

DECISION-MAKER:	CABINET		
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2012		
DATE OF DECISION:	19 FEBRUARY 2013		
REPORT OF:	CABINET MEMBER FOR RESOURCES		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Alison Chard	Tel: 023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk	
Director	Name:	Mark Heath	Tel: 023 8083 2371
	E-mail:	Mark.Heath@southampton.gov.uk	

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 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 9 (December), which is a forecast under spend at year end of **£1.9M** against the budget approved by Council on 15 February 2012, as outlined in paragraph 4. This can be compared against the reported under spend at Month 6 of £0.3M; an improvement of almost £1.6M.
- ii) Note that the baseline forecast over spend for portfolios is almost £3.6M.
- iii) Note that portfolios have taken 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 maintained to rigorously control staff resource costs and to continue the 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 9 is £2.8M to cover expenditure which is included within the baseline forecast portfolio over spend of £3.6M. The Risk Fund has been reviewed and it has been assumed that £550,200 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 includes an approved carry forward of £308,000 for Central Repairs & Maintenance as agreed by Full Council.
- viii) Note the forecast does not include the impact of potential carry forwards which at Month 9 total £35,000 and which, if approved by Full Council as part of the Outturn report to be presented in July, would be a draw on balances.
- ix) Note the revised minimum balance of £5.5M, subject to approval by Council on 13 February 2013, as recommended by the Chief Financial Officer in line with good practice guidance.
- x) Note the forecast level of balances which will not fall below the revised minimum level of £5.5M in the medium term based on the current forecast.
- xi) Note the performance to date with regard to the delivery of the agreed savings proposals approved for 2012/13 as detailed in Appendix 9.
- xii) Note the performance against the financial health indicators detailed in Appendix 10.
- xiii) Note the performance outlined in the Quarterly Treasury Management Report attached as Appendix 11.

Housing Revenue Account

It is recommended that Cabinet:

- xiv) Note the current HRA budget monitoring position for 2012/13, as at Month 9 (December), which includes a carry forward from 2011/12 of £282,000 as approved by Council on the 11 July 2012. There is a forecast under spend at year end of **£180,000** and a potential carry forward request has been identified

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 **£1.9M**, as shown below:

	Forecast Outturn Variance £000's	Forecast Outturn Variance %
Baseline Portfolio Total	3,561.9 A	1.8
Draw From Risk Fund	2,825.0 F	
Portfolio Total	736.9 A	0.4
Capital Asset Management	2,000.0 F	
Non-specific Government Grants	350.0 F	
Risk Fund	550.2 F	
Approved Carry Forwards	308.0 A	
Net Total General Fund	1,855.3 F	2.1

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 2013.

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 £0.7M 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	753.7 A	700.0 F	53.7 A	0.1	2
Children's Services	4,432.2 A	1,210.0 F	3,222.2 A	8.8	3
Communities	247.7 F		247.7 F	4.5	4
Environment & Transport	47.9 A	655.0 F	607.1 F	2.7	5
Housing & Leisure Services	500.3 A	260.0 F	240.3 A	1.8	6
Leader's Resources	334.4 F		334.4 F	7.8	7
	1,590.1 F		1,590.1 F	3.6	8
Portfolio Total	3,561.9 A	2,825.0 F	736.9 A	0.4	

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 have taken 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 were developed and implemented, the financial impact of which is reflected in the latest position.
9. There was already in place a rigorous process whereby all requests to fill vacant posts are referred to the Management Board of Directors (MBD) 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 was 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 more than £3.3M.

Capital Asset Management

12. The favourable variance of £2.0M is in part 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.

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 was 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 9, it is estimated that pressures within Portfolios will require the allocation of £2.8M from the Risk Fund, as shown in the table below, leaving a balance of £1.1M:

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	210.0
Environment & Transport	Fuel Inflation – Waste Collection	87.0
Environment & Transport	Fuel Inflation – Crematorium	36.0
Environment & Transport	Carbon Reduction Certificates	48.0
Environment & Transport	Income – Bereavement Services	50.0
Environment & Transport	Income – Off Street Car Parking	265.0
Environment & Transport	Income – Itchen Bridge Toll	100.0
Environment & Transport	Income – Bus Shelter Contract	69.0
Housing & Leisure Services	Income – Leisure & Culture	260.0
Portfolio Draw From Risk Fund		2,825.0

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 results in an overall forecast favourable variance on the Risk Fund of £550,200. The provision made within the Risk Fund has been 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 it has been assumed that the remainder of the contingency will be fully utilised by the end of 2012/13.

Approved 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.
25. Currently there is a forecast under spend of £800,000 and whilst much of this is due to decisions not to progress schemes following a review of the programme; undertaken in the light of the Council's financial position, a small number of planned schemes to the value of £308,000 will need to be deferred to the next financial year due to the seasonal nature of the works. The carry forward at year-end will enable the works to be carried out during the summer months.

