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|-------------------------------|---|--|--|
| <b>DECISION-MAKER:</b>        | CABINET   |  |  |
| <b>SUBJECT:</b>               | CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2018 |  |  |
| <b>DATE OF DECISION:</b>      | 19 FEBRUARY 2019  |  |  |
| <b>REPORT OF:</b>             | CABINET MEMBER FOR FINANCE & CUSTOMER EXPERIENCE                                  |  |  |
| <b><u>CONTACT DETAILS</u></b> |   |  |  |
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|---|
| <b>STATEMENT OF CONFIDENTIALITY</b>   |
| N/A   |
| <b>BRIEF SUMMARY</b>  |
| This report summarises the General Revenue Fund and Housing Revenue Account (HRA) financial position for the Authority as at the end of December 2018, and highlights any key issues by portfolio which need to be brought to the attention of Cabinet. |

**RECOMMENDATIONS:**

|                                    |  |
|------------------------------------|--|
| <b><u>General Revenue Fund</u></b> |  |
| It is recommended that Cabinet:    |  |
| i)                                 | Note the forecast outturn position is an underspend of £0.58M, as outlined in paragraph 3.                         |
| ii)                                | Note that the forecast overspend for portfolios is £7.70M as outlined in paragraph 4 to 14.                        |
| iii)                               | Note the delivery to date of the agreed savings proposals approved for 2018/19 as detailed in paragraphs 15 to 18. |
| iv)                                | Note the Key Financial Risk Register as detailed in paragraph 25 and appendix 1.                                   |
| v)                                 | Note the performance against the financial health indicators detailed in paragraphs 29 and 30 and appendix 2.      |
| vi)                                | Note the performance of treasury management, and financial outlook in paragraphs 31 to 38 and appendix 3.          |
| vii)                               | Note the performance outlined in the Quarterly Collection Fund Statement   |

attached at appendix 4 and detailed in paragraphs 42 to 43.

**Housing Revenue Account**

It is recommended that Cabinet:

- viii Note the forecast outturn position is an overspend of £0.97M as outlined in paragraphs 39 to 41.

**REASONS FOR REPORT RECOMMENDATIONS**

- 1. To ensure that Cabinet fulfils its responsibilities for the overall financial management of the Council's resources.

**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 2. Not Applicable.

**DETAIL (including consultation carried out)**

**FINANCIAL POSITION**

- 3. Table 1 below sets out the financial position of the General Revenue Fund.

**Table 1 – General Revenue Fund Forecast Outturn Position for 2018/19**

|   | <b>Budget<br/>£M</b> | <b>Forecast<br/>£M</b> | <b>Variance<br/>£M</b> |
|---|----------------------|------------------------|------------------------|
| Adults                                  | 67.05                | 71.74                  | 4.69 A                 |
| Aspiration, Schools & Lifelong Learning | 3.77                 | 5.08                   | 1.31 A                 |
| Children's & Families                   | 35.85                | 38.56                  | 2.71 A                 |
| Community Wellbeing                     | (4.60)               | (4.63)                 | 0.03 F                 |
| Finance & Customer Experience           | 20.39                | 19.49                  | 0.90 F                 |
| Green City                              | 0.44                 | 0.44                   | 0.01 F                 |
| Homes & Culture                         | 6.64                 | 6.52                   | 0.12 F                 |
| Leader and Clean Growth & Development   | 13.30                | 12.01                  | 1.29 F                 |
| Transformation                          | 0.00                 | 1.68                   | 1.68 A                 |
| Transport & Public Realm                | 23.80                | 23.46                  | 0.35 F                 |
| <b>Total Portfolios</b>                 | <b>166.65</b>        | <b>174.35</b>          | <b>7.70 A</b>          |
| Levies & Contributions                  | 0.63                 | 0.63                   | 0.00                   |
| Capital Asset Management                | 10.95                | 10.95                  | 0.00                   |
| Other Expenditure & Income              | 5.88                 | 0.22                   | 5.66 F                 |
| <b>Net Revenue Expenditure</b>          | <b>184.10</b>        | <b>186.15</b>          | <b>2.04 A</b>          |
| Draw from Balances                      | 0.00                 | 0.00                   | 0.00                   |
| Council Tax                             | (95.94)              | (95.94)                | 0.00                   |
| Business Rates                          | (99.21)              | (99.21)                | 0.00                   |
| (Top Up)/Tariff                         | 28.29                | 28.29                  | 0.00                   |
| Non-Specific Government Grants          | (17.26)              | (19.88)                | 2.62 F                 |
| <b>Total Financing</b>                  | <b>(184.10)</b>      | <b>(186.73)</b>        | <b>2.62 F</b>          |
| <b>(SURPLUS)/DEFICIT</b>                | <b>0.00</b>          | <b>(0.58)</b>          | <b>0.58 F</b>          |

