2017/18

London Borough of Camden

Finance Commentary

Month 9 – December 2017

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London Borough of Camden

Corporate Report

Month 9 – December 2017

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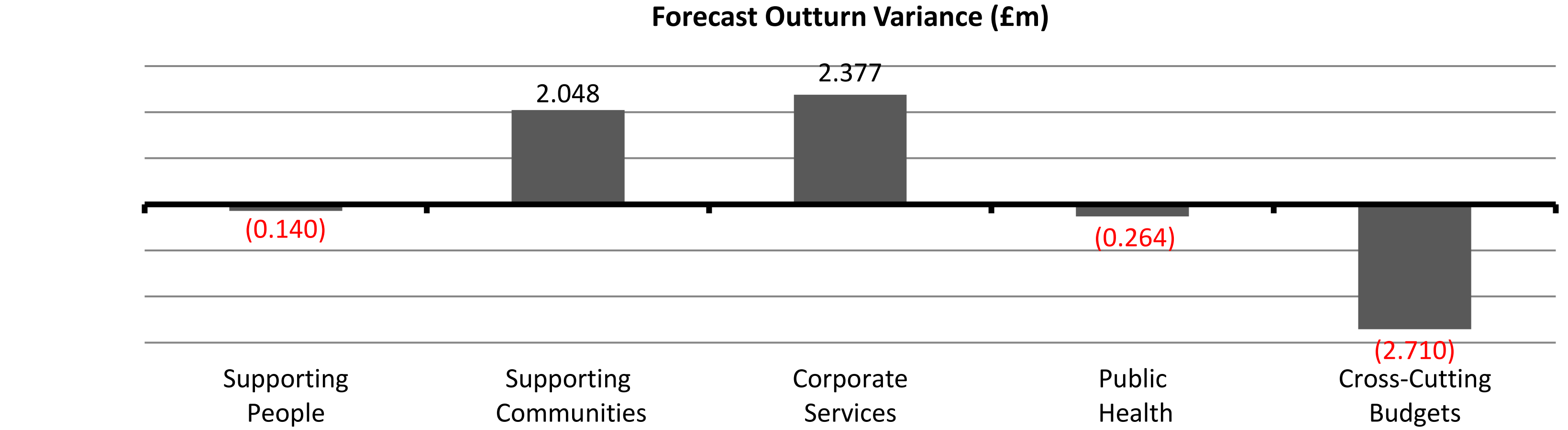


	Supporting People	Supporting Communities	Corporate Services	Public Health	Cross-Cutting Budgets	Total
Budget (£m)	162.150	63.572	24.188	22.411	(45.634)	**226.687**
Forecast Outturn (£m)	162.010	65.620	26.565	22.147	(48.344)	**227.998**
Forecast Outturn Variance (£m)	**(0.140)**	**2.048**	**2.377**	**(0.264)**	**(2.710)**	**1.311**
Forecast Outturn Variance (%)	(0.1)%	3.2%	9.8%	(1.2)%	(5.9)%	**0.6%**

Summary – General Fund

This report provides a high level picture of the forecasted outturn position for the authority as at month 9, built up through the budget monitoring and reporting process. The position is a working position that can change by year end. The Authority is forecasting a net overspend on the General Fund (GF) at Month 9 of **£1.3m**. This is not a position we expect the organisation to be at year end and so whilst accepting and recognising the significant work done to date, further work will be done and accelerated to get the authority to a balanced position.

The main General Fund variations for month 9 are summarised below.

Supporting People. The adjusted forecast for the Supporting People Directorate (SP) is an underspend for the General Fund of **£(0.1)m**. The adjustment relates to a potential drawdown from the Dedicated Schools Grant (DSG) reserves of **£1.5m** to cover any commitment resulting from the introduction of the enhanced Early Years' offer. Within Supporting People, Adult Social Care (ASC) are forecasting a break-even position. Housing Support Services is reporting an underspend of **£(1.1)m**, which is attributable to high occupancy levels delivering higher than budgeted levels of income.

