

DECISION-MAKER:	CABINET
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2011
DATE OF DECISION:	13 FEBRUARY 2012
REPORT OF:	CABINET MEMBER RESOURCES, LEISURE AND CULTURE
STATEMENT OF CONFIDENTIALITY	
N/A	

BRIEF SUMMARY

This report summarises the General Fund and Housing Revenue Account (HRA) revenue financial position for the Authority for the nine months to the end of December 2011, and highlights any key issues by portfolio which need to be brought to the attention of Cabinet.

RECOMMENDATIONS:

General Fund

It is recommended that Cabinet:

- (i) Note the current General Fund revenue position for 2011/12 as at Month 9 (December), which is a forecast under spend at year end of **£141,000** against the budget approved by Council on 16 February 2011, as outlined in paragraph 4. This can be compared against the reported under spend at Month 6 of £20,000; an improvement of £121,000.
- (ii) Note that the baseline forecast over spend for portfolios is £2.1M.
- (iii) Note that portfolios plan to take remedial action to manage a number of the corporate and key issues highlighted in this report and that the financial impact is reflected in the forecast position.
- (iv) Note that the Risk Fund includes £1.9M to cover service related risks, and that the estimated draw at Month 9 is £0.8M to cover expenditure which is included within the baseline forecast portfolio over spend of £2.1M. The Risk Fund has been reviewed and it has been assumed that £204,200 of the Fund will not be required in 2011/12.
- (v) Note that the Revenue Development Fund totals £1.2M. The Revenue Development Fund has been reviewed and it has been assumed that £100,000 of the Fund will not be required in 2011/12.
- (vi) Note that contingency of £250,000 which was originally built into the 2011/12 budget has been fully utilised.
- (vii) Note the revised minimum balance of £5.0M, subject to approval by Council on 15 February 2012, as recommended by the Chief Financial Officer in line with good practice guidance.

- (viii) Note the forecast level of balances which will not fall below the revised minimum level of £5.0M in the medium term based on the current forecast.
- (ix) Note the use of £563,000 of in year under spend to increase the Interest Equalisation Reserve in 2011/12 to ensure that adequate provision is made for the future increase in interest costs associated with the ongoing utilisation of variable interest rates.
- (x) Note the performance to date with regard to the delivery of the agreed savings proposals approved for 2011/12 as detailed in Appendix 9.
- (xi) Note the performance against the financial health indicators detailed in Appendix 10.
- (xii) Note the performance outlined in the Quarterly Treasury Management Report attached as Appendix 11.

Housing Revenue Account

It is recommended that Cabinet:

- (xiii) Note the current HRA budget monitoring position for 2011/12 as at Month 9 (December), which is a forecast under spend at year end of **£4,400** against the revised budget which will be presented to Council for approval on 15 February 2012 and as outlined in paragraph 37.

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)

3. Heads of Service, Budget Holders and Executive Directors have been consulted in preparing the reasons for variations contained in the appendices.

Financial Summary

4. Appendix 1 sets out a high level financial summary for the General Fund, and shows that the overall forecast outturn position for the Council is an under spend of **£141,000**, as shown below:

	Forecast Outturn Variance £000's	Forecast Outturn Variance %
Baseline Portfolio Total	2,086.3 A	1.0
Draw From Risk Fund	780.0 F	
Portfolio Total	1,306.3 A	0.6
Levies & Contributions	60.7 A	
Capital Asset Management	1,561.0 F	
Contribution to Interest Equalisation Reserve	563.0 A	
Other Expenditure & Income	205.8 F	
Risk Fund	204.2 F	
Revenue Development Fund	100.0 F	
Net Total General Fund	141.0 F	0.1

The above forecast takes account of the implications of the Capital Programme Update including additions to the Programme and slippage to future years for which Council approval will be sought in February 2012.