|           |   |
|-----------|---|
|           | <p>This financial summary details the budget against forecast expenditure and the subsequent variance. The current net revenue expenditure budget is £184.10M, no change from the previous quarter. The current forecast net expenditure against this budget is £186.15M giving a forecast overspend of £2.04M. This is offset by a favourable variance of £2.62M for non-specific Government grants, giving an overall net underspend of £0.58M, an improvement of £3.49M compared to the previous quarter. An explanation of these variances is found in paragraphs 4 to 14.</p>  |
|           | <p><b><u>Explanation of Variances</u></b></p>   |
| <p>4.</p> | <p>There is a forecast overspend on portfolios of £7.70M. The significant issues regarding each portfolio are detailed the following paragraphs.</p>  |
| <p>5.</p> | <p><b><u>Adults £4.69M Adverse Variance</u></b><br/> <u>Long Term £4.05M adverse variance</u></p> <p>The adverse variance is due to a combination of currently unachieved savings targets (£1.89M), and client costs per package continuing to increase (£2.16M). Since quarter two, there has also been an increasing number of new higher cost clients which has exacerbated this position. Although this represents a proportionally small number, these clients represent a significant financial impact to the service which is represented by a £2.16M adverse variance. There has been a £0.76M increase in unachieved savings targets, and £0.87M increase in client costs per package since quarter two. The unachieved savings targets are mainly based on reducing the numbers of client care packages within the Older Persons and Physical Disabilities areas. Savings plans are still being developed in this area to finalise the mechanisms for implementing this reduction, alongside additional reviews of existing clients which may deliver additional savings in client care costs. Currently numbers of client packages remain stable, with no significant overall increases or decreases since initial decreases at the start of the financial year. However, there has continued to be an increase in the number of referrals to the service.</p> <p>The adverse position is split over the following:</p> <ul style="list-style-type: none"> <li>• £0.68M on Learning Disability packages, and</li> <li>• £3.37M on Older Persons &amp; Physical Disability packages.</li> </ul> <p>This overspend is net of £1.80M Integrated Better Care Funding.</p> <p><u>Safeguarding Adult Mental Health &amp; Out of Hours £0.90M adverse variance</u></p> <p>There has been an increased number of high cost residential Adult Mental Health clients transferring from Health to Adult Social Care during the last 6 months, which has increased costs by £0.90M accordingly. The net number of clients has not changed, however the average cost per client has risen due to the increased number of clients with more complex needs. This has increased significantly since month 5. This has also led to non - achievement of the £0.13M savings target in this area.</p> <p><u>Provider Services £0.60M adverse variance</u></p> <p>There has been a significant increase in the use of temporary staffing at the Glen Lee and Holcroft residential care homes. This is due to Care Quality Commission recommendations being implemented following the recent inspection of Glen Lee and long term sickness and vacancies at Holcroft House care home.</p> |

Reablement & Hospital Discharge £0.45M favourable variance

There is a £0.22M underspend relating to staffing, the main reason for this is due to staffing vacancies which are in the process of being filled following the phase 3 staffing review. There is additional income of £0.20m forecast to be received from the NHS Southampton City Clinical Commissioning Group and Hampshire County Council to reduce hospital discharge wait times and respite costs.

ICU Provider Relationships £0.36M favourable variance

Housing related support contract savings of £0.28M have been achieved on the Family Mosaic contract. £0.10M of this saving is recurring and has been put forward as part of budget savings for 2019/20 onwards, and the balance of this year's saving is to be used to meet additional pressures from the Joint Equipment Store and fund the start of the work on the Hoarders' Pilot Project.

Further in year contract savings have been identified of £0.05M for transition and decommissioning plus additional supplies and services savings of £0.01M.

6. **Aspiration, Schools & lifelong Learning £1.31M Adverse Variance**

Education – Early Years & Asset Management £1.07M adverse

Home To School Transport (HTST) school routes have now been arranged for the 2018/19 academic year. The forecast cost for these routes have been reviewed and a reduction in the forecast pressure of £0.2M has been identified. The overall variance for HTST is now £1.1M and this is offset by various efficiency savings that have been identified across the Service of £0.03M. The service is working on a number of new proposals to mitigate the pressure including; providing training for independent travel for post 16 age group; introducing charging for Post 16 HTST to generate income and the withdrawal of some parts of the Early Learning Group HTST provision.

Education – High Needs & Schools £0.24M adverse

The overall variance is due to a forecast over spend in the Jigsaw service of £0.35M. This consists of:

- £0.09M due to an increase in the number of clients receiving Direct Payment above the available budget, and
- £0.26M in respect of additional costs for an increase in the number of children with High Needs being placed in residential placements. Whilst these services are statutory, the service leads are actively reviewing individual assessments to ensure that the provision provided is meeting need only and any further provision is reduced where possible.

