

<b>DECISION-MAKER:</b>	CABINET		
<b>SUBJECT:</b>	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF DECEMBER 2013		
<b>DATE OF DECISION:</b>	4 FEBRUARY 2014		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Alison Chard	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	<a href="mailto:Alison.Chard@southampton.gov.uk">Alison.Chard@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	Mark Heath	<b>Tel:</b> 023 8083 2371
	<b>E-mail:</b>	<a href="mailto:Mark.Heath@southampton.gov.uk">Mark.Heath@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>
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 2013, 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 2013/14 as at Month 9 (December), which is a forecast under spend at year end of almost **£3.0M** against the budget approved by Council on 13 February 2013, as outlined in paragraph 4. This can be compared against the forecast under spend at Month 6 of £1.2M which is an improvement of approaching £1.8M.
- ii) Note that the baseline forecast over spend for portfolios is just over £3.7M.
- 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 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 £4.7M to cover further service related risks, (following the allocation of £1.0M to portfolios), and that the estimated draw at Month 9 is £3.9M to cover expenditure which is included within the baseline forecast portfolio over spend of £3.7M.

The portfolio position after the draw from the Risk Fund is an under spend of £159,800.

- vi) Note that the Risk Fund has been reviewed and it has been assumed that £301,600 of the Fund will not be required in 2013/14.
- vii) Note that it has been assumed that the remaining contingency, which stands at £410,700, will be fully utilised by the end of 2013/14.
- viii) Note the forecast includes an approved carry forward of £200,000 for Central Repairs & Maintenance as agreed by Full Council.
- ix) Note the forecast does not include the impact of potential carry forwards which at Month 9 total £308,000 and which, if approved by Full Council as part of the Outturn report to be presented in July 2014, would be a draw on balances.
- 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 2013/14 as detailed in Appendix 10.
- xii) Note the performance against the financial health indicators detailed in Appendix 11.
- xiii) Note the performance outlined in the Quarterly Treasury Management Report attached as Appendix 12.

#### **Housing Revenue Account**

It is recommended that Cabinet:

- xiv) Note the current HRA budget monitoring position for 2013/14, as at Month 9 (December) which is a forecast over spend at year end of **£246,800** against the budget approved by Council on 13 February 2013, as outlined in paragraph 46. This can be compared against the forecast over spend at Month 6 of £384,500 which is an improvement of £137,700.

#### **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 almost **£3.0M**, as shown below:

	<b>Forecast Outturn Variance £000's</b>	<b>Forecast Outturn Variance %</b>
<b>Baseline Portfolio Total</b>	<b>3,748.4 A</b>	<b>2.0</b>
Draw From Risk Fund	3,908.2 F	
<b>Portfolio Total</b>	<b>159.8 F</b>	<b>0.1</b>
Approved Carry Forwards	200.0 A	
Levies & Contributions	40.0 A	
Capital Asset Management	1,200.0 F	
Non-specific Government Grants	1,538.4 F	
Risk Fund	301.6 F	
<b>Net Total General Fund</b>	<b>2,959.8 F</b>	<b>4.1</b>

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 2014.

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 under spend of £159,800 and this is analysed below:

<b>Portfolio</b>	<b>Baseline Forecast Outturn Variance £000's</b>	<b>Risk Fund Items £000's</b>	<b>Forecast Outturn Variance</b>		<b>See Appendix</b>
			<b>£000's</b>	<b>%</b>	
Change & Communities	68.5 F	251.0 F	319.5 F	8.4	2
Children's Services	4,326.9 A	2,800.0 F	1,526.9 A	4.3	3
Economic Dev. & Leisure	269.2 A	115.0 F	154.2 A	2.6	4
Environment & Transport	429.8 A	47.0 F	382.8 A	1.4	5
Health & Adult Social Care	807.6 A	585.0 F	222.6 A	0.3	6
Housing & Sustainability	160.9 A	110.2 F	50.7 A	2.9	7
Leader's	252.5 F	0.0	252.5 F	7.1	8
Resources	1,925.0 F	0.0	1,925.0 F	4.5	9
<b>Portfolio Total</b>	<b>3,748.4 A</b>	<b>3,908.2 F</b>	<b>159.8 F</b>	<b>0.1</b>	

