

DECISION-MAKER:	CABINET
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF SEPTEMBER 2012
DATE OF DECISION:	13 NOVEMBER 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 six months to the end of September 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 6 (September), which is a forecast under spend at year end of **£303,200** against the budget approved by Council on 15 February 2012, as outlined in paragraph 4. This can be compared against the reported over spend at Month 3 of £1.5M; an improvement of almost £1.8M.
- (ii) Note that the baseline forecast over spend for portfolios is almost £5.0M.
- (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 further remedial action has been taken to rigorously control staff resource costs and to put in place a moratorium on all non essential expenditure for the remainder of the financial year.
- (v) Note that the Risk Fund includes £3.9M to cover service related risks, and that the estimated draw at Month 6 is £3.0M to cover expenditure which is included within the baseline forecast portfolio over spend of £5.0M. The Risk Fund has been reviewed and it has been assumed that £430,200 of the Fund will not be required in 2012/13.
- (vi) Note that it has been assumed that the remainder of the contingency, which stands at £344,300, will be fully utilised by the end of 2012/13.
- (vii) Note the forecast level of balances which will not fall below the minimum level of £5.0M in the medium term based on the current forecast.
- (viii) Note the performance to date with regard to the delivery of the agreed savings proposals approved for 2012/13 as detailed in Appendix 9.
- (ix) Note the performance against the financial health indicators detailed in Appendix 10.

- (x) Note the performance outlined in the Quarterly Treasury Management Report attached as Appendix 11.

Housing Revenue Account

It is recommended that Cabinet:

- (xi) Note the current HRA budget monitoring position for 2012/13, as at Month 6 (September), which includes a carry forward from 2011/12 of £282,000 as approved by Council on the 11 July 2012. There is a forecast over spend at year end of **£485,300**, but this includes an adverse variance of £725,800 on capital financing costs due to the earlier repayment of a loan as outlined in paragraph 34. The true underlying position is a forecast under spend of **£240,500** excluding the capital financing costs.

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 under spend of **£303,200**, as shown below:

	Forecast Outturn Variance £000's	Forecast Outturn Variance %
Baseline Portfolio Total	4,955.0 A	2.6
Draw From Risk Fund	2,978.0 F	
Portfolio Total	1,977.0 A	1.0
Capital Asset Management	1,500.0 F	
Non-specific Government Grants	350.0 F	
Risk Fund	430.2 F	
Net Total General Fund	303.2 F	0.4

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 £2.0M 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	923.3 A	700.0 F	223.3 A	0.3	2
Children's Services	4,126.2 A	1,310.0 F	2,816.2 A	7.8	3
Communities	234.2 F		234.2 F	4.3	4
Environment & Transport	334.2 A	724.0 F	389.8 F	1.8	5
Housing & Leisure Services	490.6 A	244.0 F	246.6 A	1.9	6
Leader's	201.0 F		201.0 F	4.7	7
Resources	484.1 F		484.1 F	1.1	8
Portfolio Total	4,955.0 A	2,978.0	1,977.0 A	1.0	

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. Following Month 3 it was apparent that further remedial action was required in year and plans have been developed, the financial impact of which is reflected in the latest position.
9. There is already in place a rigorous process whereby all requests to fill vacant posts are referred to the Management Board of Directors for a decision as to whether the post should be recruited to. This rigorous assessment of vacant posts prior to external recruitment remains in place and has been strengthened to encompass a review by the Chief Executive of any request to utilise temporary staff or to make changes to the use of staff resources, including all recruitment requests.
10. In addition, it was agreed by the MBD to put in place a spend moratorium on non essential expenditure for the remainder of 2012/13. This was agreed in order to ensure that the support which can be given to the challenging financial position the Council faces in both 2012/13 and future years can be maximised.
11. The action taken has resulted in an improvement in the financial position since Month 3 of almost £1.8M.

Capital Asset Management

12. The favourable variance of £1.5M 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

13. 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.
14. 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 2013/14 and beyond.
15. 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.

Non Specific Government Grants

16. Additional non specific Government grant income has been received resulting in a forecast favourable variance of £350,000. The main variance is due to an amendment to previously announced formula funding.
17. The Government has reviewed the deductions made from local authority formula grant allocations for 2011/12 and 2012/13 in respect of the funding top sliced for Academies in order to attempt to better reflect the pattern of Academy provision across the country.
18. As a consequence of this review, a “refund” has been paid to the Council as the amount top sliced from formula grant has been assessed as being bigger than it would have been had the deduction been based on the number of Academies during 2011/12. This “refund” has been calculated by the Department for Education as £328,200 and is due to be received in Quarter 3.
19. In addition to this there have been a small number of grant notifications which have differed slightly from the initial assumed level of funding.