This is partially offset by efficiency savings identified across the Service.

7. **Children & Families £2.71M Adverse Variance**

Quality Assurance Business Unit £0.46M adverse variance

To meet the needs of the service and to manage the recruitment and retention of social work staff, there has been an additional staffing requirement during this year.

An income target of £0.28M was set for the Workforce Development team's traded services for this year. This is not expected to be achieved leading to an adverse variance of £0.20M. The adverse variances above are offset by a favourable variance of £0.15M due to a reduction in forecast expenditure on training, courses and conferences. This is following a detailed review of expenditure with a view to making savings on non-essential spend.

MASH & CIN £0.20M adverse variance

Four social worker posts in the Assessment Teams were due to be removed in 2018/19 as part of the Phase 3 restructure. However, due to the high demands within the service, these posts have been retained at a forecast additional cost of £0.20M.

Specialist Core Services £0.66M favourable variance.

There is a favourable forecast due to a countrywide shortage in Social Workers and difficulty in recruitment. An ongoing recruitment drive has filled some posts and will continue to fill the remaining. The forecast takes into account the use of agency staff to cover vacant posts. This is offset in part by an increase in non-staffing costs across the teams due to the high level of staff travel and costs relating to preventative expenditure which is also a movement from quarter two.

In addition to this there is a forecast adverse variance of £0.10M due to the current number of cases of children and families with no recourse to public funds. This is an adverse movement of £0.05M since quarter two due to an additional three new cases and the extension of two existing cases.

Looked After Children £2.88M adverse variance

The forecast for Residential, Independent Fostering Agencies, SCC Fostering, Adoption allowances and Special guardianship orders reflects the current numbers of children in care adjusted for any children that are forecast to leave care or move into the pathways team at staying put rates of care costs. The adverse movement from quarter two of £0.23M mainly relates to movements within Residential Care with 3 new cases from the position reported at quarter two. This has been offset by a transfer of one child to supported housing. These changes have increased the forecast by £0.16M. Within Residential, there have been a number of changes in placements costs for current cases as well as extra therapy costs and charges for 2 short term placements which has increased the forecast for the year by £0.11M.

Early Help and Targeted & Restorative Services £0.15M favourable variance

The Step Down and Restorative Services teams were formed following the Phase 3 restructure and there has been a saving in staff costs against budget whilst the recruitment process was undertaken. Within Early Help, staffing vacancies being held while the new Extended Localities Model is designed and implemented has also led to a favourable variance.

**8. Community Wellbeing £0.03M Favourable Variance**

Prevention & Inclusion Service £0.08M favourable variance

As part of the savings exercise, a reduction in supplies and services budgets have been identified within the Youth Offending Service. There have been nine remand cases, three of which have been high cost. Although further cases are not currently expected, the nature of this service is unpredictable as it depends on whether any further serious crimes are committed by young people that warrant them being taken into a secure unit.

Grants to Voluntary Organisations £0.08M adverse variance

As part of the transitional arrangements for the Advice Information and Guidance contract (AIG) the previous provider Southampton Advice & Representation Centre (SARC) were awarded work on appointeeships on behalf of adults. This cost is over and above the funds allocated for the AIG contract. £0.06M has been built in the Medium Term Financial Strategy in 2019/20 to partly meet the additional costs.

