

Report to:	Strategy and Resources Committee	Date:	8 June 2020
Report title:	Financial Performance 2019/20		
Report from:	Richard Simpson, Strategic Director - Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Ruth Dombey, Leader of the Council Councillor Sunita Gordon, Lead Member for Finance		
Author(s)/Contact Number(s):	Victoria Goddard, Assistant Director - Resources (Shared Finance Service), 020 8770 4652 Kevin Kilburn, Head of Financial Reporting & Control, 020 8770 6713		
Corporate Plan Priorities:	<ul style="list-style-type: none"> ● Being Active ● Making Informed Choices ● Living Well Independently ● Keeping People Safe ● Smarter Ways of Working 		
Open/Exempt:	Open		
Signed:	 Richard Simpson Strategic Director of Resources	26 May 2020	

1. Summary

- 1.1. The Council adopted its corporate plan 'Ambitious for Sutton' in September 2018 and 2019/20 was the first full year covered by the Plan and its objectives as we seek to deliver our ambitions for Sutton to be 'a great place to live, work and raise a family'. Although the Covid-19 pandemic only impacted directly on the last month of the financial year, this report is presented in the context of the new service and financial uncertainty created by this pandemic.
- 1.2. The report covers the financial performance of the council and includes an overview of the Council's 2019/20 revenue and capital financial outturn. In February 2019, the Council set a budget for the following financial year with a Net Budget Requirement of £144.178m. The revenue outturn for the year is a net underspend against this budget of £0.510m (0.4%).

This is a good outcome and will put us in a stronger position to manage the uncertain challenges ahead.

- 1.3. This report provides a brief narrative on the service budget variances that make up the outturn position. The reasons for key variations for revenue are set out in paragraphs 4.1 to 4.19 and Appendix A.
- 1.4. The spend on the capital programme is £85.685m compared to a current capital programme budget of £89.295m. This is explained in paragraphs 7.1 to 7.4 and in Appendix C.

2. Recommendations

- 2.1. To note the overall total General Fund revenue financial outturn underspending of £0.510m, or 0.4% of the Net Budget Requirement.
- 2.2. To approve the transfer of £428,128 to the Risk Reserve, with the balance from the underspending accruing to the General Fund Balance. This will ensure the General Fund Balance remains at 5% of the Council's Net Budget Requirement for 2020/21.
- 2.3. To note the key 2019/20 revenue budget variations as presented in Appendix A.
- 2.4. To agree to carry forwards totalling £0.867m of unspent revenue budgets to be held in earmarked reserves. These are summarised in paragraph 5.4 and detailed in Appendix B.
- 2.5. To note the earmarked reserve year end adjustments in 2019/20 as summarised in paragraphs 5.1 to 5.7.
- 2.6. To agree the proposed net increase of £4.324m to the Capital Programme 2020/21 summarised in Appendix C which is mainly due to expenditure being rephased from 2019/20.

3. Background

- 3.1. The Corporate Plan (Ambitious for Sutton) sets out the priorities for the Council over the period 2018 - 2023. These priorities are being delivered under the following themes: Being Active, Making Informed Choices, Living Well Independently, Keeping People Safe, and Smarter Ways of Working in accordance with the direction of travel and future shape of the Council.
- 3.2. The 2019/20 budget was set around the Outcomes Based Commissioning Plan which set out the activities that contribute to the delivery of Corporate Plan priorities.
- 3.3. The Council continues to manage significant budget and delivery risks arising from demographic growth and government policy developments.

- 3.4. The Covid-19 pandemic presents the Council with significant service and financial challenges, both now and into the future. At present there continues to be significant uncertainty on the impact and scale of the pandemic upon the Council's financial position and will depend on when, and how, lockdown is lifted; the ongoing impact on Council services and how the national economic damage affect public finances and local government funding over the medium term.

