Cabinet report

milton keynes council

10 March 2020

Forecast Outturn For Quarter 3, 2019/20:
General Fund Revenue, Housing Revenue Account, Dedicated Schools Grant And Capital Programme

Name of Cabinet Member	**Councillor Middleton** Cabinet member for Resources and Innovation
Report sponsor	**Steve Richardson** Director for Finance and Resources
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Exempt / confidential / not for publication	**No**
Council Plan reference	**1 – "A Balanced Budget"**
Wards affected	**All wards**

Executive Summary

This report sets out the 2019/20 Quarter (QTR) 3 forecast outturn for the General Fund (GFRA); Dedicated Schools Grant (DSG); Housing Revenue Account (HRA) Capital Programme and Tariff Programme; based upon income and expenditure as at 31 December 2019.

We are currently forecasting a General Fund underspend of £0.310m.

As detailed in Annexes A-L, the main headlines are:

- General Fund Revenue Account (GFRA) – is currently forecasting an underspend of £0.310m.
- GFRA planned savings of £2.670m have been achieved (42% of the annual savings target). By the 31 March it is forecast that £5.860m savings will be

achieved (93%), leaving a shortfall of £0.467m (7%). This has been reflected in the forecast position.

- The Housing Revenue Account (HRA) is currently forecasting a £0.003m underspend, which will be offset by an increase in the planned level of Revenue Contribution to Capital (RCCO).
- Dedicated Schools Grant (DSG) budget was set with an estimated surplus carry forward into 2020/21 of £2.956m, the forecast position at Q3 is a surplus carry forward of £2.636m.
- Public Health budget was set with planned use of reserves of £0.329m, the forecast position is a contribution to reserves of £0.164m.
- The Capital Programme (2019/20 – 2023/24) was rebased as at the 30 June 2019. Overall project forecast of £552.671m compared to budget £554.695m, a £2.024m underspend; of this forecast £135.549m is in 2019/20, compared to budget £165.638m, a £30.089m underspend. £28.405m of the forecast underspend is projected to be re-phased into later years, resulting in a net £1.684 underspend in 2019/20.
- The report includes recommendations to amend the 2019/20 and 2020/21 Tariff Programme and 2019/20 Capital Programme, details of which are included in Annexes G & I.

1. Decisions to be made

1.1. That the GFRA forecast outturn of £0.310m underspend be noted, together with the management actions set out at **Annex A** of this report.

1.2. That the forecast outturn on the HRA is break even, after an increase in the transfer to reserves be noted, together with the management actions set out at **Annex C** of this report.

1.3. That the DSG surplus carry forward of £2.636m be noted, together with the management actions set out at **Annex D** of this report.

1.4. That the forecast outturn spend on the Capital Programme of £552.671m total project of which £135.549m is in 2019/20 as detailed in **Annex F** of this report be noted.

1.5. That the additions and amendments to resource allocation and spend approval for the 2019/20 capital programme, as detailed in **Annex G** be approved.

1.6. That the current position of the 2019/20 tariff programme as detailed in **Annex H** be noted.

1.7. That the additions and amendments to resource allocation and spend approvals for the 2019/20 and 2020/21 tariff programmes as detailed in **Annex I** be approved.

1.8. That the virements to the original budget as detailed in **Annex L** are noted.

1.9. That the current high risk vacancies areas as detailed in **Annex M** are noted.

1.10. That the procurement waiver decisions as detailed in **Annex N** are noted.

2. Why is the decision needed?

2.1. To ensure that the Council delivers a balanced budget in 2019/20 in line with the Council Plan.

Key Issues

General Fund Revenue Account (GFRA)

The quarter 3 position includes the profiled budgets and actuals to date however further work is on-going to refine the profiles in the future. Budget managers, supported by finance business partners have worked to provide the updated forecast outturn position for this quarter.

2.2. The current projection is an underspend of £0.310m.

2.3. Key GFRA Variances Movements from Previous Quarter:
Level 1 – Very High Impact (>£1.000m)
None.
Level 2 – High Impact (>£0.500m - £1.000m)

None.