**9. Finance & Customer Experience £0.90M Favourable Variance**

Business Operations & Digital £0.49M favourable variance

|     |  |
|-----|--|
|     | <p>There are in year vacancy savings in Business Support and IT due to staff turnover resulting in vacant posts. Capita Partnership Services have yielded a saving of £0.29M due to the cessation of payments for the Digital Guarantee from October 2018 and Capita Investment Fund from January 2019 onward. This includes savings from reductions in service as a result of the implementation of a change notice resulting in a favourable movement from Quarter 2.</p> <p><u>Finance &amp; Commercialisation £0.41M favourable variance</u></p> <p>There are new in year vacancy savings of £0.35M in Accounts Payable &amp; Receivable due to significant staff turnover and difficulties in recruiting staff. New in year savings of £0.06m from contributions to the Insurance Fund within Risk and Insurance as the insurance premiums have remained at the same level as 2017/18 thus generating a saving from inflationary increases to the budget.</p>   |
| 10. | <p><b><u>Green City £0.01M Favourable Variance</u></b></p> <p>There are no significant variances to report.</p>  |
| 11. | <p><b><u>Homes &amp; Culture £0.12M Favourable Variance</u></b></p> <p><u>Cultural Services £0.11M favourable variance</u></p> <p>A permanent budget transfer of £0.10M to fund two project manager positions was made in quarter 3. This is the full year budget however these positions will not be filled until the start of the new financial year creating an in-year favourable variance. The adverse movement is a result of a budget transfer in relation to a project to relocate the Council's heritage collections into the Pavilion space at SeaCity. This project will now be undertaken in the new financial year and the corresponding budget has been removed in 2018/19.</p>  |
| 12. | <p><b><u>Leader and Clean Growth &amp; Development £1.29M Favourable Variance</u></b></p> <p><u>Capital Assets £0.85M favourable</u></p> <p>An unachieved saving of £1.27M related to property rationalisation is creating a pressure in the in-year budget. This is being managed from underspends within the service on staffing, the repairs and maintenance budget, along with increased investment property income following rent reviews and new investments. These elements are now forecast to outweigh the pressure creating a favourable variance in year. The forecast underspend on the planned maintenance budget of £1.23M from a reduced work programme in year in relation to work on civic buildings has been assessed to provide adequate maintenance of the civic building portfolio. The movement from Quarter 2 reflects the forecast on the reactive element of the budget, based on works completed to date.</p> <p><u>Corporate Communications £0.16M favourable</u></p> <p>Vacant posts have created savings in the Corporate Communications Team which are expected to be recruited to by period 10.</p> |
| 13. | <p><b><u>Transformation £1.68M Adverse Variance</u></b></p> <p>Reflection has been given on the ability of the procurement team to be able to impact on the overall redesign of Adult Social Care and by default the associated addressable spend linked to the Procurement Guarantee. It is expected that a reduction in the Procurement Guarantee (£1.83M) will be considered to remove Adult Social Care Spend in 2018/19.</p> <p>Additionally, when setting the 2018/19 budget in February 2017, an assumption was made that additional digital savings of £1.40M could be achieved. These savings</p>   |

are now not expected.  
£1.55M of reserves has been released to help meet this pressure.

14. **Transport & public Realm £0.35M Favourable Variance**

City Services – Waste Management £0.05M adverse

Quarter 3 of 2018/19 saw further increases in the cost of disposal of trade waste to £177 per tonne, which represents a significant increase since April 2018 and implied a cost increase of £0.15M. However, a contract exemption has been obtained, which has enabled the use of an alternative supplier at a more favourable rate, with effect from January 2019, enabling the service to contain this cost.

The budget for 2018/19 included an income target relating to alternative service delivery models, of £0.45M. City Services, along with car parks, went through a Business Academy process late in 2017/18. Following the Council decision to pause the LATCo in July, the forecast has been amended to reflect the proposals put forward as part of this process, generating an adverse variance in 2018/19 of £0.33M.

Damage and repair costs are forecast to be overspent by £0.22M in 2018/19, as a result of an ageing fleet. Approval has been sought to commence procurement of replacement refuse freighters.

The adverse variances are being partially offset by savings on waste disposal costs arising from the implementation of Alternate Weekly Collections.

City Services – Open Spaces £0.18M adverse

The forecast variance movement of £0.05M in Quarter 3 relates to a contribution from Go Southampton Business Improvement District towards street cleansing. This had been budgeted as a full year income, however the agreement was not formalised until October and therefore half a year's income will be achieved.

The tree team have experienced significant staff turnover and a backlog of non fee earning work on SCC tree stock, generating an adverse variance of £0.16M; this will be largely offset by additional income through Schools contracts. Fuel, damage and repair costs relating to plant, fleet and equipment are forecast to be £0.10M adverse, as a result of ageing equipment and the increase in fuel prices since April.

Regulatory Services £0.52M adverse

During 2017/18, the adverse impact of the new privately operated Crematorium in Romsey in August 2017 on income was reported. The continuing impact on income within Cemeteries in 2018/19 is estimated to be £0.55M, an increase of £0.15M since Quarter 2. A marketing plan has been developed and a fee increase has been implemented in 2018/19 to help mitigate this impact.

A higher volume of shipping at the Port was reported at Quarter 2, generating an increase in chargeable inspections. This is partially offset by increased staffing costs required to deal with the additional volume. Higher volumes continued into Quarter 3, increasing the income forecast by £0.10M. The increase in volume is not expected to continue into Quarter 4 following resolution of issues at Felixtowe port, and therefore this favourability is not expected to be ongoing.

Other variances include an adverse variance on Registration services, following the introduction by government of an online service for Nationality Checks. The introduction of this service means that applicants are no longer obliged to take this service from the registration office, resulting in a reduction in income forecast to be £0.08M.

Parking Services £0.11M favourable

The forecast for car parking income is showing a favourable variance of £0.11M. This is largely down to increased take-up for season tickets and parking permits, and is partially offset by corresponding adverse variance on metered income.

Transportation £0.79M favourable

There has been a favourable variance of £0.13M in Quarter 3 on the concessionary fares scheme based on actuals to date forecast to the end of the year due to improved reimbursement rates for the Authority following renegotiation of the rates with the bus operators.