4. Revenue Budget Outturn

- 4.1. The General Fund budget outturn position, subject to external audit, is a net contribution to reserves and balances of £0.510m (0.4%) against an approved final budget of £144.178m. The forecast outturn at the end of Quarter 3, reported to this Committee on 10 February 2020 was for an underspending of £0.267m. The outturn and variances are summarised in the table below.
- 4.2. The outturn position for services shown in Table 1 below includes budget virements agreed by officers under delegated authority or by Committee in year. It also takes account of carry forwards of unspent grants which must be used for specific purposes.

Table 1 - Revenue Budget Outturn Summary

	Budget	Outturn	Variance	Variance	Q3 Forecast
	£'000	£'000	£'000	%	Variance £'000
<u>Commissioning Directorates</u>					
People Services					
- Adult Social Care and Children's Services	86,715	87,148	434	0.50%	153
- DSG Centrally Retained	97,311	97,468	157	0.16%	1,398
- Dedicated Schools Grant and Reserve	(97,311)	(97,468)	(157)	(0.16%)	(1,398)
Sutton College	0	314	314	100.00%	0
Environment, Housing and Regeneration	31,865	31,977	112	0.35%	163
Sub-total	118,580	119,439	860	0.72%	316
<u>Corporate Core</u>					
Chief Executive's	21,323	20,742	(581)	(2.72%)	(214)
- Public Health	9,555	8,891	(664)	(6.95%)	(267)
- Transfer to Public Health Reserve	0	664	664	100.00%	267
- Public Health Grant	(9,555)	(9,555)	0	0.00%	0
Resources	16,041	15,492	(549)	(3.42%)	(517)
Corporate revenue budgets and core grants	(11,766)	(12,005)	(239)	(2.03%)	148
Sub-total	25,598	24,229	(1,369)	(5.35%)	(583)
Current Expenditure Position 2018/19	144,178	143,668	(510)	(0.35%)	(267)
<u>Funding Sources</u>					
- Retained Business Rates (including Collection Fund surplus)	(27,292)	(27,292)	0	0.00%	0
- Top up Grant	(15,731)	(15,731)	0	0.00%	0
- Council Tax	(100,626)	(100,626)	0	0.00%	0
- Collection Fund Council Tax surplus	(529)	(529)	0	0.00%	0
Total Funding	(144,178)	(144,178)	0	0.00%	0
TOTAL	0	(510)	(510)		(267)

People Services Directorate

- 4.3. The General Fund revenue outturn position for People Services Directorate was an overspend of £0.434m and is summarised below.

Table 2 - People Services Revenue Outturn

	£000's
Adult Social Care	£0
Better Care Fund	£0
Children's Safeguarding	£180
Education	£254
Total	£434

- 4.4. Support to vulnerable people over the age of 18 is covered by the Adult Social Care (ASC) and Better Care Fund (BCF) budgets, the second of these funded on a pooled basis with the NHS. Both of these have been delivered to budget, which includes a carry forward on ASC in respect of third party funding for the Sutton Safeguarding Adults Board of £0.121m.
- 4.5. The overspend of £0.179m for Children's Safeguarding was largely driven by £0.362m of additional high cost residential and secure placements, and £0.372m due to the greater use of agency social workers. Off-setting this was grant funding for Leaving Care/ Unaccompanied Asylum Seeker Children (UASC) being £0.423m higher than budgeted, and lower legal costs caused by a reduced volume of cases.
- 4.6. Within the Education service, the SEND/ Assisted Travel budget achieved a saving of £0.750m from a target of £1.042m. This variance relates to demand exceeding 2019/20 growth allocation and rephasing of routes being recommissioned from January to April 2020.
- 4.7. Outside of the General Fund, the Dedicated Schools Grant overspent in total by £0.157m. The main variations relate to £0.825 overspend on high needs, largely due to increasing numbers of children with Education and Health Care Plans and associated therapy costs; offset by £0.595m underspend on Early Years. This in-year overspend is met from the £1.068m reserve carried forward from last year.

