

DECISION-MAKER:	CABINET		
SUBJECT:	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF JUNE 2018		
DATE OF DECISION:	18 TH SEPTEMBER 2018		
REPORT OF:	CABINET MEMBER FOR FINANCE & CUSTOMER EXPERIENCE		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY

This report summarises the General Revenue Fund and Housing Revenue Account (HRA) financial position for the Authority as at the end of June 2018, and highlights any key issues by portfolio which need to be brought to the attention of Cabinet.

RECOMMENDATIONS:

General Revenue Fund

It is recommended that Cabinet:

- i) Note the forecast outturn position is an overspend of £6.32M, as outlined in paragraph 3.
- ii) Note that the forecast overspend for portfolios is £8.62M as outlined in paragraph 5 to 13.
- iii) Note the delivery to date of the agreed savings proposals approved for 2018/19 as detailed in paragraphs 14 to 17.
- iv) Note the Key Financial Risk Register as detailed in paragraph 24 and appendix 1.
- v) Note the performance against the financial health indicators detailed in paragraphs 28 and 29 and appendix 2.
- vi) Note the performance of treasury management, and financial outlook in paragraphs 30 to 37 and appendix 3.
- vii) Note the performance outlined in the Quarterly Collection Fund Statement attached at appendix 4 and detailed in paragraphs 41 to 43.

Housing Revenue Account

It is recommended that Cabinet:

- viii) Note the forecast outturn position is an overspend of £0.89M as outlined in paragraphs 38 to 40.

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)

FINANCIAL POSITION

3. Table 1 sets out the financial position of the General Revenue Fund. This financial summary details the budget against forecast expenditure and the subsequent variance. The current net revenue expenditure budget is £184.10M, this is an increase from the February report to Council when it stood at £180.8M. The current forecast net expenditure against this budget is £190.4M giving a forecast overspend of £6.32M. An explanation of these variances is found in paragraphs 5 to 13.

Table 1 – General Revenue Fund Forecast Outturn Position for 2018/19

	Budget £M	Forecast £M	Variance £M
Adults	66.28	67.63	1.34 A
Aspiration, Schools & Lifelong Learning	3.72	5.31	1.59 A
Childrens & Families	35.43	38.42	2.99 A
Community Wellbeing	(4.28)	(4.25)	0.03 A
Finance & Customer Experience	19.44	19.37	0.06 F
Homes & Culture	6.89	6.93	0.04 A
Leader and Clean Growth & Development	13.54	13.56	0.02 A
Transformation	0.00	1.68	1.68 A
Transport & Public Realm	23.84	24.84	1.00 A
Total Portfolios	164.86	173.48	8.62 A
Levies & Contributions	0.63	0.63	0.00
Capital Asset Management	10.36	10.36	0.00
Other Expenditure & Income	8.25	5.95	2.30 F
Net Revenue Expenditure	184.10	190.42	6.32 A
Council Tax	(95.94)	(95.94)	0.00
Business Rates	(99.21)	(99.21)	0.00
(Top Up)/Tariff	28.29	28.29	0.00
Non-Specific Government Grants	(17.26)	(17.26)	0.00
Total Financing	(184.10)	(184.10)	0.00
(SURPLUS)/DEFICIT	0.00	6.32	6.32 A

Explanation of Variances

4. There is a forecast overspend on portfolios of £8.62M. The significant issues regarding each portfolio are detailed the following paragraphs.

5. **Adults £1.34M Adverse Variance**

Long Term (£1.13M adverse variance)

The adverse variance is due to £1.13M of currently unachieved savings.

These savings are mainly based on reducing the numbers of client care packages within the Older Persons and Physical Disabilities areas.

Evidence is yet to be seen of the success of the actions put in place to reduce the cost and number of packages, and a number of actions have still to be implemented.

The adverse position is split over the following:

- £0.27M on Learning Disability packages, and
- £0.86M on Older Persons & Physical Disability packages.

This overspend is net of £0.80M Integrated Better Care Funding.

Safeguarding Adult Mental Health & Out of Hours – (£0.35M adverse variance)

There has been an increased number of high cost residential Adult Mental Health clients transferring from Health to Adult Social Care since the budget was set increasing costs by £0.35M. Whilst the net number of clients has been held steady and not increased, the average cost per client has increased due to clients with more complex needs. This has also led to the underachievement of the £0.13M savings target in this area.