The Council has a profit sharing arrangement with Clear Channel for advertising space on SCC transport network. Income of £0.75M is forecast for 2018/19, which includes back dated payments for 2016/17 and 2017/18. The income is higher than in previous years following the introduction of digital advertising, which gives scope for significantly more advertising to be displayed. This favourable variance has been partially offset by staffing pressures of £0.10M within the service.

Supplier Management £0.10M favourable

There are savings in the contract management fee and higher income share from our contract with Balfour Beatty, generating a favourable movement recognised in Quarter 2.

**Implementation of Savings Proposals**

15. Savings proposals of £24.31M were approved by Council in February 2018. Table 2 is a summary of the progress on achieving these savings.

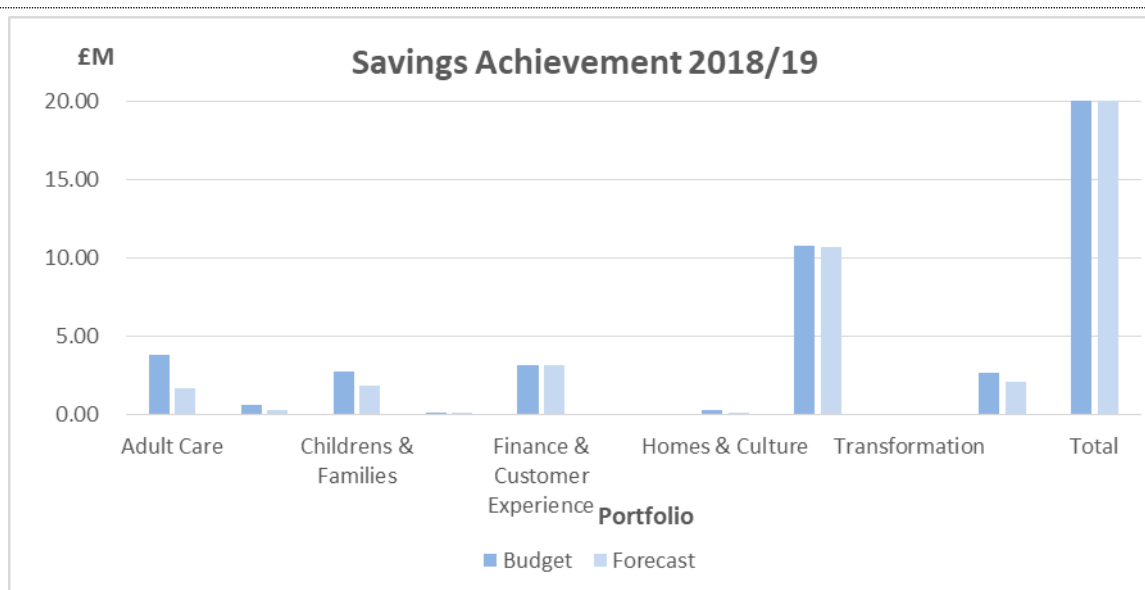
**Table 2 Analysis of Achievement of Savings**

|  | %  |
|--|----|
| Actual reduction in expenditure (GREEN)  | 71 |
| Forecast reduction in expenditure (AMBER)  | 12 |
| No forecast reduction in expenditure but plans being put in place to achieve (RED) | 10 |
| Saving will not be achieved (PURPLE)   | 7  |

16. 12% of savings are amber and forecast to be achieved, whilst 17% (red and purple) are not forecast to be achieved. These represent a risk to the financial position of the council until all management actions required to deliver the savings are complete and the reduction in spend can be evidenced.

17. The chart below shows the achievement of total savings required by portfolio.





18. The overall financial shortfall in the delivery of the 2018/19 savings proposals is currently forecast as £4.10M.

#### **Other Income & Expenditure**

19. Following a review of central inflation requirements, £2.0M has been released to help meet the forecast shortfall in both procurement and digital savings.

20. Additionally, £0.3M of contingencies have been released to meet additional incinerator outage costs. A further £3.4M of contingencies have been released to meet demand pressures.

#### **Non-Specific Government Grants**

21. The Council has received additional Grant Income of £2.62M. This has arisen from additional winter pressures monies (£1.1M), business rates levy rebate (£0.84M) and additional adult social care grant announced in the spring 2018 (£0.68M).

#### **Reserves & Balances**

22. At the 31<sup>st</sup> March 2018, earmarked reserves totalled £82.03M, plus Schools Balances totalling £4.01M.

23. The estimated forecast position as at the 31<sup>st</sup> March 2019 is £62.68M, with Schools Balances forecast to be in deficit by £0.35M and subject to the overall Dedicated School Grant deficit.

24. The General Fund Balance is currently £11.3M and there is a planned draw of £1.3M in 2018/19 in relation to the termination of the Capita contract.

#### **Key Financial Risks**

25. The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. It is from this register that the level of balances and reserves is determined when the budget is set at the February Council. The register has been reviewed and is attached as Appendix 1.