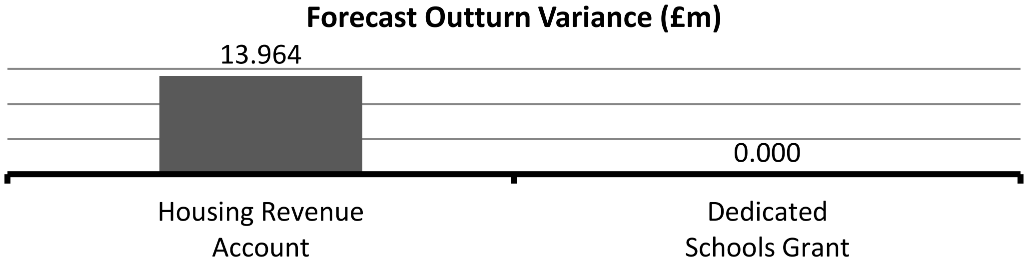
Supporting Communities. The service is forecasting an overspend of **£2.0m**. The main cause of this pressure relates to delayed implementation of MTFS savings (**£2.0m**) and historical on-going pressures (**£1.3m**) across the Directorate. There are one-off expenses (**£1.0m**) in relation to the Tavistock public inquiry, additional Food Safety officers, additional security, valuation consultants and corporate property repairs. These are off-set by one-off mitigations (**£(1.5)m**) relating to the Veolia waste contract, commercial property rents, void property underspends and vacancies held across the Directorate. The directorate is taking steps to address these pressures. As a result of this work so far, further mitigations totalling (**£(0.6)m**) have been identified since Quarter 2 to reduce the overspend.

Public Health. Public Health are currently forecasting an underspend of **£(0.3)m**. Although there are offsetting over and under spends within the Public Health services; a significant factor is the lower expected activity in the Substance Misuse services including alcohol residential rehabilitation services.

Corporate Services. The service is forecasting a net overspend of **£2.4m**. In Customer Services, there remains significant pressure on income from parking while there is an underspend in Housing Benefit (**£(1.7)m**), meaning that Customer Services is now reporting an overall position of a **£1.2m** overspend. There remains a pressure due to the ongoing work on the implementation of the HR/Finance system, where Finance, HR and IT are holding related salary overspends which collectively total **£0.9m**. Law and Governance are now reporting an underspend of **£(0.3)m** due to outstanding vacancies. Shared Digital remains balanced. Strategy and Change are reporting their first forecast post-restructure and a position of **£0.1m** overspend. This relates to subscriptions and pressure on income targets. On a cross-cutting basis over the directorate, Corporate Services is also forecasting an overspend of **£1m** due to the delay in delivered savings relating to the HR/Finance system and those associated with the Income Maximisation project.

Cross-cutting - Net underspend of **£(2.7)m**. The largest contributor to the underspend is **£(1.0)m** previously allocated to fund anticipated unavoidable financial pressure across the organisation. The £**(0.9)m** underspend remains for the council's minimum revenue provision (MRP) due to a reduced capital financing requirement (CFR) following slippage in the capital programme last year.

2. Non-General Fund Headlines



	Housing Revenue Account	Expenditure funded by the Dedicated Schools Grant
Budget (£m)	0.000	162.048
Forecast Outturn (£m)	13.964	162.048
Forecast Outturn Variance (£m)	**13.964**	**0.000**
Forecast Outturn Variance (%)	N/A	-

Summary – Non-General Fund

The authority is forecasting a required drawdown from reserves of **£14.0m** on Housing Revenue Account and a balanced budget on the Dedicated Schools Grant.

Housing Revenue Account (HRA). The HRA is forecasting an overspend of **£14.0m**. Costs associated with the evacuation of Chalcot Estate along with the emergency work required will cost approximately **£20.0m**. This includes the cost of the temporary evacuation, 24-hour fire-safety patrols, remedial works, security for the Chalcots estate and other associated costs. This expenditure can be funded from HRA reserves as it is a one off cost. Reserves will need to be replenished over the medium term but the cost of the evacuation will not require any change to the existing savings targets for Housing Services. New investment in Fire safety works is being programmed across the borough and a revised major works programme is being developed. If the Government does not release additional capital resources, it is currently envisaged that the cost of these works will be funded by re-phasing other works within the capital programme. Housing Management are forecasting an underspend of **£(1.1)m**, which relates to the Heating Pool due to gas prices for 2017/18 being lower than had been expected when budgets were set in 2016/17. The HRA is also forecasting lower than planned borrowing costs, the resulting underspend (**£(4.7)m)** will be used to help offset the cost of Chalcots emergency works.

