other Contrib-utions £000	Capital Receipts £000	Revenue/ MRA £000	Capital Reserves £000	Borrow-ing £000	Total £000
Adults and Communities	-	-	-	-	-	2,850	2,850
Commissioning Group	2,020	-	11,242	-	9,538	41,847	64,647
Education and Skills (including schemes managed by Schools)	30,517	6,002	-	-	-	1,000	37,519
Family Services	-	-	1,603	-	7,346	4,529	13,478
Housing Needs and Resources	1,500	1,327	17,775	-	-	30,411	51,013
Parking and Infrastructure	-	-	1,160	-	-	278	1,438
Regional Enterprise (Re)	17,801	9,921	915	6,307	1,590	48,089	84,623
Street Scene	652	387	1,133	-	-	2,782	4,954
General Fund Programme	**52,490**	**17,637**	**33,828**	**6,307**	**18,474**	**131,786**	**260,522**
HRA	50	-	841	32,868	-	9,188	42,947
Total Capital Programme	**52,540**	**17,637**	**34,669**	**39,175**	**18,474**	**140,974**	**303,469**

2.3 Treasury Management

Prudential Indicators

2.3.1 The Prudential Indicators have not been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The Local Government Act 2003 requires the council to set an Affordable Borrowing Limit (the Authorised limit), irrespective of its indebted status. This is a limit which should not be breached. During the period to 31 July 2018, there were no breaches of the Authorised Limit and the Operational Boundary.

2.3.2 The council's timeframes and credit criteria for placing cash deposits and the parameters for undertaking any further borrowing are set out in the Treasury Management Strategy (TMS). The TMS Strategy for 2018/19 was approved by Council on 6 March 2018.

Investment Performance

2.3.3 Investment deposits are managed internally. As at 31 July 2018, deposits outstanding were £91.500m, achieving an average annual rate of return of 0.69% against a benchmark average (London Interbank Bid Rate - LIBID) of 0.36%. The list of deposits outstanding as at 31 July 2018 is attached as Appendix D and summarised in table 12 below.

Table 12: Summary of Investments as at 31 July 2018

	£000
Local Authorities	19,000
Money Market Funds	29,100
UK Banks & Building Societies	20,000
Overseas Banks	23,400
TOTAL	**91,500**

2.3.4 The benchmark, the average 7-day LIBID rate, is provided by the authority's treasury advisors Link Asset Services. The LIBID rate is the rate that a Euromarket bank is willing to pay to attract a deposit from another Euromarket bank in London.

Borrowing

2.3.5 The total value of long term loans as at 31 July 2018 was £304.08m. There has been no new external borrowing in the 2018/19 financial year to date. The average rate for total borrowing for the year ending 31 July 2018 was 3.86%.

2.3.6 As at month 4 the anticipated increase in borrowing for the Council during 2018/19 is £140.9m. The forecast interest rate for this borrowing is presently 2.84%.

2.4 Debtors

2.4.1 An analysis of debtors as at the 31st July 2018 is displayed within this section of the report. It should be noted that this information is a snapshot as at that date and the position moves on a daily basis.

2.4.2 Between June and July 2018 overall debt decreased by £806k. The value of debts aged over 90 days however, increased by £4.1m as a result of a small number of high value invoices raised at year end remaining outstanding to the end of July. Officers are taking steps to address this and future period's reports will demonstrate the impact of this action.

Aged Debt Analysis

Not overdue	Up to 30 days	Up to 60 days	Up to 90 days	Over 90 days
3,544,000	2,383,791	1,471,315	515,356	16,984,507

Top 10 debtors

Organisation	Sum of Amount (£)
NHS BARNET CCG	7,204,613
Regional Enterprise Ltd	1,136,358
The Barnet Group	1,078,375
COMER HOMES	1,039,883
Barratt Metropolitan LLP	1,031,786
HAMMERSON (BRENT CROSS) LTD	1,028,318
COPTHALL GIRLS SCHOOL ACADEMY	849,031
HAMMERSON PLC	813,213
Henrietta Barnett Academy	784,745
HASMONEAN HIGH SCHOOL	647,385

3 Strategic Financial Matters

3.1 Internal Controls

3.1.1 A referral was received by the Corporate Anti Fraud Team (CAFT) in December 2017 alleging that a substantial amount of money had been paid into an account belonging to a member of Re staff. A criminal and financial investigation was immediately initiated by CAFT which subsequently identified that 62 allegedly fraudulent transactions, between July 2016 to December 2017, amounting to the total sum of £2,063,972, had been paid into various bank accounts controlled by the individual. The individual is no longer working for Re. The individual has been charged and convicted with two counts of fraud by abuse of position under the Fraud Act 2006. The sum has been repaid to the Council by Re and Capita has confirmed that it has underwritten this loss.