#### **Schools**

26. At 31<sup>st</sup> December 2018 there were 15 schools reporting a deficit balance as shown in the table below, an additional 2 schools compared to the previous quarter.

**Table 3 Schools in Deficit**

|           | Deficit<br>£M | No. of<br>Schools |
|-----------|---------------|-------------------|
| Nursery   | 0.24          | 1                 |
| Primary   | 1.41          | 7                 |
| Secondary | 1.97          | 5                 |
| Special   | 0.68          | 2                 |
| Total     | 4.30          | 15                |

These schools are working with Children's & Families to agree Deficit Recovery Plans (DRP). Provision for additional resources has been identified within earmarked reserves to fund a school improvement officer and additional finance support to work closely with these schools and to monitor achievement of actions during 2019/20.

27. As previously reported there is a significant pressure within the High Needs Budget, and a number of options have been previously approved, including a one off contribution from General Fund Reserves, to facilitate a workable solution. The pressure in 2018/19 (and assumed for 2019/20) is £2.41M. However, in recognition that there is a national high needs funding issue, the Government have allocated additional DSG monies in 2018/19. SCC will receive an additional £1.1M, which is the maximum available and will continue to receive the maximum increases in future years (expected to be £0.9M in 2019/20). At the Schools Forum in January 2018, agreement was reached to 'top slice' 0.5% of the Schools Block DSG to help meet the high needs pressure funding a further £0.7M. In December 2018 a further allocation of High Needs Funding was announced with SCC receiving £0.53M. At this stage this results in a deficit position in 2018/19 of £0.09M increasing to £0.28M in 2019/20. A review is to be undertaken of the entire Education Service provided by the Council to identify options to meet the remaining funding gap. It has been assumed that the above noted pressures will need to be accommodated within the Dedicated Schools Grant (DSG).

28. **Education PFI Contract**

A shortfall of around £3.5M to the end of the contract in 2031/32 has been identified due to revised inflation factors as measured by the Retail Price Index (RPI) and the income from a sinking fund set up in 2010 to generate funds to pay for the unitary charge. A briefing paper to the Service Directors for Children's and Families Services, and Finance and Commercialisation is being prepared to assess the current position, and propose the next steps to mitigate the pressure identified. It is anticipated that this will result in a full review which will be completed in Q3 2019/20.

**Financial Health Indicators**

29. In order to make an overall assessment of the financial performance of the authority it is necessary to look beyond pure financial monitoring and take account of the progress against defined indicators of financial health. Appendix 2 outlines the performance to date, and in some cases the forecast, against a range of financial indicators which will help to highlight any potential areas of concern where further action may be required.

30. At present all indicators are green with the exception of those for income collection and creditor payments. 21.72% of outstanding debt is more than 12 months old compared to a target of 20%, and the payment of undisputed invoices within 30 days is 86% compared with a target of 98%. The latter is an anticipated dip in performance due to enforcement of the processing of goods received notes.

### **Treasury Management**

31. The Council approved a number of indicators at its meeting in February 2018. Appendix 3 includes current performance against these indicators along with an update on the financial outlook. The council has operated within the agreed prudential indicators for the third quarter and is forecast to do so for the remainder of the year.

32. Table 4 shows the years opening balance of borrowing and investments, current levels and those predicted for year-end.

| 33. | <b>Table 4 Borrowings and Investments</b> | <b>01.04.2018<br/>Balance<br/>£M</b> | <b>31.12.2018<br/>Balance<br/>£M</b> | <b>Average<br/>Yield/Rate<br/>%</b> | <b>31.03.2019<br/>Estimated<br/>Balance<br/>£M</b> |
|-----|---|--------------------------------------|--------------------------------------|-------------------------------------|--|
|     | <b>External Borrowing</b>                 |                                      |                                      |                                     |  |
|     | Public Works Loan Board (PWLB)            | 208.81                               | 200.33                               | 3.35                                | 197.34   |
|     | Market Loans                              | 9.00                                 | 9.00                                 | 4.86                                | 9.00   |
|     | <b>Total Long Term Borrowing</b>          | <b>217.81</b>                        | <b>209.33</b>                        | <b>3.44</b>                         | <b>206.34</b>                                      |
|     | Temporary Borrowing                       | 33.35                                | 25.36                                | 0.91                                | 67.43  |
|     | <b>Total External Borrowing</b>           | <b>251.16</b>                        | <b>234.69</b>                        | <b>3.35</b>                         | <b>273.77</b>                                      |
|     |   |                                      |                                      |                                     |  |
|     | <b>Table 4 Borrowings and Investments</b> | <b>01.04.2018<br/>Balance<br/>£M</b> | <b>31.12.2018<br/>Balance<br/>£M</b> | <b>Average<br/>Yield/Rate<br/>%</b> | <b>31.03.2019<br/>Estimated<br/>Balance<br/>£M</b> |
|     | <b>Investments</b>                        |                                      |                                      |                                     |  |
|     | Cash (Instant access)                     | (23.48)                              | (19.36)                              | (0.71)                              | (10.00)  |
|     | Cash (Notice Account)                     | (3.00)                               |                                      |                                     |  |
|     | Fixed Term Deposits                       | (10.00)                              |                                      |                                     |  |
|     | Short Term Bonds                          | (3.14)                               | (1.60)                               | (1.21)                              | (1.60)   |
|     | Long Term Bonds                           | (6.80)                               | (6.02)                               | (3.18)                              | (6.02)   |
|     | Property Fund                             | (27.00)                              | (27.00)                              | (4.47)                              | (27.00)  |
|     | <b>Total Investments</b>                  | <b>(73.42)</b>                       | <b>(53.98)</b>                       | <b>(4.09)</b>                       | <b>(44.62)</b>                                     |
|     | <b>Net Borrowing</b>                      | <b>177.74</b>                        | <b>180.71</b>                        |                                     | <b>229.15</b>                                      |