Sutton College

- 4.8. Sutton College provides access to students aged 16 and above who wish to pursue qualifications to support access to further education and vocational training. While still a London Borough of Sutton service, the College receives funding from the Greater London Authority and Education Skills Funding Agency.
- 4.9. For 2019/20 the College had an in-year deficit of £0.314m of expenditure over income. This was primarily due to the reduction in fee paying enrolments.

Environment, Housing and Regeneration (EH&R)

- 4.10. The EH&R directorate covers a wide range of services. The directorate ended the year with an overspending of £0.112m, which consisted of service overspends in Planning & Development Control and Environment & Community Safety, off-set by underspends in Housing & Regeneration and Highways & Transportation.
- 4.11. Building Control suffered reduced in-year fee income due to declining business and reduced market share. In addition, the labour market for surveyors continued to be tight and the council was reliant on agency staff. Including an adjustment of the previous year, this led to a deficit of £0.327m.
- 4.12. The Environment and Community Safety service overspent by £0.380m, largely the result of the annual review process with contractors and increased waste disposal costs for contaminated waste to preserve recycling rates.
- 4.13. Partially off-setting these overspends were underspent budgets for Housing & Regeneration and Highways & Transportation. A fall in the volume of accommodation bookings led to a reduction in bed & breakfast costs and coupled with a potential liability made in 2018/19 not occurring, the Housing service had an underspending of £0.327m.
- 4.14. The Highways & Transportation service underspent its budget by £0.313m. Additional savings were achieved through the ability to undertake works during the day, rather than more expensive night works. In addition, there were constraints on contractor resources and access during the busy part of the year, leading to further reductions in spending.

Chief Executive's

- 4.15. The Chief Executive's directorate underspent by £0.581m during the 2019/20 financial year. A significant proportion of this was within the Wellbeing service due to lower concessionary fare costs (£0.208m) and higher than expected income from Clinical Commissioning Groups for Continuing Health Care (£0.133k). In addition, the Libraries restructure led to staff vacancies being held and an underspend of £0.108m. Revised management fees within the Leisure Service led to a further surplus of £0.095m.
- 4.16. The Public Health grant for 2019/20 was £9.555m, of which £8.891m was spent. A large proportion of the underspend is attributable to reduced activity leading to reduced tariff costs with regards to the sexual health contract (£0.264m) and the health checks contract with the GP federation (£0.140m). Staffing vacancies in the Healthy Child programme accounted for an underspend of £0.14m despite recruitment of additional staff throughout the year. A vacancy in the public health team contributed to an underspend of £120k; this was mitigated by the recruitment of an additional interim public health post in March to ensure adequate capacity through the COVID-19 crisis. Given the uncertainty over the level of Public Health funding for 2020/21, the actual amount was not confirmed until the budget was set, it made sense to not commit any underspend until the amount of funding available for 2020/21 was clear. This is now factored into the budget for 2020/21.

Resources

4.17. The Resources outturn was an underspend of £0.550m, which is the net of over and underspends within the service.

4.18. The largest areas are:

- ICT Service - unachievable savings on ICT Support and services, retained Services and E-volve Digital Programme totalling £0.702m overspending.

Off-set by the following underspendings;

- Property Services (£0.538m) largely due to increased income from rent reviews and additional savings in facilities management from premises costs, postage and general repairs.
- Business Services (£0.427m) from an underspend on insurance and staffing reductions in support services
- Finance Service (£0.252m) due to the early delivery of 2020/19 savings; increased charges to group companies and the pension fund for additional staff time; delays to the 'go-live' of the counter fraud hub and reduced external audit fees.

Corporate Revenue Budget

4.19. The Corporate budgets, covering capital financing, government grants and other non-service costs underspent by £0.239m. This was largely due to;

- additional government grants of £0.642m, mostly for Section 31 Grants for business rates allowances and reliefs in relation to the London Business Rates Pool

off set by

- reduced pensions deficit payment from other scheme employers of £190k

5. Reserves

5.1. The £0.510m underspend is proposed to be distributed as follows

- £0.081m to the General Fund Reserve to maintain the balance at 5% of the Council's net budget requirement
- £0.428m to the Risk Reserve to mitigate against the uncertain challenges faced in future years

5.2. There has been renewed scrutiny of the level of reserves across local authorities as it is one of the measures that can be used to judge the financial standing and sustainability of an organisation. The level of reserves at 31 March 2020 was £7.408m, which is a decrease from £8.416m at 31 March 2019 due to the planned use of reserves in setting the 2019/20

budget. However, the General Fund reserves remain at an appropriate level and in line with policy and best practice at 5% of net budget requirement.