Level 3 – Medium Impact (>£0.100m - £0.500m)

- Additional income of £0.370m income in relation to Continuing Health Care (CHC) clients attending the Internal Day and Short Breaks services. This is a result of implementing a full cost recovery model for CHC funded service users.
- The forecast overspend in Temporary Accommodation has increased by a further £0.257m since Quarter 2, arising from increased demand (forecast 1,013 households in Q3, against 670 budgeted) and slower supply (based on

turnaround time of void properties and the property acquisitions programme). £0.100m of the increase is a result of billing discrepancies in relation to hotel bookings made through Click Travel. The homelessness overspend is a result of a multitude of pressures including from private landlords tenancies requiring higher rents as well as friends and families no longer able to accommodate adult children.

- The forecast overspend in Children's Social Work has increased by a further £0.189m since quarter 2, as a result of additional legal costs expected from judicial reviews relating to unaccompanied asylum seeker children and high cost complex cases and an increased spend on staffing, mainly within the family support teams.

- The forecast overspend in Corporate Parenting has increased by £0.333m since quarter 2 mainly as a result of the number of remand placements required as a result of recent incidents. At June 2019 there were 395 LAC which has risen to 428 children at December 2019. The number of permanent placements continues to increase with this being used as a better alternative for supporting young people and as a result budget remains in balance.

- Social Care Grant contributions remain at £0.400m funding being used to offset part of the overspend across Children's Services.

- Highways Adoptions income has increased by £0.200m following a continued strong position in housing development, despite the expected uncertainties regarding Brexit. This is also the case for planning income which has been increased by £0.382m. However, this includes a conservative forecast for the last 3 months of the year in both instances.

- Highways maintenance costs have increased by £0.188m following the changes to the 28 day pot hole repair policy. However, to mitigate this pressure in the long term, it has been agreed with the contractor that efficiencies can be made in terms of management of the crews carrying out these works to move to a manageable position next year.

Housing Revenue Account (HRA)

2.4. None.

Public Health

2.5. Public Health is reporting a projected a contribution to reserves of £0.164m (overall there is a net nil variance after use of reserves as the funding is ting-fenced). The in year underspend forecast is as a result of vacancies across Milton Keynes, Bedford Borough Council and Central Bedfordshire Council in a Shared Service operating model and some underspends against contracts (including Sexual Health and Smoking services) due to activity being lower than anticipated.

Dedicated Schools Grant (DSG)

2.6 When the budget was set, it was anticipated that there would be a surplus carry forward of £3.063m from 2018/19, however the actual carry forward was a surplus of £2.870m. The 2018/19 early years final block adjustment was unknown at the time of setting the budget but has now been confirmed and the anticipated surplus carry forward at the end of 2019/20 is now £2.636m. The overall DSG income budget is £252.396m.

2.7 The funding blocks within the DSG are now ring-fenced (with effect from 2018/19) and all key forecast variances are set out in Annex D to this report. This includes details of the projected financial impact, action being taken by the responsible Head of Service, timelines and the anticipated outcome.

Delivery of Savings

2.8 Savings of £6.039m were approved for implementation in 2019/20 and £0.288m savings carried forward from 2018/19, but only £5.860m (93%) is currently projected to be delivered in year and £0.467m (7%) will either not be delivered until next year or are undeliverable.

2.9 A full schedule of all delayed and non-deliverable budget reductions and income proposals is attached at **Annex B** to this report and sets out the detailed position on each of the individual proposals.

Collection Fund

2.10 The Collection Fund includes all income generated from council tax and business rates that is due in the year, including arrears, from council taxpayers and ratepayers.

2.11 Council Tax - The latest forecast shows a projected surplus of £3.694m (£0.345m carried forward from previous year), of which £3.124m will be MKC's share. The actual surplus will be distributed in 2020/21.

Table 2 - Council Tax Income - December 2019

	Q2 £m	Q3 £m	Movement £m
Council Tax Collection Fund Surplus	3.839	3.694	0.145
Milton Keynes Share	3.247	3.124	0.123

2.12 Business Rates - The Council's budget for retained business rates income for 2019/20 is £49.620m. It is currently projected that the Council's actual share of retained business rates will be on budget.

Table 3 - Business Rates Income – December 2019

MKC Share	Budget £m	Forecast £m	Movement £m
Business Rates	49.620	49.620	0.000

2.13 The above forecast takes into account the Levy payment on growth and impact of s31 grants for reliefs funded by Central Government. Any surplus on business rates income will be credited to the business rates equalisation fund.

Housing Revenue Account (HRA)

2.14 The HRA is reporting a projected underspend which will be offset by an increase contribution to Capital, details of which are found in **Annex C, Table 1**.

2.15 All key forecast variances are set out in **Annex C, Table 2**. This includes details of the projected financial impact, action being taken by the responsible Head of Service, timelines and the anticipated outcome.

