

DECISION-MAKER:	CABINET
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2012
DATE OF DECISION:	18 SEPTEMBER 2012
REPORT OF:	CABINET MEMBER FOR RESOURCES
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 three months to the end of June 2012, 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 2012/13 as at Month 3 (June), which is a forecast over spend at year end of **£1.5M** against the budget approved by Council on 15 February 2012, as outlined in paragraph 4.
- (ii) Note that included within this position are savings to the value of £833,000 which have been highlighted as part of the Executives "Mini Budget" for 2012/13 and which can be advanced subject to the outcome of the current consultation. If these proposals are approved the forecast over spend will increase to £2.3M based on the current plan to utilise this funding in 2013/14 if possible.
- (iii) Note that the baseline forecast over spend for portfolios is £4.9M.
- (iv) 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.
- (v) Note that the Risk Fund includes £4.0M to cover service related risks (£2.3M having already been allocated to portfolios), and that the estimated draw at Month 3 is £2.4M to cover expenditure which is included within the baseline forecast portfolio over spend of £4.9M.
- (vi) Note that £55,700 has been allocated from the contingency to fund the cost of the ongoing market supplement of £1,400 per annum for a range of employees within Social Care and additional costs for car allowances.
- (vii) Note that it has been assumed that the remainder of the contingency (£344,300) will be fully utilized by the end of 2012/13.

- (viii) Note the forecast level of balances which will fall below the minimum level of £5.0M in the medium term if further remedial action is not taken in year to reduce the forecast over spend from the current level of £1.5M to at least a break even position.
- (ix) Note the performance to date with regard to the delivery of the agreed savings proposals approved for 2012/13 as detailed in Appendix 9.
- (x) Note the performance against the financial health indicators detailed in Appendix 10.
- (xi) Note the performance outlined in the Quarterly Treasury Management Report attached as Appendix 11.

Housing Revenue Account

It is recommended that Cabinet:

- (xii) Note the current HRA budget monitoring position for 2012/13 as at Month 3 (June), which is a forecast under spend at year end of **£324,800** against the revised budget which will be presented to Council for approval on 15 February 2012 and as outlined in paragraph 34.

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 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 over spend of **£1.5M**, as shown below:

	Forecast Outturn Variance £000's	Forecast Outturn Variance %
Baseline Portfolio Total	4,919.6 A	2.6
Draw From Risk Fund	2,446.3 F	
Portfolio Total	2,473.3 A	1.1
Capital Asset Management	1,000.0 F	
Net Total General Fund	1,473.3 A	1.7

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 £2.5M 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 Services	1,161.7 A	700.0 F	461.7 A	0.7	2
Children's Services	3,179.1 A	1,000.0 F	2,179.1 A	6.1	3
Communities	50.8 F		50.8 F	1.0	4
Environment & Transport	759.8 A	625.5 F	134.3 A	0.6	5
Housing & Leisure Services	409.5 A	120.8 F	288.7 A	2.2	6
Leader's	33.7 F		33.7 F	0.8	7
Resources	506.0 F		506.0 F	1.1	8
Portfolio Total	4,919.6 A	2,446.3	2,473.3 A	1.3	

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. Further remedial action is required in year and plans will be developed and the financial impact reported in future monitoring reports to Cabinet.

Capital Asset Management

9. The favourable variance of £1.0M is primarily due to an accounting adjustment to reverse a provision for Equal Pay which was created in 2009/10 to meet liabilities arising from a number of equal pay claims received by the Council. This provision was funded through capital expenditure which the Council was able to undertake following receipt of a Capitalisation Direction. The impact of reversing the provision is to reduce the capitalisation requirement which in turn reduces the level of Minimum Revenue Provision (MRP) which the Council is required to make
10. In addition, net interest payable is forecast to be below that originally estimated as a result of lower than anticipated borrowing costs. This is as a consequence of lower forecast borrowing levels and also the fact that when we do borrow it will in all likelihood be at lower rates than originally estimated.
11. 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.
12. 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.

Mini Budget

13. A report was presented to Cabinet and Council in July, the purpose of which was to outline proposed variations to the Budget for 2012/13 in response to the priorities of the new Executive whilst recognising the financial challenges facing Local Government and to set out further savings in advance of the budget for 2013/14. Consultation is currently being undertaken on these savings proposals and the results will be reported alongside the Executive's final proposals which will be presented to Cabinet in September and recommended to Council on 12 September 2012.
14. For the majority of the proposals contained in the report the intention is to take steps during 2012/13 to implement the saving so that they become effective from 1 April 2013 leading to savings of just under £2.0M in 2013/14 rising to just over £2.5M in 2014/15. However included within the forecast position for Month 3 are savings to the value of £833,000 which have been highlighted as part of the Executives "Mini Budget" for 2012/13 and which can be advanced subject to the outcome of the current consultation. If these proposals are approved the forecast over spend will increase to £2.3M based on the current plan to utilise this funding in 2013/14 if possible.