- 5.3. Earmarked reserves are for specific purposes so can be quite difficult to compare from authority to authority and from year to year. At 31 March 2020 earmarked reserves stood at £28.227m. This is an increase from the same point last year of just under £7m. The carry forward of the Covid19 Emergency grant which was received at the end of March 2020 accounts for £4.8m of this increase.
- 5.4. Included within the total of earmarked reserves is the carry forward of non-grant budget from 2019/20. These total £0.867m and are detailed in Appendix B. It is recommended these carry forwards are to be held in the Non Grant Carry Forward Earmarked Reserve until needed in future years.
- 5.5. Specific government grants not fully spent in year are carried forward to the following year to fund appropriate expenditure where the grants conditions allow and these are shown in the Revenue Grants Unapplied Reserve. To aid transparency in 2020/21, two of these grants have been separated out to form individual reserves. These are the Covid 19 Emergency Grant and the Public Health Grant.
- 5.6. The Council received £4.911m as its share of the national £1.6bn Covid 19 Emergency reserve, which was the first tranche of government support to local authorities to support the pandemic response and recovery. The Council only incurred a small amount of expenditure in relation to the pandemic during the last few weeks of the financial year, totalling £70,000. Therefore the remaining £4.841m is carried forward in the reserve to be applied in year. This will be used alongside the allocation provided in May 2020 of £5.606m. These funds will be fully utilised and based on current projections the overall additional spend and lost income related to COVID 19 is expected to be a gross cost of approx £19m.
- 5.7. As described above, the Public Health grant was underspent by £0.664m. This grant is strictly ring fenced for specific public health activities and where there is an underspending it must be carried forward to be applied in the following years

6. Housing Revenue Account

- 6.1. The Housing Revenue Account (HRA) outturn is an in year surplus of £4.004m which is £1.216m higher than the budgeted surplus. When added to existing reserve balances the forecast year end HRA reserve balance will be £7.076m.
- 6.2. The increase in surplus is largely due to the additional week of rental income at the end of the year which was not included in the budget along with the number of properties acquired during the year being higher than modelled in the HRA business plan.
- 6.3. There has also been additional service charge income from both tenants and leaseholders.
- 6.4. Table 3 below shows a summary of the accounts. The additional surplus for the year, has resulted in a closing balance of £7m is significantly higher than the minimum required 5% of

controllable expenditure. This will allow scope for improvements to day to day services to residents and/or further capital investment through revenue contributions during 2020/21.

Table 3 - Housing Revenue Account 2019/20

	Budget	Outturn	Variance
	£'000	£'000	£'000
Income			
Rental income	(33,712)	(34,438)	(726)
Other income	(2,794)	(2,983)	(189)
	(36,505)	(37,420)	(915)
Expenditure			
Operating costs	16,429	16,055	(374)
Non-operating costs	7,519	7,204	(315)
	23,948	23,259	(689)
Net cost of services	(12,557)	(14,161)	(1,604)
Appropriations to capital and capital financing	9,769	10,157	388
Surplus for the year	(2,788)	(4,004)	(1,216)
Opening working balance 1 April 2019	(3,063)	(3,063)	0
Closing working balance 31 March 2020	(5,852)	(7,067)	(1,216)

7. 2019/20 Capital Summary

- 7.1. The 2019/20 capital outturn is £85.685m compared to a current capital programme budget of £89.295m. This is a net projected underspend of £3.610m or 4.04%. A sum of £4.324m is the impact of slippage where spend is now expected in 2020/21. The balance of £0.714m reflects an increase in 2019/20 for invest to save schemes, use of S106 income, additional grants, and other minor funding adjustments. Further details are shown in Appendix C.
- 7.2. The table and graph below summarises the position for each Directorate as at 31 March 2020. Actual expenditure (outturn) includes provision for works completed but not yet invoiced by the contractor.