Dedicated Schools Grant (DSG) – No significant variance in respect of schools is anticipated at this stage. The potential Early Years draw on this reserve is described in the ‘Supporting People’ summary above.

3. General Fund Significant Variances (Over £0.5m)

Directorate	Service	Issue	Month 9 Variance £m	Budget £m	Cause	Action
Corporate Services	Benefits	Underspend on bad debt	(0.650)	0.650	Decision made not to fund the bad debt provision as there is sufficient funding available.	None
Corporate Services	Parking Operations	Underachievement of income	2.606	(27.223)	£1.020m as a result of a decrease in suspension requests. £1.586m as a result of a movement in average paid and recovery rate. Specifically this relates to a shift in the stage of the PCN cycle at which PCNs are being paid which has subsequently impacted the average value of a PCN. Overall a drop of over 10% in the average value of PCNs. PCN and Paid for parking revenue impacted due to road closures as a result of HS2 and West End Project with changes in road layouts.	Continue to monitor and assess where mitigations can be made
Corporate Services	Parking Operations	Mitigations to underachievement of income	(0.903)	(27.223)	£(0.165)m underspend against salaries with vacancies for extended periods throughout the year. Underspend of £(0.169)m against budgets for postal and other contracts. £(0.596)m overachievement of income against visitor permit revenue.	None
Supporting Communities	Development Management	Under collection of income and staff budget overspends	0.615	(1.218)	Income shortfall of £0.288m for statutory planning applications and £0.065m for land search fees. Pre-app advice income is on target. The staff overspend of £0.177m relates to costs associated with agency backfill for temporarily vacant posts at a time when the workload in the service in terms of volume and complexity has remained historically high.	The 20% increase to statutory planning application fees as is effective from 17th January 2018. It is anticipated the 20% increase will generate up to £0.200m additional income in 2018/19 which must be reinvested within the service. The service will continue to explore opportunities to maximise pre-application income revenues within the financial year.

Directorate	Service	Issue	Month 9 Variance £m	Budget £m	Cause	Action
Supporting Communities	Regulatory Services	Staffing overspend due to addition staff required to reduce the backlog of food premise inspection.	0.687	0.943	The service has a backlog of food safety premise inspections and has recruited five additional food safety officers for 12 months to reduce this and comply with the Food Standards Agency.	The staff restructure is due to be implemented 1st April. Alternative Service Delivery options are being investigated.
Supporting Communities	Property Services	Security costs overspends	0.580	1.874	Security £0.350m overspend. £0.250m relates to a core budget pressure. Additional one-off costs due to increased security plus £0.180m of security cost for Community Investment Programme (CIP) properties vacated but not yet disposed of.	We are currently in the procurement process for a new security contract.
Supporting Communities	Commercial Property	Numerous Underspends	(0.562)	(5.154)	Void properties underspend – as a result of expenditure underspends. Commercial Properties underspend £(0.150)m relates to one-off back dated rental income.	The underspend will help to offset pressures within the Commercial Property staffing budget.
Supporting People	Early Years (EY)	Implementation of Early Years enhanced offer	1.477	5.873	Implementation of Early Years enhanced offer. N.B. The current forecast will be revised for the next round of reporting, once the census figures are available.	To be covered by Dedicated Schools Grant (DSG) Reserves.
Supporting People	Education (Achievement and Aspiration) Management	Level of School redundancies.	0.788	0.379	There have been a number of redundancies which have resulted in one-off costs. The main cause of the redundancies has been the reduction in real-terms funding of schools by Central Govt.	Revised processes by which redundancies are approved have been introduced for the 2017/18 academic year and it is expected that, as a result, these costs will peak in 2017/18 and reduce thereafter. The Education Service will need to consider and agree how the projected overspend might be met.

Directorate	Service	Issue	Month 9 Variance £m	Budget £m	Cause	Action
Supporting Communities	Transport Services	Under collection of income expected by year end.	0.572	0.009	Major projects under achievement of income of £0.434m, this relates to a historical income target. Design of Traffic Schemes overspend of £0.215m relates to a Network Rail bond payment of £0.066m and one-off legal costs. The bus shelter VC1 MTFS saving forecast £0.250m pressure for 2017/18 due to decision to align procurement with delivery of large scale digital advertising. This will be partially offset by one-off additional income of £(0.312)m from an outdoor advertising company.	The service is exploring alternative funding contributions. The service continue work to deliver procurement of Bus Shelter advertising contract.