6. The corporate and key issues affecting each portfolio are set out in Appendices 2 to 9, as per the previous table.

### **Remedial Action**

7. Portfolios continue 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 9 where applicable and the financial impact is reflected in the forecast position.
8. In view of the difficult financial picture that is known for the medium term and which was exacerbated as a result of the further announcements made over the Summer as a result of the Comprehensive Spending Review 2013 (CSR 13), it is vital that further remedial action is taken in year. Plans have been developed, the financial impact of which is reflected in the latest position.
9. There was already in place a rigorous process for all requests to fill vacant posts prior to external recruitment but the need to adopt a very challenging approach to all recruitment was reiterated by the Chief Executive in a communication to all Managers, which effectively put in place a recruitment freeze for all but the most essential vacant posts.
10. In addition, it was agreed by the Council Management Team (CMT) and Cabinet to put in place a spend moratorium on non essential expenditure for the remainder of 2013/14. This was agreed in order to ensure that the support which can be given to the challenging financial position the Council faces in both 2013/14 and future years can be maximised and was again specifically communicated by the Chief Executive to all Managers.
11. The action taken has played a key part in the improvement in the financial position since Month 6 of approaching £1.8M.

### **Levies and Contributions**

12. 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 £40,000. The Council bears a proportion of the cost of this service based on caseload statistics and this has increased above the originally estimated levels for 2013/14.

### **Capital Asset Management**

13. The favourable variance of £1.2M is due to forecast net interest payable being below that originally estimated, because of lower than anticipated borrowing costs, and forecast interest receivable being above that originally anticipated.
14. Investment income for the year is currently forecast to be £0.3M higher than originally estimated. Fixed term deposits to date have achieved an average return of 0.80%, which exceeds the performance indicator of the average 7-day LIBID rate (0.42%), mainly due to the rolling programme of yearly investments restarted in November 2012 which ran for 12 months until October 2013.

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

15. Additional non-specific Government grant income is anticipated resulting in a forecast favourable variance of more than £1.5M. There are three main elements that contribute to this variance:
16. Firstly, the Government has reviewed the deductions made from local authority formula grant allocations for 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. As a consequence of this review, a “refund” of £391,400 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 2012/13.
17. Secondly, the Youth Justice Board has transferred responsibility to fund the costs of remand to Local Authorities from 1 April 2013 and grant income has been received totalling £137,800 to contribute towards these costs.
18. Finally, the Education Services Grant (ESG – formerly known as Local Authority Central Spend Equivalent Grant - LACSEG) is from 2013/14 allocated between the Council and Academies based largely on pupil numbers and is reviewed on a quarterly basis. This introduces an additional element of volatility and risk as schools transfer to Academy status and this will be exacerbated if the Council is not able to reduce its costs in line with reductions in funding. Therefore, when setting the budget for 2013/14 an extremely prudent view was taken. At this stage, we are forecasting additional net income of £1.0M in the light of experience to date and the known scale of Academy transfers now planned for the year.
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 2013/14 relating to volatile areas of both expenditure and income are being managed through the Risk Fund. A balance of £4.7M remains in the budget, following the allocation of £1.0M to portfolios, 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. The Risk Fund, which previously stood at £5.7 M, now totals £4.7M following the allocation of just over £1.0m to the Health & Adult Social Care Portfolio as shown below:

<b>Portfolio</b>	<b>Service Activity</b>	<b>£000's</b>
Health & Adult Social Care	Adult Disability	200.0
Health & Adult Social Care	Learning Disability Services	600.0
Health & Adult Social Care	Continuing Care	245.0
<b>Funding Allocated From the Risk Fund</b>		<b>1,045.0</b>

22. At Month 9, it is estimated that pressures within Portfolios will require the allocation of £3.9M from the Risk Fund, as shown in the table below which will leave a balance of approaching £0.8M:

<b>Portfolio</b>	<b>Service Activity</b>	<b>£000's</b>
Change & Community	Youth Remand	251.0
Children's Services	Tier 4 Services	2,200.0
Children's Services	Safeguarding Mgt & Legal Services	200.0
Children's Services	Child Protection Tier 3 Social Work	400.0
Economic Dev & Leisure	Sport & Rec. Energy	115.0
Environment & Transport	Waste Disposal Contract	43.0
Environment & Transport	Fuel	4.0
Health & Adult Social Care	Adult Disability Care Services	185.0
Health & Adult Social Care	Learning Disability	400.0
Housing & Sustainability	Sustainability – CRC Purchases	110.2
<b>Portfolio Draw From Risk Fund</b>		<b>3,908.2</b>

23. At this stage of the year, it has been assumed that a further draw of £450,800 may be required in 2013/14 which results in an overall forecast favourable variance on the Risk Fund of £301,600. The provision made within the Risk Fund has been reviewed as part of the development of the budget for 2014/15 to ensure that a sufficient allocation is included for such pressures in the future.