Provider Services (£0.49M adverse variance)

There has been a significant increase in the use of temporary staffing at the Glen Lee and Holcroft residential care homes. This is due to Care Quality Commission recommendations being implemented following the recent inspection of Glen Lee and long term sickness and vacancies at Holcroft care home.

Reablement & Hospital Discharge (£0.46M favourable variance)

There is a £0.22M underspend relating to staffing, due to staffing vacancies which are in the process of being filled following the Phase 3 staffing restructure. There is an additional £0.20m income forecast to be received from the NHS Southampton City Clinical Commissioning Group for spend on respite and hospital discharge costs. The remaining £0.04M is for minor expenditure variances.

Adult Services Management (£0.17M favourable variance)

There is currently an underspend of £0.13M in this area for Care Act implementation provision and an additional £0.04M forecast underspend on minor expenditure variances.

6. **Aspiration, Schools & Lifelong Learning £1.59M Adverse Variance**

High Needs £0.35M adverse variance

The Jigsaw service is forecasting an overspend of £0.35M. This consists of:

- An overspend of £0.26M due to an increase in the number of children with High Needs being placed in residential placements, and
- £0.09M for an increase in payments to new Direct Payment clients.

There is a review being carried out to ensure the provision is appropriate to meet

need.

Education Early Years & Asset Management £1.24M adverse variance

Legislative change in the Home to School Transport (HTST) provision requiring local authorities to extend this service to early years and post 16 pupils has caused a pressure in this area. This has been added to by an increase in the number of children with high needs requiring transport to school. The HTST pressure is forecast to be £1.3M. Extensive reviews of the provision to find efficiencies have been undertaken which have included parent consultations and reviewing the provision provided by neighbouring Authorities have failed to find savings. Savings will need to be found from within the wider portfolio.

7. **Children & Families £2.99M Adverse Variance**

Looked After Children £2.86M adverse variance

The forecast for residential, Independent Foster Agency, in house fostering, adoption allowances and special guardianship orders reflect the current numbers of children in care adjusted for any children that are forecast to leave care or move into the pathways team at staying put rates of care costs. This reflects an initial forecast adverse variance of £1.91M.

The numbers of expected inter agency placements has now been clarified this year and the new estimate of 23 cases has increased the forecast by £0.50M adverse.

For quarter 1, there have been a number of further adjustments within residential placements increasing the adverse variance by £0.20M. There were 2 new placements, 1 case transferred from an IFA placement, 1 placement with increased costs, 1 case returning from custody to residential all partially offset by 2 expected reduction in placements later this year.

The budgets for LAC have been amended to reflect the savings required in these areas. Additional LAC budget reductions have been put through of £0.22M to fund the new step down team.

The edge of care team, step down team and the new placements team will be reviewed to assess their effectiveness and be amended if necessary to maximise the savings to be made this year.

8. **Community Wellbeing £0.03M Adverse Variance**

Public Health £0.03M adverse variance

Long Acting Reversible Contraception (LARC) is forecast to be overspent by £0.03M due to anticipated demand based. Alternative savings are being sought to offset this overspend.

9. **Finance & Customer Experience £0.06M Favourable Variance**

Business Operations & Digital £0.06M favourable variance

Due to significant staff turnover there is forecast to be a favourable variance in this area.

10. **Homes & Culture £0.04M Adverse Variance**

Culture £0.04M adverse variance

This is predominantly due to works required to the fire safety system in Tudor House and roofing measures in SeaCity Museum which are creating an adverse forecast variance of £0.04M.

11. **Leader and Clean Growth & Development £0.02M Adverse Variance**

HR Services £0.08M adverse variance

This is due to the balance of the termination fee of £0.08M being payable to the previous provider of external recruitment for the period April - July 2018. Permanent recruitment has been brought back in house and a new permanent recruitment team is now in place. This will be offset in future by a budget virement from contingencies as it is one off in nature.

Intelligence, Insight and Communications £0.05M favourable variance

There is a forecast underspend on staffing due to vacancies.

12. **Transformation £1.68M Adverse Variance**

Reflection has been given on the ability of the procurement team to be able to impact on the overall redesign of Adult Social Care and by default the associated addressable spend linked to the Procurement Guarantee. It is expected that a reduction in the Procurement Guarantee (£1.83M) will be considered to remove Adult Social Care Spend in 2018/19.

Additionally, when setting the 2018/19 budget in February 2017, an assumption was made that additional digital savings of £1.40M could be achieved. These savings are now not expected.

£1.55M of reserves has been released to help meet this pressure.