4. Non-General Fund Significant Variances

Directorate	Service	Issue	Month 9 Variance £m	Budget £m	Cause	Action
Housing Revenue Account (HRA)	Income - Charges for Services	Major Works	(10.928)	(41.316)	Leaseholders have moved to annual billing for major works and the forecast reflects the estimate charged to leaseholders.	The service will closely monitor when work begins and income collected. This offset by an increase in the leaseholder contribution to capital so the overall impact to the HRA is nil.
Housing Revenue Account (HRA)	Leaseholder Services	Heating Pool underspend	(1.405)	23.295	Increases in gas prices are lower than had been budgeted for in 2017/18. As a reminder October 2016 prices saw a 25% decrease on the previous year and the October 2017 prices have increased by 8%.	The service will continue to work closely with the Energy Management Team to get the latest prices.
Housing Revenue Account (HRA)	Supporting Communities	Chalcots operation	20.263	-	Fire safety emergency response as a result of advice from London Fire Brigade.	Assessments will be done on the impact of the fire safety response on expenditure in year and longer term expenditure requirements.

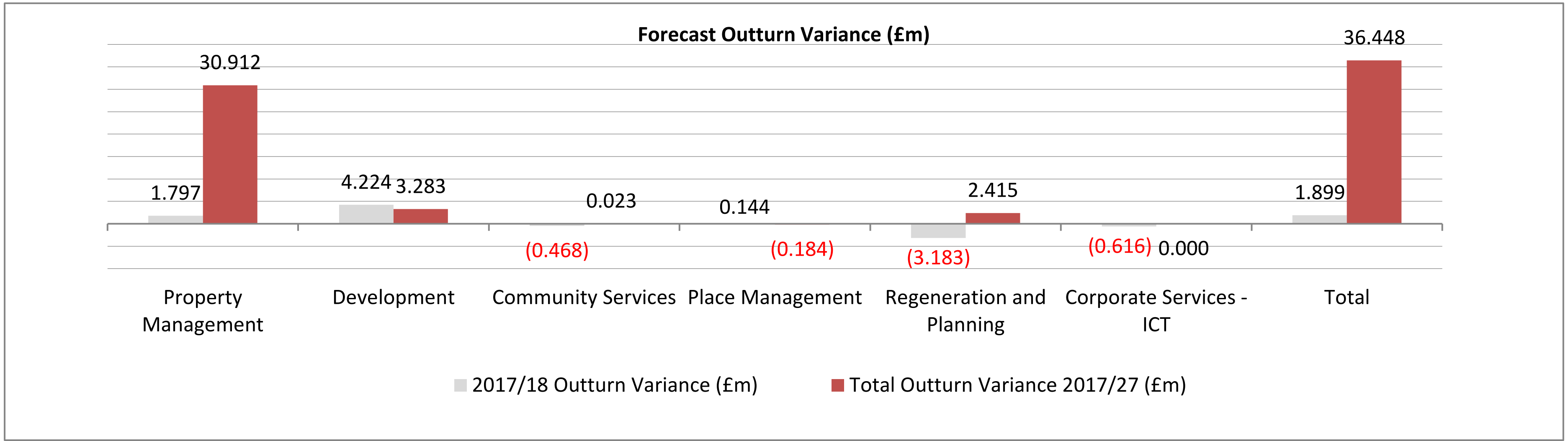
5. General Fund Risks

Directorate	Service	Risk	Likelihood/Mitigations	Financial Risk £m
Corporate Services	Shared Digital (SD) Service (As a whole)	Potential for over / (under) stating Service position. Due to the various projects running alongside each other within ICT and the various arrangements, regarding classification of Shared Digital / non-Shared Digital expenditure there is a risk of incorrectly stating forecasts across the service.	The introduction of monthly monitoring and guidance for Budget Managers on correct cost treatments for various project spend etc. will help mitigate this risk moving forward.	N/A
Supporting Communities	Building Control / Engineering Service	"Brexit" - Impact on construction related income streams. There is the risk that Brexit will have a negative impact on the construction industry in London	Impact of the ongoing Brexit negotiations has not been fully realised at this stage. Services are reviewing how Brexit might impact on income within Building control and Engineering services on an ongoing basis.	tbc
Supporting Communities	Sports and Physical Activity	Leisure Contract Variation	Final meeting(s) and sign off are still under negotiation.	2.500
Supporting People	Children's Care Provision	There has been a significant increase in the number and costs of Unaccompanied Asylum Seeking Children (UASC). These factors could result in an overspend for the Council as Home Office grant does not cover all of the costs. N.B. UASC now represent over 20% of the care population.	The service, supported by finance, are raising these concerns to central government via the London Councils Group. Meanwhile, UASC numbers and associated costs are being closely monitored by the service. N.B. the Government have recently announced additional funding of £0.323m for Camden to build capacity to care for these vulnerable children.	Not Quantified
Supporting People	Early Years (EY)	The financial impact of the new EY service will be difficult to ascertain until the census figures are made available.	Monitoring of data, numbers and costs to identify the pressure as soon as possible so that the likely drawdown from the Dedicated Schools Grant (DSG) reserve can be established.	£1.5m to £3.0m