### **Contingency**

24. A sum of £410,700 now remains in the Contingency and it has been assumed that this will be fully utilised by the end of 2013/14.

### **Approved Carry Forward Requests**

25. 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.
26. Currently there is a forecast under spend of £200,000 due to a small number of planned schemes which 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**

27. Portfolios have highlighted the following potential carry forwards that may be submitted for approval as part of the outturn process. The carry forwards highlighted at Month 9 total £308,000 and are as shown below:

<b>Portfolio</b>	<b>Service Activity</b>	<b>£000's</b>
Change & Communities	Social Fund	103.2
Change & Communities	Welfare Reforms	128.8
Economic Dev. & Leisure	New Arts Centre	76.0
<b>Total Potential Carry Forward Requests</b>		<b>308.0</b>

These requests are not reflected in the current forecast outturn position.

### **Key Portfolio Issues**

28. The corporate and other key issues for each portfolio are detailed in Appendices 2 to 9.
29. 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 9.
30. 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**

<b>Portfolio</b>	<b>Corporate Issue</b>	<b>Adverse Forecast £000's</b>	<b>See Appendix &amp; Reference</b>
Change & Communities	Prevention & Inclusion	291.8	2 – COMM 1
Children's Services	Tier 4 Safeguarding	2,520.6	3 – CS 1
Children's Services	Safeguarding Mgt & Legal	388.3	3 – CS 2
Children's Services	Child Protection Tier 3 Social Work	949.0	3 – CS 3
Children's Services	Disability Services	256.3	3 – CS 4
Children's Services	Infrastructure	232.7	3 – CS 5
Economic Dev. Leisure	Gallery & Museums	374.1	4 – EDL 1
Environment & Transport	Off Street Car Parking	683.5	5 – E&T 1
Health & Adult Social Care	Learning Disability	764.4	6 – H&ASC 1
Health & Adult Social Care	Adult Disability Care	865.4	6 – H&ASC 2
Health & Adult Social Care	Complex Care	275.5	6 – H&ASC 3

### **Corporate Favourable Variances**

<b>Portfolio</b>	<b>Corporate Issue</b>	<b>Favourable Forecast £000's</b>	<b>See Appendix &amp; Reference</b>
Environment & Transport	Regulatory Services	256.0	5 – E&T 2
Environment & Transport	Travel & Transport	280.9	5 – E&T 3
Health & Adult Social Care	Adult Disability Commissioning	280.2	6 – H&ASC 4
Resources	Contract Management	300.6	9 – RES 1
Resources	Portfolio General	630.0	9 – RES 2
Resources	Property Portfolio Management	551.0	9 – RES 3

31. Areas of ongoing concern have been fully reviewed, and appropriate action plans put into place where possible. In addition, any implications for the budget for 2014/15 and future years have been addressed as part of the development of the budget.

### **Revised Budget 2013/14**

32. The published budget proposals for 2014/15 to 2016/17 which are to be approved by Council on 12 February whilst being mainly concerned with the revenue estimates for 2014/15 also set out the revised budget for 2013/14. This takes into account the overall financial position highlighted in this Corporate Monitoring report for the nine months ending December 2013 as far as it is prudent to do so.
33. The revenue budget for 2013/14 currently assumes a general draw will be made from balances to support revenue of almost £1.0M. After reflecting elements of the forecast position from Month 9, the revised budget for 2013/14 which will be approved by Council on 12 February assumes that a net contribution will be made from revenue to balances of almost £2.0M, a movement of £3.0M. The table below summarises the main changes:

	<b>£000's</b>
Levies & Contributions	(40.0)
Net Decrease in Capital Asset Management	1,200.0
Additional Non-Specific Government Grants	1,538.4
Reduction in Risk Fund Provision	301.6
<b>Movement in Contribution (to) / from Revenue</b>	<b>3,000.0</b>

34. It has been assumed that an element of this may be required to fund potential carry forwards of up to £0.5M, of which £0.3M have been highlighted as at Month 9, and so the net movement in balances will be £2.5M. Once approved these changes will be reflected in future monitoring information.