5. As shown in the above table, the forecast portfolio revenue outturn on net controllable spend for the end of the year compared to the working budget is an over spend of £1.3M and this is analysed below:

Portfolio	Baseline Forecast Outturn Variance £000's	Risk Fund Items £000's	Forecast Outturn Variance		See Appendix
			£000's	%	
Adult Social Care & Health	1,035.2 A	780.0 F	255.2 A	0.4	2
Children's Services & Learning	890.5 A	0.0	890.5 A	2.3	3
Environment & Transport	212.7 A	0.0	212.7 A	0.9	4
Housing	162.7 F	0.0	162.7 F	1.7	5
Leader's	127.7 F	0.0	127.7 F	1.7	6
Leisure & Culture	368.3 A	0.0	368.3 A	5.2	7
Resources	130.0 F	0.0	130.0 F	0.3	8
Portfolio Total	2,086.3 A	780.0 F	1,306.3 A	0.6	

6. The corporate and key issues affecting each portfolio are set out in Appendices 2 to 8, as per the previous table.

Remedial Action

7. Portfolios plan to take remedial action to manage a number of the corporate and key issues highlighted in this report. Specific actions are included within Appendices 2 to 8 where applicable and the financial impact is reflected in the forecast position.
8. In addition, it was agreed by Cabinet on 24 October 2011, as part of the approval of the draft budget position, to put in place a spend moratorium on non essential expenditure for the remainder of 2011/12. This was agreed in order to ensure that the support which can be given to the challenging financial position the Council faces in both 2011/12 and 2012/13 can be maximised.

Levies and Contributions

9. Additional charges have been incurred from Hampshire County Council for the provision of the Coroner's Service and it is estimated that the full year impact of this will result in an over spend of £65,000, although this will be partially offset by small under spends on other levies and contributions. The Council bears a proportion of the cost of this service based on caseload statistics and this has increased above the estimated levels for 2011/12.

Capital Asset Management

10. Net interest payable is forecast to be below that originally estimated by £1.6M as a result of lower than anticipated borrowing costs. This has been as a consequence of lower borrowing levels due to slippage in the Capital Programme and also the fact that we have borrowed at lower rates than originally estimated. Lower rates have been achieved through a conscious decision to continue to utilise short term variable rate debt which remains available at lower rates than long term fixed rate debt due to the depressed market. The prediction based on all of the economic data available is that interest rates will remain lower for a sustained period of time and that this situation will therefore continue into 2012/13 and beyond.
11. In achieving interest rate savings, the Council has exposed itself to short term variable interest rate risk and whilst in the current climate of low interest rates this is obviously a sound strategy, at some point when the market starts to move the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it has restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time.
12. It was therefore recommended in the February 2009 Treasury Management Strategy report to Full Council that an Interest Equalisation Reserve be created from the savings arising from the switch to lower rate variable interest rate debt and maintained at a prudent level to help to manage volatility in the future and ensure that there is minimal impact on annual budget decisions. It has been recommended that an additional £563,000 is added to the Interest Equalisation Reserve in 2011/12 to ensure that adequate provision is made for the future increase in interest costs associated with the ongoing utilisation of variable

interest rates.

Other Expenditure & Income

13. The favourable variance of £205,800 relates to a number of off-setting factors the most material of which are set out below:

- **Corporate Savings (£1.8M A)**
 - **Delayed implementation of the changes to Terms & Conditions (£1,316,000 A)** – When the budget was set in February an implementation date of 1 April was assumed on the basis that a collective agreement was still possible. The implementation date achieved was delayed as no collective agreement was reached with the Trade Unions, meaning that a notice period of three months was required. As a consequence, the changes were not implemented until 11 July resulting in a reduction in the saving to be achieved in 2011/12.
 - **HMRC Mileage Rate (£27,000 A)** – The changes to Terms & Conditions included a reduction in mileage rates to match the HMRC rate. This rate was 40p but shortly after the budget decision HMRC increased it to 45p which reduced the saving to be achieved in 2011/12. The full year impact of this is £107,800 and this is reflected in the revised budget forecast position for future years.
 - **Management Restructure (£443,000 A)** – As part of a range of measures designed to address the severe financial position facing Southampton City Council and reflect the wider significant changes to the public sector, the Chief Executive announced plans to implement a new organisation of Council services early in 2011/12. The plans are well underway and will deliver proposed savings in 2012/13 of approaching £1.0M. However, in 2011/12 the originally estimated implementation timescale has been revised resulting in an in year adverse variance. Savings that accrue within 2011/12 will be included within portfolio forecasts due to the fact that the changes are being managed locally taking into account service needs.
- **Exceptional Items (£2.8M F)** – As a result of two separate issues a favourable variance has arisen. The items are:
 - **Supporting People (£1,340,000 F)** – In previous years this ring-fenced grant was not fully spent despite service plans being fully delivered and the balance was held separately for use in future years. This grant is no longer ring fenced and as such is available to use within the General Fund.
 - **Reduced Street Lighting PFI Payments (£1,462,000 F)** – During the early stages of the PFI contract the Council is to receive ‘service deductions’ in view of the fact that the contractor will need time to undertake work to install new columns. These deductions are currently estimated to be £1.46M in 2011/12.
- **Contribution to Direct Revenue Financing of Capital (DRF) (£1.0M A)** – Additions to the Capital Programme were included in the Capital Programme Update report which was approved by Council on 14

September 2011 which require funding of £1,045,000 from DRF.

- Surplus on Trading Areas (£116,700 F) – Fleet leasing costs have been lower than estimated due to a number of factors, most notably a number of vehicle lease extensions (which are less expensive than new leases) and the purchase of a number of vehicles in preference to leasing where this is currently more economic. During the period of the lease, charges to users are not currently reviewed and reduced.

At present, the full financial implications are under investigation and may, if appropriate justify an element of rebate to the main fleet users.

- Net Housing Benefit Payment (£118,100 F) – This is due to the increased income achieved from the improved recovery rate on overpayments.

14. These items are all one off in nature. However, when the budget was set in February it was planned to utilise the funding released from Supporting People to support the budget position in 2012/13 and this will no longer be possible. This change has been reflected in the revised budget forecast position for future years and has been addressed as part of the development of the budget for 2012/13.

Risk Fund

15. Potential pressures that may arise during 2011/12 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. A sum of £1.9M is included in the budget to cover these pressures and is taken into account during the year as evidence is provided to substantiate the additional expenditure against the specific items identified.
16. The Risk Fund, which previously stood at £1.95M now totals £1.92M following the allocation of £36,500. The funding allocated is shown below:

Portfolio	Service Activity	£000's
Environment & Transport	Street Lighting Energy Costs	36.5
Funding Allocated From the Risk Fund		36.5

- 17.. At Month 9, it is estimated that pressures within portfolios will require the allocation of £780,000 from the Risk Fund, as shown in the table below, leaving a balance of £1.1M:

Portfolio	Service Activity	£000's
Adult Social Care & Health	Adult Disability Care – Dementia	320.0
Adult Social Care & Health	Adult Disability Care – Increase in Elderly population	400.0
Adult Social Care & Health	Learning Disability – Transition/ILF	60.0
Portfolio Draw From Risk Fund		780.0

18. At this stage of the year, it has been assumed that a further draw of £0.9M may be required in 2011/12 which will result in an overall forecast favourable variance on the Risk Fund of £204,200. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2012/13 to ensure that a sufficient allocation is included for such pressures in the future.

Revenue Development Fund

19. The majority of the revenue developments are complex strategic projects around which there are uncertainties in relation to timing and speed of progress. Consequently, it was agreed that funding for these projects be placed into a Revenue Development Fund to enable the Council to retain flexibility in funding. The Revenue Development Fund totals £1.2M. At this stage of the year it has been assumed that the remainder of the Fund will be fully utilised in 2011/12, with the exception of £100,000. This funding was brought forward from 2010/11 to cover any residual costs relating to completed projects and has not been required.

Contingency

20. The contingency was originally set at £250,000 and this was fully allocated by Month 6 (September), as reported to Cabinet in the Quarter 2 monitoring report approved on 21 November 2011.