3.1.2 Following this discovery, the Council immediately took action to tighten financial controls and initiated an independent report into the wider financial control environment across the organisation.

3.1.3 The Council immediately put into place a new system of approving CHAPs payments. As these “on the day” payments are approved outside of Integra or any feeder systems that interface with the financial ledger, such as the Social Care system, approval for payments take place. The new systems went live during December. The system introduced six stringent effective new controls.

3.1.4 A dual authorisation process was also introduced for the release of payments from Bankline, the application through which CHAPs payments are made, so that in additional to a CSG employee, a Barnet Council employee must sign off each payment release in the system.

3.1.5 The Council subsequently employed Grant Thornton UK LLP (GT) in January 2018 to undertake a detailed review to fully understand and document the fraud itself through a forensic review, identify the reasons that the alleged fraud could occur, including weaknesses in the control environment and to identify lessons learned. The Council engaged an external provider as this ensured that the circumstances around the alleged fraud were the subject of an independent review, as well as adding capacity.

3.1.6 The Internal Audit programme has been focused on internal financial controls for 2018/19. This will ensure that sufficient scrutiny and external challenge is applied to the robustness of the control environment.

3.2 Long term financing planning

3.2.1 We are currently in the process of undergoing a Priorities and Spending Review (PSR) which was initiated in July 2017. The PSR aims to develop a clear strategic plan for how the council delivers services in and beyond 2019-2024. This has included understanding our demand, developing a vision and outlining priority areas, which has then formed the basis to begin exploring the options for addressing the financial gap to 2024.

3.2.2 This process is interlinked with the development of a five-year corporate plan (2019-2024), underpinned by a detailed three-year financial plan, and a forecast for years 4 – 5, all of which are updated annually on a rolling basis.

3.2.3 This ambition with regard to timing means following the usual budget setting timetable, e.g.

- June – September 2018: focused work on the financial options for the next three years and a refresh of the vision, purpose and outcomes of the corporate plan
- August – September 2018: informal sharing and development of options with committee chairs.
- October – November 2018: submission of proposals and draft corporate plan to committees.
- December 2018 – January 2019: public consultation.
- February – March 2019: sign off by P&R Committee and Council.

3.2.4 Whilst it is a very tight timescale for developing the corporate plan, the benefits of this approach are as follows

a. Supports a “refresh” of our thinking and strategy to reflect our context, view of the future, and take account of the new administration;
b. Supports closer integration of the MTFS and corporate plan and a focus on shoring up the financial position for the next three years;
c. Shapes an updated narrative for partners and residents;
d. Provides a public document that can support a lobbying position;
e. Takes control of our situation; rather than waiting for certainty that might not come from central government.

3.2.5 Given the financial issues we face, any corporate plan has to be a costed plan, and directly aligned with the MTFS.

4 Reasons for Recommendations

4.1 The report provides an overview of the council’s financial performance to period 4 of the 2018/19 financial year. The report also provides a commentary on the strategic financial issues facing the council during the period.

5 Alternative options considered and not recommended

5.1 None.

6 Post decision implementation

6.1 None.

7 Implications of decision

7.1 **Corporate Priorities and Performance**

7.1.1 The report provides an outline of the forecast financial performance for the 2018/19 financial year.

7.1.2 Robust budget monitoring is essential to ensure 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 and Commissioning Plans. In addition, adherence to the Prudential Framework ensures capital expenditure plans remain affordable in the longer term and that capital resources are maximised.

7.1.3 Relevant council strategies and policies include the following:

- Medium Term Financial Strategy
- Treasury Management Strategy
- Debt Management Strategy
- Insurance Strategy
- Capital, Assets and Property Strategy.

7.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

7.2.1 This report considers the financial position of the Council.

7.3 **Social Value**

7.3.1 The Public Services (Social Value) Act 2012 requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits. Before commencing a procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders. The council's contract management framework oversees that contracts deliver the expected services to the expected quality for the agreed cost. Requirements for a contractor to deliver activities in line with Social Value will be monitored through this contract management process.

7.4 Legal and Constitutional References

7.4.1 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 111 of the Local Government Act 1972, relates to the subsidiary powers of local authorities.