13. **Transport & public Realm £1.00M Adverse Variance**

City Services – Waste Management £0.36M adverse variance

Post February Budget report saw a significant change in market values for dry & mixed recyclables, particularly for cardboard and mixed paper commodity. Indications are that market prices are set to continue to decrease due to the uncertainty pertaining to export markets for recyclables, particularly within the fibre markets. The expected adverse impact on the budget is £0.04M.

A minor variance of £0.02M arises as a result of increasing energy costs across the service, driven by increases in oil prices since May. This will be followed up with the Procurement Team to identify whether there are any potential mitigating actions.

The availability of the incinerator was an issue reported throughout 2017/18, with significant periods of unavailability during 2017/18. The incinerator was offline for 1 day in April, and for a period of weeks in May. The increase in commercial waste disposal costs of outage to date is forecast to be £0.3M adverse variance.

City Services – Open Spaces £0.15M adverse variance

During 2017/18, the Tree Surgery team experienced vacancies and long term sickness over the year. One of the requirements of undertaking tree works, is that a team leader is required on site to manage health & safety and supervise working at height. In addition, the Council has been working through a significant backlog of essential tree works since the previous contract was brought back in house in April. Both of these factors mean that there has been less ability to focus on income

generating work, creating an adverse variance of £0.10M. The outturn report for 2017/18 anticipated that the backlog will continue to be addressed throughout 2018/19, which has proved to be the case and an adverse variance of £0.10M is anticipated.

Other adverse variances have arisen from cleaning costs across all public conveniences (£0.03M), and increasing energy costs across the service (£0.02M), driven by increases in oil prices since May. This will be followed up with the Procurement team to identify whether there are any potential mitigating actions.

Regulatory Services £0.48M adverse variance

Regulatory Services has a forecast reduction in income since the new crematorium in Romsey opened.

During 2017/18, the adverse impact of the new privately operated Crematorium in Romsey in August 2017 on income was reported. The continuing impact on income within Cemeteries in 2018/19 is estimated to be £0.40M. A marketing plan is being developed and a fee increase was implemented in 2018/19 to mitigate this impact.

Registration Services £0.08M adverse variance

A variance on Registration services arises from the introduction by Government of an online service for Nationality Checks. The introduction of this service means that applicants are no longer obliged to take this service from the registration office, resulting in a reduction in income forecast to be £0.08M.

Implementation of Savings Proposals

14. Savings proposals of £24.31M were approved by Council in February 2018. Table 2 is a summary of the progress on achieving these savings.

Table 2 Analysis of Achievement of Savings

	%
Actual reduction in expenditure (GREEN)	51
Forecast reduction in expenditure (AMBER)	34
No forecast reduction in expenditure but plans being put in place to achieve (RED)	6
Saving will not be achieved (PURPLE)	3

15. 34% of savings are amber and forecast to be achieved, whilst 9% (red and purple) are not forecast to be achieved. These represent a risk to the financial position of the council until all management actions required to deliver the savings are complete and the reduction in spend can be evidenced.
16. The chart below shows the achievement of total savings required by portfolio.



17. The overall financial shortfall in the delivery of the savings proposals is currently forecast as £2.24M or 9% of the total to be delivered.

Other Income & Expenditure

18. Following a review of central inflation requirements, £2.0M has been released to help meet the forecast shortfall in both procurement and digital savings.
19. Additionally, £0.3M of contingencies have been released to meet additional incinerator outage costs. This will be vired to the service budget to offset the pressure in the next quarters monitoring report.

Reserves & Balances

20. At the 31st March 2018, earmarked reserves totalled £82.03M, plus Schools Balances totalling £4.01M.
21. The estimated forecast position as at the 31st March 2018 is £70.90M with Schools Balances totalling £4.01M subject to the overall Dedicated School Grant deficit.
22. During the period to 30th June 2018 there has been a release of £1.55M from reserves to offset the pressure detailed in the transformation section of the report.
23. The General Fund Balance is currently £11.3M and there are no planned draws on this balance in 2018/19. However if the forecast position remains the same the council will need to either allocate monies from earmarked reserves or utilise the General Fund Balance.

Key Financial Risks

24. The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. It is from this register that the level of balances and reserves is determined when the budget is set at the February Council. The register has been reviewed and is attached as Appendix 1.

Schools

25. At 31st March 2018 there were 10 schools reporting a deficit balance as shown in the table below.

Table 3 Schools in Deficit

	Deficit £M	No. of Schools
Primary	1.05	6

Secondary	1.65	4
Total	2.70	10

These schools are working with Children's & Families to agree Deficit Recovery Plans (DRP).