34. After taking into account maturing and new debt requirements in year and a reduction in investment balances, there is an estimated increase in net borrowing of £51.4M for 2018/19. This is as a result of approved new capital borrowing during 2018/19 of £51.7M.

35. The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a

|     |  |
|-----|--|
|     | summary of performance to date.  |
|     | <u>Borrowing</u>   |
| 36. | The forecast cost of financing the council's loan debt is £13.9M of which £5.5M relates to the HRA however this will be subject to movement as the need for further borrowing becomes more certain. As short term interest rates have remained low and are likely to do so for the remainder of the year, we do not anticipate taking any long term debt and will finance the 2018/19 capital programme via short term debt. This is the most cost effective way of managing treasury and also reduces risk as investments also fall. We currently have £25M in short term debt and this is expected to increase to £67M to replace maturing long term debt and to fund the current capital programme. |
|     | <u>Investment</u>  |
| 37. | Balances initially increased at the beginning of the year rising from £73M to £99M in mid- April, but have since fallen back to £54M and are expected to fall further throughout the year, to an estimated £50M by the end of the year.  |
|     | <u>External Managed investments</u>  |
| 38. | The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term and are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. As at the 31 <sup>th</sup> December 2018 the sell price of our total investments were valued at £27.61M a notional "gain" of £0.61M against an initial investments of £27M. The estimated yield for the year is £1.21M if yields remain around current levels.   |
|     | <u>Housing Revenue Account</u>   |
| 39. | The expenditure budget for the HRA was set at £72.58M and the income budget at £72.58M, with no draw on balances envisaged. This is detailed in the table below.   |
|     | <b>Table 5 – HRA Summary</b>   |

|   | 2018/19<br>Budget | Quarter 3<br>Forecast | Variance      |
|---|-------------------|-----------------------|---------------|
|   | £M                | £M                    | £M            |
| Net rent income                         | (69.63)           | (68.73)               | 0.90 A        |
| Service charges & other income          | (2.82)            | (2.87)                | 0.05 F        |
| Misc. Adjustments                       | 0.00              | 0.00                  | 0.00          |
| RTB admin                               | (0.13)            | (0.13)                | 0.00          |
| <b>Total income</b>                     | <b>(72.58)</b>    | <b>(71.73)</b>        | <b>0.85 A</b> |
| Management                              | 21.57             | 21.88                 | 0.31 A        |
| Depreciation                            | 19.53             | 19.53                 | 0.00          |
| Responsive & Cyclical repairs           | 14.79             | 16.25                 | 1.47 A        |
| Other revenue spend                     | 0.10              | 0.10                  | 0.00          |
| HRA cost of rent rebates                | 0.00              | 0.00                  | 0.00          |
| <b>Total service expenses</b>           | <b>55.98</b>      | <b>57.76</b>          | <b>1.78 A</b> |
| Capital charges                         | 6.17              | 6.17                  | 0.00          |
| Repayment of loans                      | 5.96              | 5.50                  | 0.46 F        |
| Revenue contribution to capital         | 4.47              | 3.27                  | 1.20 F        |
| <b>Total expenditure</b>                | <b>72.58</b>      | <b>72.70</b>          | <b>0.12 A</b> |
| <b>(Surplus) / Deficit for the year</b> | <b>0.00</b>       | <b>0.97</b>           | <b>0.97 A</b> |

40. The forecast position for the year end on income and expenditure items shows an overspend of £0.97M. The service are currently reviewing how this adverse position can be mitigated.