### **General Fund Balances**

35. 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 2012/13, the update of the capital programme and the published budget proposals to be approved by Council on 12 February and the forecast position for 2013/14 as outlined in this monitoring report.

	2013/14	2014/15	2015/16	2016/17 & 2017/18
	£000's	£000's	£000's	£000's
<b>Opening Balance</b>	<b>29,923.5</b>	<b>25,673.4</b>	<b>16,970.5</b>	<b>10,908.2</b>
Draw to Support Capital	(401.0)	(100.0)	0.0	0.0
(Draw to Support) / Contribution from Revenue	3,419.9	(3,362.0)	(1,632.2)	4,332.0
Contributions (to) / from Other Reserves	(1,400.0)	0.0	0.0	0.0
Draw for Strategic Schemes	(5,869.0)	(5,240.9)	(4,430.1)	(8,740.2)
<b>Closing Balance</b>	<b>25,673.4</b>	<b>16,970.5</b>	<b>10,908.2</b>	<b>6,500.0</b>

36. The current level of balances reflects the published budget proposals to be approved by Council on 12 February. These proposals include the use of £3.4M of balances in 2014/15 and £1.6M in 2015/16 to support the revenue budget. Should the budget proposals change the above forecast may change.
37. In view of the financial challenge facing the Authority however, the Council must not lose sight of the need to ensure that work is ongoing to develop sustainable savings proposals for future years and must be mindful of the need to carefully consider the extent to which one off funding is utilised in order to deliver a balanced budget in any one year.
38. The minimum level of balances is currently set at £5.5M. The above prediction indicates that the new level of minimum balances will be maintained in the medium term. Presently, approaching £1.0M 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, cover future liabilities or contribute to the revenue budget in future years.

### **Implementation of Savings Proposals**

39. Savings proposals of £16.5M were approved by Council in February 2013 as part of the overall budget package for 2013/14. 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 third quarter to highlight the level of risk associated with delivery and Appendix 10 contains further details:

	%
Implemented and Saving Achieved	84.4
Not Yet Fully Implemented and Achieved But Broadly on Track	11.7
Saving Not on Track to be Achieved	3.9
	<b>100.0</b>

40. 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.
41. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £610,000 or 4% of the total to be delivered. The breakdown of the financial consequences is shown by Portfolio in Appendix 10.
42. In addition to the portfolio details shown in Appendix 10 a corporate saving of £105,000 was also approved from the deletion of a Director's post which has been achieved.
43. The financial implications of the delivery of these proposals are reflected in the current forecast position, areas of ongoing concern have been fully reviewed, and appropriate action plans put into place. In addition, any implications for the budget for 2014/15 and future years have been addressed as part of the development of the budget.

#### **Financial Health Indicators**

44. 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 11 outlines the performance to date, and in some cases the forecast, against a range of financial indicators that will help to highlight any potential areas of concern where further action may be required.

#### **Quarterly Treasury Management Report**

45. The Council approved a number of indicators at its meeting of the 13 February 2013 and Appendix 12 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**

46. The expenditure budget for the HRA was set at £71.25M and the income budget at £71.25M, resulting in no net draw from balances. The forecast position for the year end on income and expenditure items shows an adverse variance of £246,800 compared to this budget.

47. There are no corporate variances to report but the detail is set out in Appendix 13.

## **RESOURCE IMPLICATIONS**

### **Capital/**

48. There are no capital implications.

### **Revenue**

49. The revenue implications are contained in the report.

### **Property/Other**

50. None.

## **LEGAL IMPLICATIONS**

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

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

### **Other Legal Implications:**

52. None.

## **POLICY FRAMEWORK IMPLICATIONS**

53. None.

**KEY DECISION?** Yes

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

## SUPPORTING DOCUMENTATION

### Appendices

1.	General Fund Summary
2.	Change & Communities Portfolios
3.	Children's Services Portfolio
4.	Economic Development & Leisure Portfolio
5.	Environment & Transport Portfolio
6.	Health & Adult Social Care Portfolio
7.	Housing & Sustainability Portfolio
8.	Leader's Portfolio
9.	Resources Portfolio
10.	Implementation of Savings Proposals
11.	Financial Health Indicators
12.	Quarterly Treasury Management Report
13.	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 2013/14 to 2015/16 (Approved by Council on 13 February 2013)	
2. General Fund Revenue Outturn 2012/13 (Approved by Council on 17 July 2013)	