Risk Fund

20. 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 £3.9M 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.
21. At Month 6, it is estimated that pressures within Portfolios will require the allocation of £3.0M from the Risk Fund, as shown in the table below, leaving a balance of £0.9M:

Portfolio	Service Activity	£000's
Adult Services	Learning Disability	700.0
Children's Services	Tier 4 Safeguarding Specialist Services	1,000.0
Children's Services	Funding for 2 year olds	310.0
Environment & Transport	Fuel Inflation – Waste Collection	86.0
Environment & Transport	Fuel Inflation – Crematorium	36.0
Environment & Transport	Carbon Reduction Certificates	48.0
Environment & Transport	Income – Bereavement Services	59.0
Environment & Transport	Income – Off Street Car Parking	286.0
Environment & Transport	Income – Itchen Bridge Toll	140.0
Environment & Transport	Income – Bus Shelter Contract	69.0
Housing & Leisure Services	Income – Leisure & Culture	244.0
Portfolio Draw From Risk Fund		2,978.0

22. At this stage of the year, it has been assumed that a further draw of £0.5M may be required in 2012/13 which will result in an overall forecast favourable variance on the Risk Fund of £403,200. 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

23. A sum of £344,300 remains in the Contingency and at this stage of the year it has been assumed that the remainder of the contingency will be fully utilised by the end of 2012/13.

Approved Carry Forward Requests & Potential Carry Forward Requests

24. 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, 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.
25. Portfolios have not highlighted any potential carry forwards for submission which is as to be expected at this stage of the year.

Key Portfolio Issues

26. The corporate and other key issues for each portfolio are detailed in Appendices 2 to 8.

27. 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.
28. 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	Learning Disability	981.1	2 – AS 2
Children's Services	Tier 4 Safeguarding	2,248.3	3 – CS 2
Children's Services	Safeguarding Mgt & Legal Services	278.3	3 – CS 3
Children's Services	Child Protection Tier 3 Social Work Teams	1,782.7	3 – CS 4
Children's Services	Infrastructure	226.8	3 – CS 5
Environment & Transport	Off Street Car Parking	416.9	4 – E&T 1
Environment & Transport	Itchen Bridge	232.9	4 – E&T 2
Environment & Transport	Waste Collection	307.5	4 – E&T 3
Housing & Leisure Services	Arts & Heritage	416.3	5 – HLS 1

Corporate Favourable Variances

Portfolio	Corporate Issue	Favourable Forecast £000's	See Appendix & Reference
Adult Services	Adult Disability Care Services	34.2	2 – AS 1
Children's Services	Commissioning, Education & Inclusion	293.2	3 – CS 1
Environment & Transport	Highways Contract Management	308.2	4 – E&T 4

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 2011/12, the update of the capital programme, the published budget proposals approved by Council on 15 February, the budget changes approved by Council on 12 September and the forecast position for 2012/13 as outlined in this monitoring report.

	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	7,545.8	5,550.9	5,667.2
Draw to Support Capital	(1,819.9)	(312.6)	(10.0)		
(Draw to Support) / Contribution from Revenue	11,763.0	(3,999.0)	3,167.0	4,000.0	4,000.0
Draw for Strategic Schemes	(3,807.4)	(11,672.2)	(5,151.9)	(3,883.7)	(4,074.0)
Closing Balance	23,529.6	7,545.8	5,550.9	5,667.2	5,593.2

30. The minimum level of balances is set at £5.0M and the above prediction indicates that this will be maintained in the medium term. Presently, £593,200 is available within balances of which 303,200 is as a consequence of the forecast position as set out in this report. Given the fact that this is a forecast position it would not be prudent to utilise this amount at this stage of the year. The remainder of £290,000 is however, 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 £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	81.8
Not Yet Fully Implemented and Achieved But Broadly on Track	17.2
Saving Not on Track to be Achieved	1.0
	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 estimated level of financial savings have not materialised.

33. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £377,000 or 3% 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 2013/14 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 15 February 2012 and Appendix 11 outlines current performance against these indicators in more detail, along with an economic update and key information about the Council's borrowing and investments.

Housing Revenue Account

37. The expenditure budget for the HRA was set at £68.6M and the income budget at £68.3M, resulting in a net draw from balances of £295,500. The forecast position for the year end on income and expenditure items shows a favourable variance of £240,500 compared to this budget. There is an additional adverse variance of £725,800 on capital financing costs, due to the earlier repayment of a loan, however, this is a timing issue rather than an increase of cost in the business planning period and will correct itself by the end of financial year 2013/14.
38. There are no corporate variances to report but the detail is set out in Appendix 12.

RESOURCE IMPLICATIONS

Capital

39. None.

Revenue

40. Contained in the report

Property/Other

41. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

43. 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

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)	
2.	Changes to Existing Revenue & Capital Budgets (Approved by Council on 12 September 2012)	