41. Supervision & Management £0.33M adverse variance

There has been an increase in rent arrears due to the implementation of Universal credit. This has made it necessary to increase the provision for doubtful debts, resulting in an adverse variance in this area of £1.29M. A review of centrally held budgets which historically have been allocated to specific expenditure items has resulted in a reduction of £0.45M in forecast expenditure, an improvement of £0.27M from quarter 2. Recruitment delays within Supported Housing, and increased income from Housing Related Support have contributed to a favourable variance of £0.21M. There has been a reduction in the forecast recharge from the Capital Assets Team of £0.3M, based on a review of the work undertaken by that team in quarter 3.

Responsive repairs £1.93M adverse variance

Repairs expenditure continues to be at the same rate as the previous financial year, leading to an increased risk of overspend in this area. There is a forecast overspend to reflect this risk, with ongoing discussions taking place via the Housing Improvement Board as to actions to mitigate this risk. The forecast position has deteriorated since quarter two due to the lack of mitigating actions introduced to reduce spend so far.

Interest & Principal re-payments £0.46M favourable variance

Principal repayments as calculated in the HRA Business Plan assumptions during budget setting have overstated the re-payments profile timing in year due to

assumptions relating to repayment timing. The forecast has been amended to reflect the current Treasury Management Strategy and forecasting.

Dwelling Rents £0.23M favourable variance

Right-to-buy sales have been less than forecast since the Business Plan assumptions were set in the previous financial year. This has led to a higher rental income figure forecast than budgeted due to the higher number of properties in the Housing Revenue Account.

Tenants Service Charges £0.02M favourable variance

Right-to-buy sales have been less than forecast since the Business Plan assumptions were set in the previous financial year. This has led to a higher service charge income figure forecast than budgeted due to the higher number of properties in the Housing Revenue Account.

Leaseholder Service Charges £0.18M favourable variance

Further work has been carried out to increase applicable charges for works allowable under section 20 of the Commonhold and Leasehold Reform Act 2002.

**Collection Fund**

42. Appendix 4 shows the forecast outturn position for the Collection Fund. The position is breakeven in the year, with a cumulative surplus being carried forward on both council tax and business rates. Table 6 shows the forecast change in position for the Collection Fund.

**Table 6 – Collection Fund Forecast 2018/19**

|   | <b>Council Tax<br/>£M</b> | <b>NDR<br/>£M</b> | <b>Total<br/>£M</b> |
|---|---------------------------|-------------------|---------------------|
| Change in 2018/19 (Deficit) Surplus                                   | 0.00                      | (0.44)            | (0.44)              |
| (Reduction)/Increase in year-end Surplus brought forward from 2017/18 | 2.39                      | 3.54              | 5.93                |
| <b>Overall 2018/19 Surplus</b>  | <b>2.39</b>               | <b>3.10</b>       | <b>5.49</b>         |
| <b>SCC Share of Surplus</b>   | <b>2.05</b>               | <b>1.30</b>       | <b>3.35</b>         |

43. The Council's share of the surplus for council tax is £2.05M and its share of the business rates surplus is £1.30M, giving a net surplus of £3.35M. These have been taken into account in setting the 2019/20 Council Tax and General Revenue Fund Budget.

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

44. The revenue implications are contained in the report. There are no capital implications.

**Property/Other**

45. None.

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

46. Financial reporting is consistent with the Section 151 Officer's duty to ensure good financial administration within the Council.

|                                      |                             |
|--------------------------------------|-----------------------------|
| <b>Other Legal Implications:</b>     |                             |
| 47.                                  | None.                       |
| <b>RISK MANAGEMENT IMPLICATIONS</b>  |                             |
| 48.                                  | See comments within report. |
| <b>POLICY FRAMEWORK IMPLICATIONS</b> |                             |
| 49.                                  | None.                       |
|                                      |                             |

**KEY DECISION?** No

|                                    |     |
|------------------------------------|-----|
| <b>WARDS/COMMUNITIES AFFECTED:</b> | All |
|------------------------------------|-----|

### **SUPPORTING DOCUMENTATION**

#### **Appendices**

|    |   |
|----|---|
| 1. | Key Financial Risk Register   |
| 2. | Health Indicators Qtr. 3  |
| 3. | Treasury Management Quarterly Benchmarking and Financial Outlook Qtr. 3 |
| 4. | Collection Fund Qtr. 3  |

#### **Documents In Members' Rooms**

|    |      |
|----|------|
| 1. | None |
| 2. |      |

#### **Equality Impact Assessment**

|  |    |
|--|----|
| Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out? | No |
|--|----|

#### **Privacy Impact Assessment**

|  |    |
|--|----|
| Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out? | No |
|--|----|

#### **Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

|                              |  |
|------------------------------|--|
| Title of Background Paper(s) | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |
|------------------------------|--|

|    |   |  |
|----|---|--|
| 1. | General Fund Revenue Budget Report 2018/19 to 2021/22 (Approved by Council) |  |
|----|---|--|

|  |                |  |
|--|----------------|--|
|  | February 2018) |  |
|  |                |  |