Supporting People	Commissioning	Agreements between the National Health Service (NHS) and the authority (known as s256 agreements) have not yet been signed.	Meetings have progressed well and there is no reason currently to assume agreements will not be signed.	13.101
Supporting People	Adult Social Care - Care Purchasing	Various Issues including data quality (e.g. client commitments not being recorded on system or being under-stated), prior year void costs not accrued for, impact of London Living Wage and 'Sleep In' allowances could mean that the current forecast is understated.	Finance staff will work closely with the service over the closing period to ensure that the final outturn (including debtors and creditors) is as accurate as possible. However, further work needs to be undertaken in order to establish a robust forecast position in the future.	Not Quantified

6. Non-General Fund Risks

Directorate	Service	Risk	Likelihood/Mitigations	Financial Risk £m
Housing Revenue Account (HRA)	Better Homes Delivery	Expenditure in 2017/18 will need to be monitored closely and it is possible that the reduced expenditure on Mechanical & Engineering services in 2016/17 will lead to additional spend in 2017/18 as testing regimes gather pace and the new contracts are fully mobilised. Pressure also remains in relation to major repair commitments.	Monitoring the activity across the Mechanical & Engineering maintenance contracts to establish projected spend for 2017/18 and take corrective action where required. Working with partner to progress the major repairs commitments and close down works orders.	Unknown

7. Capital Forecast Outturn



	Supporting Communities						
	Property Management	**Development**	**Community Services**	**Place Management**	**Regeneration and Planning**	**Corporate Services - ICT**	**Total**
2017/18 Budget (£m)	68.872	107.383	3.613	10.004	8.344	5.000	**203.216**
Total Budget 2017/27 (£m)	571.022	648.612	15.412	33.457	36.294	7.730	**1,312.527**
2017/18 Forecast Outturn (£m)	70.669	111.607	3.145	10.148	5.161	4.384	**205.115**
Total Forecast Outturn 2017/27 (£m)	601.934	651.895	15.435	33.273	38.709	7.730	**1,348.975**
2017/18 Outturn Variance (£m)	1.797	4.224	(0.468)	0.144	(3.183)	(0.616)	1.899
Total Outturn Variance 2017/27 (£m)	**30.912**	**3.283**	**0.023**	**(0.184)**	**2.415**	**0.000**	**36.448**
Total Forecast Outturn Variance 2017/27 (%)	5.4%	0.5%	0.1%	(0.5)%	6.7%	0.0%	2.8%

<u>Summary – Month 9</u>

Overall, the capital programme is forecasting an overspend of £36.4m in Quarter 3 across all years to 2026-27..

Other key variances are as follows;

i. £3.3m total forecast overspend in Development relating mainly to Maiden Lane, which is projected to be offset by increased receipts. However, Development is reporting significant potential receipts under-achievements totalling around £10m at Abbey phase 1 and Bourne.

ii. Regeneration & Planning division is forecasting total overspend of £2.4m; TfL funded Corridors and Neighbourhoods schemes are forecasting overspend of £2.3m. The overspend on the Corridors and Neighbourhoods schemes plus further overspend on the Controlled Parking schemes of £0.1m has resulted in total forecast overspend of £2.4m on the Regeneration and Planning division (excluding West End project).

iii. Underspends on Property Management excluding Chalcots of £(5.4)m, mainly caused by Better Homes underspends of £(5.6)m.