2.16 Key HRA Variances Movements From Previous Quarter:

Level 1 – Very High Impact (>£1.000m)

None.

Level 2 – High Impact (>£0.500m - £1.000m)

None.

Level 3 – Medium Impact (>£0.100m - £0.500m)

Housing Regeneration Total - £0.114m

- Vacancy savings due to recruitment lag; offset by agency and Consultancy costs.

Reserves

2.17 The main reasons the Council holds reserves are to:

- Manage known financial risks;
- Hold funding as one-off contributions to expenditure, allowing ongoing revenue budget reductions;
- Manage timing differences between the receipt of funding and actual spend;
- Hold ring-fenced funds such as specific grants, trusts, schools or the HRA.

2.18 Reserves can only be used once, so should not be used to fund recurring planned spend, in particular they should not be used to balance the budget; this is one of our key financial principles. Reserves are monitored during the year and reviewed at year end and when setting the budget to determine whether any need to be replenished.

2.19 **Annex E** shows projected year end balances based on spending commitments made as part of the MTFP and new in year movements approved by the Chief Finance Officer in line with the Council's Constitution. The underspend of £0.310m increases the forecast working balance to £20.748m which remains above the minimum assessed level of £17.993m.

2019/20 Capital Monitoring

2.20 **Table 4** shows a summary of the forecast outturn for the capital programme compared to budget for 2019/20. The current position shows an underspend of £30.089m; however after forecast slippage of £28.405m, this becomes an underspend of £1.684m.

2.21 For the quarter 1 report a review was undertaken to scrutinise the delivery of schemes and contractual commitments, as part of this exercise £33.630m of the 2018/19 underspend was re-phased in to 2020/21 onwards. A further £28.405m of slippage has been identified by Project Managers since quarter 1.

2.22 Detailed individual project forecast, including total project positions are detailed in **Annex F**.

Table 4 – Capital Monitoring

Capital Summary	Forecast to Year End			Forecast after Slippage	
	2019/20 Project Budget	2019/20 Forecast Outturn	In year forecast Variation	Project Slippage to later Years	2018/19 Forecast Under/Over spend
Service	**£m's**	**£m's**	**£m's**	**£m's**	**£m's**
Adult Social Care	0.643	0.455	(0.188)	0.155	(0.033)
Children Services	35.240	30.401	(4.840)	4.133	(0.706)
Corporate Core	3.360	2.910	(0.450)	0.450	0.000
Housing and Regeneration - HRA	70.893	52.637	(18.256)	17.299	(0.957)
Housing and Regeneration - GF	2.261	2.215	(0.047)	0.056	0.009
Growth, Economy and Culture	6.917	2.863	(4.054)	4.054	(0.000)
Environment and Property	44.356	42.652	(1.704)	1.708	0.003
Resources	1.967	1.417	(0.551)	0.551	0.000
Capital Programme Requirements	**165.638**	**135.549**	**(30.089)**	**28.405**	**(1.684)**
Capital Financing					
Capital Receipts	(11.433)	(11.433)	0.000	0.000	0.000
Major Repairs Reserve	(34.761)	(34.761)	0.000	0.000	0.000
Government Grants	(45.291)	(45.291)	0.000	0.000	0.000
Prudential Borrowing	(22.709)	(22.709)	0.000	0.000	0.000
Developer Contribution	(15.146)	(15.146)	0.000	0.000	0.000
Third Party Contributions	(2.775)	(2.775)	0.000	0.000	0.000
Parking Income	(0.990)	(0.990)	0.000	0.000	0.000
Revenue Contributions	(28.690)	(28.690)	0.000	0.000	0.000
New Homes Bonus	(3.843)	(3.843)	0.000	0.000	0.000
Total Capital Financing	**(165.638)**	**(165.638)**	**0.000**	**0.000**	**0.000**
Net Surplus / Deficit	**0.000**	**(30.089)**	**(30.089)**	**28.405**	**(1.684)**

2.23 Key Project Variances

- HRA Asset Management Programme net £0.923m underspend in year mainly due to the External Walls & Fencing project £0.922m forecast underspend, this is due delays following issues with boundary lines and understanding which are the responsibility of Milton Keynes Council. Plans therefore have not developed for full spend this year, however there is already sufficient budget in place within the 2020/21 programme for 2020/21 planned work.