Approved Carry Forward Requests & Potential Carry Forward Requests

21. Full Council has agreed to automatically carry forward any surplus/deficit on Central Repairs and Maintenance at year-end subject to the overall financial position of the Authority. Furthermore, Cabinet has approved the delegation of authority to the Chief Financial Officer (CFO), following consultation with the Cabinet Member for Resources, Leisure & Culture, to allocate premises related resources (revenue and capital) in order to maximise the efficient use of resources in respect of general repairs and maintenance, major works to civic buildings and the implementation of the accommodation strategy. At this stage of the year no variance to planned spend is anticipated and this will continue to be actively monitored for the remainder of the year.
22. Portfolios have not highlighted any potential carry forwards for submission.

Key Portfolio Issues

23. The corporate and other key issues for each portfolio are detailed in Appendices 2 to 8.
24. It is good practice to recognise that any forecast is based on assumptions about key variables and to undertake an assessment of the risk surrounding these assumptions. Having done this a forecast range has been produced for each corporate and key issue, where applicable, which represents the pessimistic and optimistic forecast outturn position. This range is included within the detail contained in Appendices 2 to 8.

25. There are, however, certain corporate issues which are highlighted in the tables below as being the most significant for Cabinet to note. The adverse variances are noted in the first table, with any significant favourable variances detailed in the second table:

Corporate Adverse Variances

Portfolio	Corporate Issue	Adverse Forecast £000's	See Appendix & Reference
Adult Social Care & Health	Adult Disability Care Services	600.7	2 – ASCH 1
Adult Social Care & Health	Learning Disability	994.7	2 – ASCH 2
Children's Services & Learning	Tier 4 Safeguarding Specialist Services	1,312.3	3 – CSL 3
Children's Services & Learning	Safeguarding Mgt & Legal Services	592.4	3 – CSL 4
Children's Services & Learning	Tier 3 Social Work Teams	685.1	3 – CSL 5
Environment & Transport	Off-Street Car Parking	220.9	4 – E&T 1
Environment & Transport	Itchen Bridge	252.8	4 – E&T 2

Corporate Favourable Variances

Portfolio	Corporate Issue	Favourable Forecast £000's	See Appendix & Reference
Children's Services & Learning	Commissioning & Workforce Development	1,011.0	3 – CSL 1
Children's Services & Learning	Prevention & Inclusion Teams	417.0	3 – CSL 2
Environment & Transport	Waste Disposal	455.4	4 – E&T 3
Resources	Corporate Management	250.0	8 – RES 1

Impact of the Strike Action

26. The financial impact of the strike on General Fund services is reflected in the forecast position and details relating to each portfolio are included in Appendices 2 to 8. The corporate position as at Month 9 (December) is summarised below but it should be noted that this does not reflect fully the strike deductions to be made from pay as a result of the action taken on 30 November, due to the timing of the payroll:

	£000's
Additional Costs / Loss of Income	1,106
Strike Deductions from Pay	(586)
Other Savings	(245)
Net Impact	275

There will be an ongoing financial impact until the dispute is resolved and this position will be monitored closely.

27. The position in relation to the dispute has moved on following the rejection of the improved offer put to trade union members at the end of 2011. On the basis that this was the best offer that could be achieved through negotiation the offer has been withdrawn. If the offer had been accepted then the additional cost to the council in 2011/12 would have been in the region of £475,000, with £300,000 being the cost of backdating the changes. This was not factored into the forecast position for Quarter 2, presented in November to Cabinet, and so withdrawal of the offer does not have an impact on the reported financial position in 2011/12.
28. As a negotiated settlement has not been reached, as part of the development of the budget for 2012/13, provision will be made to fund any costs, (including legal costs), arising from defending the Council's position at the employment tribunal.