The latest budget for the 2017-18 capital programme remains £203m with a forecast outturn of approximately £205m and a potential overspend of £1.9m. The year-to-date spend is £112.6m or 55.4% of current year budget. The year-to-date spend represents 54.9% of 2017-18 forecast outturn, suggesting a significant increase in spend in the last quarter. The main element offsetting the unfunded Chalcots costs this year is slippage in Better Homes of £(10.8)m, with other slippages such as West End Project of £(2.5)m and Sustainability in Community Services of £(0.4)m offsetting faster than budgeted spend of £4.2m in Development, primarily related to Abbey Road phase 1.

The Chalcots Estates Fire Safety capital works remains the primary financial risk for the Council. The scheme is estimated to cost approximately £11.7m in 2017-18 with a total forecast of £36.3m. However, a budget is yet to be allocated for the essential works being carried out.

The Council is legally required to carry out Fire Risk Assessments (FRAs) for all of its residential blocks that have communal areas such as shared hallway or landing. Initial programmed works suggest an estimated £80m of capital resources required to meet fire safety works including those at Chalcots.

The council is continuing to explore legal liability issues as a way of mitigating Chalcots costs, and is also exploring the possibility of a bespoke housing deal with the government. Our ‘asks’ could include greater flexibility over the use of right to buy receipts and grants, direct funding support and flexibility over the debt cap in order to ensure we can continue to deliver our ambitious housing targets despite fire safety costs and issues in the construction market. However it should be noted that increases in the debt cap will not solve viability issues emerging on a number of schemes.

The capital receipts target for 2017-18, is £(185.4)m and current forecasts of £(104.2)m. To date the cash received is £(68.5)m or 65.7% of forecast. The receipts shortfall on 2017-18 forecast is £81.2m. The receipts target across all years remains £943.4m.

Development. The Development division has a 2017-18 budget of £107.3m and month 9 forecast outturn of £111.6m. 2017-18 spend to date is £71.5m. This represents an overall forecast overspend of £4.2m (or 3.9% of 2017-18 budget). The overall forecast overspend is due mainly to forecast overspends on

Abbey Road - £9.4m; Maiden Lane - £3.5m; Bacton Low Rise Phase 1 - £2.2m and Parliament Hill - £2.0m; partially offset by potential underspends at Central Edith Neville/CST Phase 1 £(5.2)m, Regents Park HS2 £(3.0)m, Bacton Low Rise Phase 2 £(1.5)m and others totalling £(2.8)m.

Property Management. The current 2017-18 capital budget for Property Management is £68.9m. The forecast outturn is £70.6m showing a potential overspend of £1.8m. Actual spend for the division currently stands at £31.2m.

Although the Better Homes (BH) programme is forecasting a slippage/underspend of £(10.7)m in 2017-18, this has been offset by the forecast overspend of £11.7m on the Chalcots project.

The forecast underspend on the BH programme is mainly due to delays in completion of projects as the Planned Works team focus their activity on Chalcots.

Regeneration and Planning. The Regeneration and Planning schemes are forecasting an underspend of £(3.2)m in 2017-18 mainly due to forecast slippage of £(2.5)m on the West End project.

The division is forecasting an overspend of £2.4m on the total budget due to delays experienced on TfL funded schemes. This overspend is expected to be funded from TfL grant earmarked for the schemes.

Place Management. The Place Management service has a current 2017-18 budget of £10.0m and forecast outturn of £10.1m; a 2017-18 forecast overspend of £0.14m. The division is forecasting a total underspend of £(0.2)m which will be utilised to offset any future overspends particularly on the s106 schemes.

Community Services. The Community Services projects are forecasting an underspend in 2017-18 of £(0.5)m, made up of £(0.04)m on Green Spaces and £(0.4)m on Sustainability schemes. The forecast underspend on Sustainability is due to new external grant awarded for the Euston Road Combined Heating and Power (CHP) works which means that capital works are likely to be slipped into future years.