2.24 2019/20 Key Slippage to later Years

- Whitehouse 12FE Secondary School £3.124m forecast slippage to 2020/21 due to phasing of works, forecast completion date remains at the 01/01/2021.
- HRA New Build Housing programme £14.137m forecast slippage to 2020/21 due to changes to the procurement process. Forecast completion dates for the phase two projects have now been identified as March 21 and March 22, these were originally built in to complete in 2019/20.
- Tattenhoe Park Community Wellness Hub £1.810m forecast slippage to 2020/21 construction will be starting on site May 2020 and is due to complete in October 2020. Current budget assumes completion in year.
- Fairfield Leisure and Community Facilities £1.312m forecast slippage to 2020/21 works on the pitches is expected to start March 2020 with the building being constructed in June, with expected completion by September 2020. Current budget assumes completion in year.

Revisions to the Capital Programme

2.25 There are a number of schemes that were not included in the original 2019/20 capital programme but have now completed the officer review process. Cabinet approval for resource allocation and spend approval is now sought to include new capital projects (summarised in **Annex G**) in the 2019/20 capital programme.

2.26 **Table 5** summarises the changes on the capital programme.

Table 5 – Summary of the changes to the 2019/20 Capital Programme

	Resource Allocation	Spend Approval
	£m	£m
2019/20 Capital Programme as agreed 03 December Cabinet	**165.143**	**163.465**
New Projects	0.495	0.495
Amendments to Existing Project	0.000	0.000
Total	**165.638**	**163.960**

2.27 The significant new schemes submitted for inclusion in the 2019/20 capital programme are:

- Fairfield's Pitches – resource allocation and spend approval of £0.380m in 2019/20 and £0.140m in 2020/21 is requested to provide 4 new grass playing fields, including tailored drainage. This project is funded from a developer contribution. Council policy is to provide a specified level of new open space and recreational facilities provision within new development. Currently none exist within the Fairfields development which will eventually contain 2,200 dwellings. The Fairfields development is now over one third occupied with the residential development currently under construction taking this beyond half within the next 2 years. The playing fields will take at least 18 months and possibly longer to establish before they can be used meaning that further delay from now would result in the majority of the development being built out but with no accessible playing fields. Commencing this project now means the fields will be usable from the 2021/22 football season.

- Greenley's Local Centre – resource allocation and spend approval of £0.100m in 2019/20 is requested to resurface car park, upgraded lighting, provision of a new children's play area and landscaping at Greenley's Local Centre. This project is funded from revenue contribution. The external areas outside the Greenley's Local Shops are due for extensive works to ensure the area becomes more attractive to the community, is safer for shoppers and increase the footfall for local businesses. The health and safety level of the area would be greatly enhanced by addressing the lighting levels, condition of current children's play area and car park surface.

- Redway Special School – Ceilings – resource allocation and spend approval of £0.015m in 2019/20 is requested to upgrade the internal ceiling above the swimming pool at Redway special school. This project is funded from a single capital pot grant from the Department of Education.

2.28 Spend approval requests for projects within the 2019/20 capital programme, are summarised in **Annex G**.

2019/20 Tariff Monitoring

2.6 **Table 6** shows a summary of the forecast outturn for the Tariff programme compared to budget for 2019/20 The current position shows an underspend of £4.684m; however after forecast slippage of £4.684m, this becomes a nil variance.

2.7 For the quarter 1 report a review was undertaken to scrutinise the delivery of schemes and contractual commitments, as part of this exercise £13.190m of the 2018/19 underspend has been re-phased in to future years. A further £4.684m of slippage has since been identified since quarter 1.

2.8 Detailed individual project forecast, including total project positions are detailed in **Annex H**.

Table 6 - Tariff Monitoring

Tariff Summary	Forecast to Year End			Forecast after Slippage	
	2019/20 Project Budget	2019/20 Forecast Outturn	In year forecast Variation	Project Slippage to later Years	2018/19 Forecast Under/Over spend
Service	**£m’s**	**£m’s**	**£m's**	**£m’s**	**£m’s**
Roads and Highways	1.015	0.330	(0.685)	0.685	0.000
Public Transport	0.625	0.545	(0.080)	0.080	0.000
Schools	7.147	7.147	0.000	0.000	0.000
Leisure and Culture	8.946	5.952	(2.994)	3.394	0.400
Social Care and Health	6.159	6.159	0.000	0.000	0.000
Other Services	2.067	1.642	(0.425)	0.425	0.000
Costs of Running	0.135	0.135	0.000	0.000	0.000
Works in Kind	8.994	8.494	(0.500)	0.100	(0.400)
Capital Programme Requirements	**35.088**	**30.404**	**(4.684)**	**4.684**	**0.000**
Tariff Financing					
Tariff Receipts	(35.088)	(35.088)	0.000	0.000	0.000
Total Tariff Financing	**(35.088)**	**(35.088)**	**0.000**	**0.000**	**0.000**
Net Surplus / Deficit	**0.000**	**(4.684)**	**(4.684)**	**4.684**	**0.000**