General Fund Balances

29. It is important for Cabinet to consider the position on balances. The table below shows the latest predicted position after taking into account the outturn for 2010/11, the update of the capital programme and the published budget proposals to be approved by Council on 15 February, and the forecast position for 2011/12 as outlined in this monitoring report:

	2010/11	2011/12	2012/13	2013/14	2014/15 & 2015/16 £000's
	£000's	£000's	£000's	£000's	£000's
Opening Balance	19,849.5	17,393.9	14,249.7	5,696.6	5,294.7
Draw from / (to Support) Revenue	2,369.2	3,145.0	(136.0)	4,000.0	8,000.0
Draw to Support Capital	(499.6)	(203.0)	(492.0)	(250.0)	
Draw for Strategic Schemes	(4,325.2)	(6,086.2)	(7,925.1)	(4,151.9)	(8,164.7)
Closing Balance	17,393.9	14,249.7	5,696.6	5,294.7	5,130.0

30. The minimum level of balances is currently set at £4.5M but this is reviewed annually and in recognition of the risks facing the Council it has been recommended that the minimum level of balances is increased from £4.5M to £5.0M in line with good practice guidance. Subject to approval of this increase, by Council on 15 February, the above prediction indicates that the new level of minimum balances will be maintained in the medium term. As a consequence £130,000 is available within balances and this can be used to fund future initiatives or contribute to the revenue budget in future years..

Implementation of Savings Proposals

31. Savings proposals of £11.9M were approved by Council in February 2011 as part of the overall budget package for 2011/12. This was subsequently reduced due to changes made in relation to Meals on Wheels and Grants to Voluntary Organisations, with the reduction met from contingencies. The delivery of the remaining savings, which total £11.8M, is crucial to the financial position of the authority. Below is a summary of the progress as at the end of the third quarter to highlight where there are risks associated with delivery and Appendix 9 contains further details:

	%
Implemented and Saving Achieved	80.1
Not Yet Fully Implemented and Achieved But Broadly on Track	14.5
Saving Not on Track to be Achieved	5
	100.0

32. Where savings are not on track to be achieved and a high level of risk is associated with delivery then this is due to non implementation in some cases but also due to the impact of factors such as rising demand for services which have meant that despite being implemented the financial savings have not materialised.

33. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £0.8M or 7% of the total to be delivered. The breakdown of the financial consequences is shown by portfolio in Appendix 9.
34. The financial implications of the delivery of these proposals are reflected in the current forecast position and areas of ongoing concern have been fully reviewed and appropriate action plans put into place. In addition, any implications for the budget for 2012/13 and future years will be addressed as part of the development of the budget.

Financial Health Indicators

35. 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 10 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.

Quarterly Treasury Management Report

36. The Council approved a number of indicators at its meeting of the 16 February 2011 and Appendix 11 outlines current performance against these indicators in more detail. These indicators will be reviewed and updated as required as part of the Treasury Management Strategy report which is to be approved by Council on 15 February 2012.

Housing Revenue Account

37. The expenditure budget for the HRA was originally set at £63.9M and the income budget at £63.9M, resulting in a net draw from balances of £3,500. Since then a revised budget has been prepared and subject to approval by Council on 15 February the revised net position will be a contribution to balances of £472,700. The overall forecast position for the year end shows a favourable variance of £4,400 compared to this revised budget. There are no corporate variances to report but the detail is set out in Appendix 12.

RESOURCE IMPLICATIONS

Capital

38. None.

Revenue

39. Contained in the report

Property/Other

40. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

41. Financial reporting is consistent with the Chief Financial Officer's duty to ensure good financial administration within the Council.

Other Legal Implications:

42. Not applicable.

POLICY FRAMEWORK IMPLICATIONS

43. Not applicable.

AUTHOR:	Name:	Alison Chard	Tel:	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		

KEY DECISION? Yes/No YES **WARDS/COMMUNITIES AFFECTED:** ALL

SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	General Fund Summary
2.	Adult Social Care & Health Portfolio
3.	Children's Services & Learning Portfolio
4.	Environment & Transport Portfolio
5.	Housing Portfolio
6.	Leader's Portfolio
7.	Leisure & Culture Portfolio
8.	Resources Portfolio
9.	Implementation of Savings Proposals
10.	Financial Health Indicators
11.	Quarterly Treasury Management Report
12.	Housing Revenue Account

Documents In Members' Rooms

1.	None
----	------

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
--	--------

Other Background Documents

Integrated 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 2011/12 to 2013/14 (Approved by Council on 16 February 2011)	
----	---	--