ICT Corporate Services. The ICT capital projects are forecasting a 2017-18 spend of £4.4m (including £0.7m from block budgets) against a budget of £5.0m. £2.5m of block budgets have been re-profiled for use in future years for use on new initiatives and identified programmes. The 2017-18 forecast underspends on Asset Refresh - £(0.4)m and the Smart Working programme - £(0.2)m are earmarked for use in future years.

Capital Receipts. The capital programme is currently forecasting an under-achievement in capital receipts of £81m for 2017-18 due to a combination of project slippage and a slowdown in the residential sales market. Target receipts for 2017-18 is £(185.4)m and forecasts are £(104.2)m. The total receipts target and forecast across all years stand at £(943.4)m and £(935.4)m respectively due to an expectation that targeted receipts may be unobtainable on a couple of CIP schemes. These targets will be refreshed as part of the capital review for submission to Cabinet in July. Cash received to date in 2017-18 is £68.5m.

The below table summarises target capital receipts against forecasts:

FUNDING AREA	2017-18 Target Receipts £000	2017-18 Forecast £000	2017-18 Variance £000	Total of Current and Future Years Target Receipts £000	Total of Current and Future Years Forecast £000	Total of Current and Future Years Variance £000
GF Receipts						
GF Disposals Programme	3,430	3,456	26	113,406	113,432	26
Homes for Older People	9,760	9,760	0	28,060	28,060	0
Accommodation Strategy	22,500	0	(22,500)	38,539	38,539	0
General Fund sub-total	**35,690**	**13,216**	**(22,474)**	**180,005**	**180,031**	**26**
HRA RECEIPTS						
HRA Small Sites	4,768	425	(4,343)	8,687	9,112	425
Right to Buy	11,574	9,566	(2,008)	29,199	27,191	(2,008)
Estate Regeneration Developments	133,406	81,006	(52,400)	725,554	719,063	(6,491)
HRA sub-total	**149,748**	**90,997**	**(58,751)**	**763,440**	**755,366**	**(8,074)**
TOTAL	**185,438**	**104,213**	**(81,225)**	**943,445**	**935,397**	**(8,048)**

8. Reserves & Balances

Earmarked Reserves	Actual Reserves 31/03/2017 £000	Forecast Reserves 31/03/2018 £000	Forecast Reserves 31/03/2019 £000	Forecast Reserves 31/03/20120 £000	Forecast Reserves 31/03/2021 £000
Reserves to support key revenue budget outcomes					
Dedicated Schools Grant	7,339	4,948	2,782	2,782	2,782
Multi Year Budget Reserve	8,760	9,098	13,014	13,847	14,897
Education Commission	948	653	253	253	253
Supporting People Specific Reserves	2,570	1,778	986	394	394
Sub Total	**19,617**	**16,477**	**17,035**	**17,276**	**18,326**
Reserves to support the councils service remodelling programme					
Workforce Remodelling/Cost of Change	5,729	5,801	5,301	0	0
Camden Plan	2,006	3,024	0	0	0
Sub Total	**7,735**	**8,825**	**5,301**	**0**	**0**
Reserves to support on-going capital activity and asset management					
Future Capital Schemes	24,499	22,341	17,038	18,064	22,494
Commercial and other property	776	776	776	0	0
Haverstock PFI Funding Reserve	1,759	1,629	1,499	1,369	1,239
Schools PFI Equalisation Reserve	1,500	1,718	1,936	2,154	2,321
Building Schools for the Future	464	270	70	70	70
Accommodation Strategy	3,550	2,585	1,678	1,772	1,918
Sub Total	**32,548**	**29,319**	**22,997**	**23,429**	**28,042**
Reserves to mitigate future corporate risk					
Self-Insurance Reserve	5,477	5,477	5,477	5,477	5,477
Contingency Reserve	1,512	0	0	0	0
Business Rates Safety Net	8,880	10,880	868	4,191	7,514
Sub Total	**15,869**	**16,357**	**6,345**	**9,668**	**12,991**
Total Earmarked Reserves	**75,769**	**70,978**	**51,678**	**50,373**	**59,359**
General Balances	13,624	13,624	13,624	13,624	13,624
Housing Revenue Account	38,387	24,387	22,887	21,387	21,387
Schools Balances	16,054	13,054	9,054	4,054	4,054
Total Reserves	**143,834**	**122,043**	**97,243**	**89,438**	**98,424**