Revisions to the Tariff Programme

2.9 Cabinet approval for resource allocation and spend approval is sought to include new Tariff projects (summarised in **Annex I**) in the 2019/20 Tariff Programme.

Table 7 – Summary of the changes to the Tariff Programme

	Resource Allocation	Spend Approval
	£m	£m
2019/20 Tariff Programme as agreed 03 December Cabinet	**35.228**	**27.413**
Changes		
Cash Investments	(5.140)	(5.074)
Works in Kind	0.000	0.000
Total	**30.088**	**22.339**

2.10 The significant amendments to the 2019/20 Tariff programme are:

- Fairfield's Playing Fields – additional resource allocation and spend approval of £0.066m is requested to fund the Fairfield's pitches capital project funded from a transfer from the Green Spaces allocation. With £0.140m being re-phased to 2020/21 in line with the new capital project above £0.380m 2019/20 and £0.140m in 2020/21.

- Cancer Centre – reduction in resource allocation and spend approval of £5m to enable the £5m tariff contribution to be reassigned to contributing towards the development of the new Pathway Unit at the Hospital Campus.

  Additional funding made available during 2019/20 to the Hospital for the Cancer Centre has meant that part the tariff contribution previously allocated for this project can be reassigned to other health facilities. The hospital is investing in the development of a new Same Day Emergency Assessment Unit (Pathway Unit), and short stay ward at Milton Keynes Hospital. The new unit next to the emergency department will provide assessment space for ambulatory patients/frail elderly patients alongside community facilities. Resource allocation and spend approval of £5m for the Pathway Unit will be added to 20/21 tariff programme.

Debt Collection and Performance

2.11 **Annex J** details the Council's overall debt positon and collection performance in quarter.

Treasury

2.12 **Annex K** reports the current treasury management forecast.

Virements

2.13 Financial procedure rules require virements between services to be reported and agreed, **Annex L** details the virements processed in the quarter.

Hard to Fill Roles

2.14 A number of roles within the Council have been hard to fill, which can result in significant agency spend. Action has been taken to try to fill these roles to continue to deliver service levels and manage agency spend.

2.15 A successful recruitment campaign in Adult Social Care for Social Workers has seen an overall reduction in vacancies. Housing has created some career graded roles to fill their vacancies and that is having a positive impact. Planning continues to experience some challenges with recruitment with certain technical roles, and HR is working with a specialist agency to support the service on this. The current list of hard to fill roles and the action being taken is shown in **Annex M**.

Procurement Waivers

2.16 Financial procedure rules require all variations to the ordering system to be approved by the Director of Finance and Resources. A summary of the procurement waivers approved to date in year are summarised in **Annex N**.

3 Implications of the decision

a) Financial implications

Capital implications are fully considered throughout the report. Revenue implications as a result of capital schemes are built into the Council's debt financing and other revenue budgets as appropriate through the Medium Term Planning process. Where significant risks are known they are highlighted in this report.

Any overspend on the General Fund position will impact on the General Fund working balance. If amounts go below the minimum working balance actions will need to be taken to increase the minimum level of reserves and may result in the need for changes to spending plans for future years.

Y	Capital	Y	Revenue	N	Accommodation
N	IT	Y	Medium Term Plan	Y	Asset Management

b) Legal implications

Legal implications may arise in relation to specific capital schemes or revenue projects. In particular a capital scheme or revenue project may be needed to meet a specific legal requirement. These implications are addressed in the individual project appraisals. There are no significant legal implications arising as a result of this report.

c) Other implications

- Policy: The recommendations of this report are consistent with the Council's Medium Term Financial Plan.
- Carbon and Energy Management: All capital schemes consider Carbon and Energy Management implications at the capital appraisal stage before they are added to the capital programme. All new buildings included within the report for inclusion in the capital programme will be built to achieve EPC rating A.

List of Annexes

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