Risk Fund

15. Potential pressures that may arise during 2012/13 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. A sum of £6.3M was included in the budget to cover these pressures and will be 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 £6.3M now totals £4.0M following the allocation of £2.3M. The funding allocated is shown below:

Portfolio	Service Activity	£000's
Adult Services	Tier 4 Safeguarding Specialist Services	1,400.0
Adult Services	Adult Disability	900.0
Funding Allocated From the Risk Fund		2,300.0

17. At Month 3, it is estimated that pressures within Portfolios will require the allocation of £2.4M from the Risk Fund, as shown in the table below, leaving a balance of £1.6M:

Portfolio	Service Activity	£000's
Adult Services	Learning Disability	700.0
Children's Services	Tier 4 Safeguarding Specialist Services	1,000.0
Environment & Transport	Fuel Inflation – Waste Collection	55.0
Environment & Transport	Fuel Inflation – Crematorium	36.0
Environment & Transport	Income – Bereavement Services	87.0
Environment & Transport	Income – Off Street Car Parking	236.0
Environment & Transport	Income – Itchen Bridge Toll	140.0
Environment & Transport	Income – Bus Shelter Contract	71.5
Housing & Leisure Services	Income – Leisure & Culture	120.8
Portfolio Draw From Risk Fund		2,446.3

18. At this stage of the year it has been prudently assumed that the remainder of the Risk Fund will be fully utilised in 2012/13 but this position will be actively reviewed. The provision made within the Risk Fund will be reviewed as part of the development of the budget for 2013/14 to ensure that a sufficient allocation is included for such pressures in the future.

Contingency

19. The contingency was originally set at £400,000 and of this £55,700 has been allocated to date to fund the cost of the ongoing market supplement of £1,400 per annum for a range of employees within Social Care and additional costs for car allowances.
20. The total cost of these changes is £555,700 but as part of the development of the budget for 2012/13 £500,000 was set aside pending a decision on what was initially a six month temporary arrangement. Current market conditions nationally are such that the supply of social workers is insufficient to meet demand and there is significant competition between authorities to recruit and retain high calibre social work staff. As a consequence the payments have been continued. The cost of the final proposal exceeded the provision made within the budget and so £55,700 has been met from the Contingency.

Approved 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.

Potential Carry Forward Requests / Impact on Balances

22. Portfolios have not highlighted any potential carry forwards for submission which is as to be expected at this early stage of the year.

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 Services	Adult Disability Care Services	957.5	2 – AS 1
Adult Services	Learning Disability	745.0	2 – AS 2
Children's Services	Tier 4 Safeguarding Specialist Services	1,768.4	3 – CSL 1
Children's Services	Safeguarding Management & Legal Services	307.8	3 – CSL 2
Children's Services	Tier 3 Social Work Teams	968.3	3 – CSL 3
Environment & Transport	Off Street Car Parking	391.9	5 – E&T 1
Environment & Transport	Itchen Bridge	232.9	5 – E&T 2
Environment & Transport	Waste Collection	228.1	5 – E&T 3
Housing & Leisure Services	Leisure & Culture	338.4	6 – HLS 1

Corporate Favourable Variances

Portfolio	Corporate Issue	Favourable Forecast £000's	See Appendix & Reference
Environment & Transport	Highways Contract Management	295.8	5 – E&T 4

General Fund Balances

26. 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 2011/12, the update of the capital programme and the published budget proposals approved by Council on 15 February, and the forecast position for 2012/13 as outlined in this monitoring report: It also assumes that the proposals contained in the "Mini Budget" report are approved in full and any changes as a result of consultation will therefore impact on this forecast position.

	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's	2015/16 £000's
Opening Balance	17,393.9	23,529.6	5,960.3	3,975.4	4,091.7
Draw to Support Capital	(1,819.9)	(352.6)			
(Draw to Support) / Contribution from Revenue	11,763.0	(5,775.5)	3,167.0	4,000.0	4,000.0
Draw for Strategic Schemes	(3,807.4)	(11,441.2)	(5,151.9)	(3,883.7)	(4,305.0)
Closing Balance	23,529.6	5,960.3	3,975.4	4,091.7	3,786.7

27. The minimum level of balances is set at £5.0M and consequently further remedial action must be taken in year to reduce the forecast over spend from the current level of £1.5M to at least a break even position. If this is not achieved then any shortfall will need to be addressed as part of the development of the budget for future years in order to replenish balances.

Implementation of Savings Proposals

28. Savings proposals of £12.7M were approved by Council in February 2012 as part of the overall budget package for 2012/13. The delivery of the savings is crucial to the financial position of the authority. Below is a summary of the progress as at the end of the first quarter to highlight where there are risks associated with delivery and Appendix 9 contains further details:

	%
Implemented and Saving Achieved	74.8
Not Yet Fully Implemented and Achieved But Broadly on Track	25.0
Saving Not on Track to be Achieved	0.2
	100.0

29. 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.
30. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £0.7M or 5% of the total to be delivered. The breakdown of the financial consequences is shown by Portfolio in Appendix 9.

31. 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 2013/14 and future years will be addressed as part of the development of the budget.

Financial Health Indicators

32. 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

33. The Council approved a number of indicators at its meeting of the 15 February 2012 and Appendix 11 outlines current performance against these indicators in more detail.

Housing Revenue Account

34. The expenditure budget for the HRA was originally set at £68.326M and the income budget at £68.324M, resulting in a net draw from balances of £2,000. The overall forecast position for the year end shows a favourable variance of £324,800 compared to this budget. There are no corporate variances to report but the detail is set out in Appendix 12.

RESOURCE IMPLICATIONS

Capital

35. None.

Revenue

36. Contained in the report

Property/Other

37. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

39. Not applicable.

POLICY FRAMEWORK IMPLICATIONS

43. Not applicable.

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KEY DECISION? Yes/No YES

WARDS/COMMUNITIES AFFECTED:	ALL
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SUPPORTING DOCUMENTATION

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

Appendices

1.	General Fund Summary
2.	Adult Services Portfolio
3.	Children's Services Portfolio
4.	Communities Portfolio
5.	Environment & Transport Portfolio
6.	Housing & Leisure Services Portfolio
7.	Leader's 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
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
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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 2012/13 to 2014/15 (Approved by Council on 15 February 2012)	
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