Potential Carry Forward Requests

26. Portfolios have highlighted only one potential carry forward requests that may be submitted for approval as part of the outturn process. The carry forward totals £35,000 and is shown below:

Portfolio	Service Activity	£000's
Communities	Skills, Economy and Housing Renewal (16-19 Student Bus Ticket Scheme)	35.0
Total Potential Carry Forward Requests		35.0

This request is not reflected in the current forecast outturn.

Key Portfolio Issues

27. The corporate and other key issues for each portfolio are detailed in Appendices 2 to 8.
28. 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.
29. 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	1,392.2	2 – AS 2
Children's Services	Tier 4 Safeguarding	2,772.5	3 – CS 2
Children's Services	Safeguarding Mgt & Legal Services	263.7	3 – CS 3
Children's Services	Child Protection Tier 3 Social Work Teams	1,907.4	3 – CS 4
Environment & Transport	Off Street Car Parking	391.4	4 – E&T 1
Environment & Transport	Itchen Bridge	190.8	4 – E&T 2
Environment & Transport	Waste Collection	317.3	4 – E&T 3
Housing & Leisure Services	Arts & Heritage	398.0	5 – HLS 1

Corporate Favourable Variances

Portfolio	Corporate Issue	Favourable Forecast £000's	See Appendix & Reference
Adult Services	Adult Disability Care Services	168.8	2 – AS 1
Children's Services	Commissioning, Education & Inclusion	435.0	3 – CS 1
Environment & Transport	Highways Contract Management	301.2	4 – E&T 4
Resources	Central Repairs & Maintenance	800.0	8 – RES1

Revised Budget 2012/13

30. The published budget proposals for 2013/14 to 2015/16 which are to be approved by Council on 13 February whilst being mainly concerned with the revenue estimates for 2013/14 also set out the revised budget for 2012/13. This takes into account the overall financial position highlighted in this Corporate Monitoring report for the nine months ending December 2012 as far as it is prudent to do so.

31. The original revenue estimates for 2012/13 assumed a general draw would be made from balances of almost £2.8M. After reflecting elements of the revised forecast position from Month 9 and assuming additional funding for children's safeguarding and additional expenditure on highways maintenance, the revised budget for 2012/13 which will be approved by Council on 13 February assumes that this draw increases by £200,000 to almost £3.0M. The table below summarises the main changes:

	£M
Net Decrease in Capital Financing Charges	2.00
Additional Non-Specific Government Grants	0.35
Reduction in Risk Fund Provision	0.55
Increased funding for Children's Safeguarding	(2.90)
Increased funding for Highways Maintenance	(0.20)
Increase in Draw From Balances	0.20

32. Once approved these changes will be reflected in future monitoring information.

General Fund Balances

33. 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 to be approved by Council on 13 February and the forecast position for 2012/13 as outlined in this monitoring report.

	2012/13	2013/14	2014/15	2015/16
	£000's	£000's	£000's	£000's
Opening Balance	23,529.6	9,217.9	8,416.4	7,429.3
Draw to Support Capital	(312.6)	(210.0)		
(Draw to Support) / Contribution from Revenue	(1,126.9)	4,620.4	3,056.6	4,160.0
Contributions (to) / from Other Reserves	(1,300.0)			
Draw for Strategic Schemes	(11,572.2)	(5,211.9)	(4,043.7)	(4,234.0)
Closing Balance	9,217.9	8,416.4	7,429.3	7,355.3

34. The minimum level of balances is currently set at £5.0M 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 £5.0M to £5.5M in line with good practice guidance. Subject to approval of this increase, by Council on 13 February 2013, the above prediction indicates that the new level of minimum balances will be maintained in the medium term. Presently, approaching £1.9M is forecast to be available within balances as a consequence of the position 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. However, any ultimate amount at outturn which is available within balances may be used to fund future initiatives or contribute to the revenue budget in future years.

Implementation of Savings Proposals

35. 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 the level of risk associated with delivery and Appendix 9 contains further details:

	%
Implemented and Saving Achieved	95.2
Not Yet Fully Implemented and Achieved But Broadly on Track	3.8
Saving Not on Track to be Achieved	1.0
	100.0

36. 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.
37. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £330,000 or 3% of the total to be delivered. The breakdown of the financial consequences is shown by Portfolio in Appendix 9.
38. 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 have been addressed as part of the development of the budget.

Financial Health Indicators

39. 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

40. 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

41. 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 £339,700. The forecast position for the year end on income and expenditure items shows a favourable variance of £180,000 compared to this budget. The favourable variance is due to the decision to delay the implementation of Mobile Working to enable the output from the Lean project to inform the selection of the most suitable solution. A carry forward request for £180,000 will be made at year end.
42. There are no corporate variances to report but the detail is set out in Appendix 12.

RESOURCE IMPLICATIONS

Capital/Revenue

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

Property/Other

44. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

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

Other Legal Implications:

46. None.

POLICY FRAMEWORK IMPLICATIONS

47. None.

KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
------------------------------------	-----

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
----	------

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) 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 2012/13 to 2014/15 (Approved by Council on 15 February 2012)	
2.	General Fund Revenue Budget Report 2013/14 to 2015/16 (Approved by Council on 13 February 2013)	