Table 4 - 2019/20 Capital Budget Outturn

	2019/20 Capital Programme			
	Budget	Outturn	Budget Spend	Variance
	£'000	£'000	%	£'000
Chief Executive's	560	308	55.00%	(252)
E, H & R - Housing	20,867	18,757	89.89%	(2,110)
E, H & R - Other	8,896	8,710	97.91%	(186)
Total E, H & R	29,763	27,467	92.29%	(2,296)
People Services - Schools	20,270	19,774	97.55%	(496)
People Services - Other	34	19	55.88%	(15)
Total People Services	20,304	19,793	97.48%	(511)
Resources	38,668	38,117	98.58%	(551)
Total	89,295	85,685	95.96%	(3,610)

7.3. During the year the Council implemented a number of key capital projects. These included major improvements to the Council's housing stock to meet the Decent Homes Standards, completion of the new build council housing on the sites of Richmond Green, Ludlow Lodge and Fellows Road and the start of the delivery of new build phase 2 and 3, start to deliver of the Estate Regeneration programme for Beechtree Close, completion of the new Belmont secondary school, investing in IT and accommodation changes, major acquisitions of new commercial properties in Hannibal Way and Sutton High Street, as well as rolling programmes to improve highways, pavements and street lighting.

7.4. The reasons for the main capital variations are as follows:

Environment, Housing and Regeneration Directorate - Underspend £2.296m

- Re-phasing of £1.756m on various housing council stock projects due to contract issues.
- Re-phasing of £0.485m on phase 2 new build housing scheme due to delay arising from the complexities of the sites and planning and various tendering issues.

- An overspend of £0.467m on property acquisitions for temporary accommodation due to more acquisitions than originally budgeted for.
- Pavement, Highway resurfacing and Street Lighting project rephasing of £0.229m due to COVID issues.

People Directorate - Underspend £0.510m

- Re-phasing of £0.342m on Secondary expansions due to advance payments to secondary schools for bulge classes anticipated to be made before year end were actually paid in April 2020 after agreements had been formalised with the schools.
- Rephasing of £0.112m for Capital Maintenance Grant for three school projects that were delayed.

Resources - Underspend £0.551m

- Overspend on Commercial Properties of £0.248m due to additional retention release and fees unbudgeted.
- Rephasing of Adult Social Services ICT project £153k due to review of development plan in progress.
- Rephasing of the Digital Programme of £0.399m due to a combination of the delay in starting of the Customer Platform and the projects identified in 19/20 did not require all the funding available to the programme.
- Rephasing of £0.091m for Expenditure for Corporate Operational Buildings due to delays in works at Civic
- Rephasing of £0.104m on energy efficiency projects to be rolled out in 2020/21 following successful pilot.

Chief Executive's - Underspend £0.252m

- Rephasing of Heritage capital budgets of £0.059m for Whitehall HLF scheme which is complete but sum is needed to fund shortfall in HLF funding and Little Holland House of £0.063m for which a project plan is in place to complete works to improve access to the house with a view to securing external funding opportunities for new services.

8. Impacts and Implications

Financial

- 8.1. The financial implications are covered in the relevant sections of the report.

Legal

8.2. There are no specific legal implications arising from the report.

9. Appendices and Background Documents

Appendix letter	Title
A	Revenue Budget Variations 2019/20
B	Non Grant Carry Forwards 2019/20
C	Recommended capital budget adjustments 2019/20

Background documents
None

Audit Trail		
Version	Final	26 May 2020
Consultation with other officers		
Finance	Yes	Richard Simpson
Legal	No	N/A
Equality Impact Assessment Required?	No	N/A