7.4.2 Section 28 of the Local Government Act 2003 (the Act) imposes a statutory duty on a billing or major precepting authority to monitor, during the financial year, its income and expenditure against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the authority must take such action as it considers necessary to deal with the situation. Definition as to whether there is deterioration in an authority's financial position is set out in sub-section 28(4) of the Act.

7.4.3 The council's Constitution, Article 7 Committees, Forums, Working Groups and Partnerships, sets out the functions of the Financial Performance and Contracts Committee as being Responsible for the oversight and scrutiny of:

- The overall financial performance of the council
- The performance of services other than those which are the responsibility of the: Adults & Safeguarding Committee; Assets, Regeneration & Growth Committee; Children, Education & Safeguarding Committee; Community Leadership & Libraries Committee; Environment Committee; or Housing Committee
- The council's major strategic contracts including (but not limited to):
  - Analysis of performance
  - Contract variations
  - Undertaking deep dives to review specific issues
  - Monitoring the trading position and financial stability of external providers
  - Making recommendations to the Policy & Resources Committee and/or theme committees on issues arising from the scrutiny of external providers
- At the request of the Policy & Resources Committee and/or theme committees consider matters relating to contract or supplier performance and other issues and making recommendations to the referring committee
- To consider any decisions of the West London Economic Prosperity Board which have been called in, in accordance with this Article.

7.4.4 The council's Financial Regulations can be found at:
https://barnet.moderngov.co.uk/documents/s47388/17FinancialRegulations.doc.pdf

7.4.5 Section 2.4.3 states that amendments to the revenue budget can only be made with approval as per the scheme of virements table below:

Virements for allocation from contingency for amounts up to and including £250,000 must be approved by the Chief Finance Officer
Virements for allocation from contingency for amounts over £250,000 must be approved by Policy and Resources Committee
Virements within a service that do not alter the approved bottom line are approved by the Service Director
Virements between services (excluding contingency allocations) up to and including a value of £50,000 must be approved by the relevant Chief Officers
Virements between services (excluding contingency allocations) over £50,000 and up to and including £250,000 must be approved by the relevant Chief Officer and Chief Finance Officer in consultation with the Chairman of the Policy and Resources Committee and reported to the next meeting of the Policy and Resources Committee
Virements between services (excluding contingency allocations) over £250,000 must be approved by Policy and Resources Committee.

7.5 Risk Management

7.5.1 Various projects within the council's revenue budget and capital programme are supported by time-limited grants. Where there are delays to the implementation of these projects, there is the risk that the associated grants will be lost. If this occurs either the projects will be aborted or a decision to divert resources from other council priorities will be required.

7.5.2 The revised forecast level of balances needs to be considered in light of the financial performance reported.

7.6 Equalities and Diversity

7.6.1 The Equality Act 2010 requires organisations exercising public functions to demonstrate that due regard has been paid to equalities in:

- Elimination of unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010.
- Advancement of equality of opportunity between people from different groups.
- Fostering of good relations between people from different groups.

7.6.2 The Equality Act 2010 identifies the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership, pregnancy and maternity; race; religion or belief; sex and sexual orientation.

7.6.3 In order to assist in meeting the duty the council will:

- Try to understand the diversity of our customers to improve our services.
- Consider the impact of our decisions on different groups to ensure they are fair.
- Mainstream equalities into business and financial planning and integrating equalities into everything we do.
- Learn more about Barnet's diverse communities by engaging with them.

This is also what we expect of our partners.

7.6.4 This is set out in the council's Equalities Policy together with our strategic Equalities Objective - as set out in the Corporate Plan - that citizens will be treated equally with understanding and respect; have equal opportunities and receive quality services provided to best value principles.

7.6.5 Progress against the performance measures we use is published on our website at: www.barnet.gov.uk/info/200041/equality_and_diversity/224/equality_and_diversity

7.7 Corporate Parenting

7.7.1 In line with Children and Social Work Act 2017, the council has a duty to consider Corporate Parenting Principles in decision-making across the council. There are no implications for Corporate Parenting in relation to this report.

7.8 Consultation and Engagement

7.8.1 None in the context of this report

7.9 Insight

7.9.1 None in the context of this report

8 Background Papers

Description	Meeting	Link
8 Future financial Reporting	Financial Performance and Contracts Committee Monday 2nd July, 2018 7.00 pm	http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=693&MId=9716&Ver=4
11 Report of Policy and Resources Committee - Business Planning 2017 to 2020	Budget Council, Council Tuesday 7th March, 2017 7.00 pm	http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=162&MId=8819&Ver=4