26. It should also be noted that the previously reported significant pressure within the high needs budget will further impact in 2018/19. There is a forecast DSG pressure of £1.3M, this is after allowing for additional funding received from central reserves.

This pressure is being driven by the increased demand from a higher number of children receiving an Education Health and Care Plan (EHCP) many of these are becoming increasingly complex requiring a greater number of hours to be funded.

The service is working with the Schools Forum and with the Special Schools to develop an action plan to address the ongoing pressure.

27. **Education PFI Contract**

There is a forecast increase in the total cost of the PFI contract equating to £0.27M per year from 2017/18 to the end of the contract 2031/32 to be met from the Dedicated Schools Grant.

This increase has taken into consideration the increased contributions from the three PFI schools for their Facilities Management Services. There is a potential pressure due to one of the three PFI schools having not yet signed the deed of variation to the revenue agreement that was agreed in principle in 2014.

Further discussions are taking place to agree how pressure can be mitigated. These include the adjustment of contract provisions including life cycle elements of renewal and maintenance. Handback condition of buildings at the end of the contract are being reviewed with contractor Interserve as well as refinancing alternatives.

Financial Health Indicators

28. 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 2 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.
29. At present all indicators are green with the exception of the payment of undisputed invoices within 30 days with a target of 98% and an actual of 91.52%.

Treasury Management

30. The Council approved a number of indicators at its meeting in February 2018. Appendix 3 includes current performance against these indicators along with an update on the financial outlook. The council has operated within the agreed prudential indicators for the first quarter and is forecast to do so for the remainder of the year.
31. Table 4 shows the years opening balance of borrowing and investments, current levels and those predicted for year-end.

32. Table 4 Borrowings and Investments	01.04.2018 Balance £M	30.06.2018 Balance £M	Average Yield/Rate %	31.03.2019 Estimated Balance
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				£M
External Borrowing				
Public Works Loan Board (PWLB)	208.81	206.07	3.34	197.34
Market Loans	9.00	9.00	4.86	9.00
Total Long Term Borrowing	217.81	215.07	3.44	206.34
Temporary Borrowing	33.35	32.35	0.58	85.00
Total External Borrowing	251.16	247.42	3.32	291.34
Investments				
Cash (Instant access)	(23.48)	(32.70)	(0.52)	(10.00)
Cash (Notice Account)	(3.00)	(3.00)	(0.70)	(3.00)
Fixed Term Deposits	(10.00)			
Short Term Bonds	(3.14)	(1.60)	(1.21)	(1.60)
Long Term Bonds	(6.80)	(6.11)	(3.61)	(6.11)
Property Fund	(27.00)	(27.00)	(4.32)	(27.00)
Total Investments	(73.42)	(70.41)	(4.10)	(47.71)
Net Borrowing	177.74	177.01		243.63

33. After taking into account maturing and new debt requirements in year, there is an estimated increase in net borrowing of £65.9M. This is mainly as a result of approved new capital borrowing during 2018/19 of £57.2 M and an expected reduction in cash flow to support previous capital spend for which borrowing has not been externalised.
34. The interest cost of financing the council's long term and short term loan debt is charged to the general fund revenue account and is detailed below together with a summary of performance to date.

Borrowing

35. The forecast cost of financing the council's loan debt is £14.4M of which £5.5M relates to the HRA however this will be subject to movement as the need for further borrowing becomes more certain. As short term interest rates have remained low and are likely to do so for the remainder of the year, we do not anticipate taking any long term debt and will finance the 2018/19 capital programme via short term debt. This is the most cost effective way of managing treasury and also reduces risk as investments also fall. We currently have £32M in short term debt and this is expected to increase to £85M to replace maturing long term debt and to fund the current capital programme.

Investment

36. Balances initially increased at the beginning of the year rising from £73M to £99M in mid- April, but have since fallen back to £70M and are expected to fall further throughout the year, to an estimated £48M by the end of the year.

External Managed investments

37. The council has invested £27M in property funds as an alternative to buying property directly. As previously reported these funds offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term and are managed

by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. As at the 30th June 2018 the sell price of our total investments were valued at £27.17M a notional “gain” of £0.17M against an initial investments of £27M. The estimated yield for the year is £1.14M if yields remain around current levels.

Housing Revenue Account

38. The expenditure budget for the HRA was set at £72.58M and the income budget at £72.58M, with no draw on balances envisaged. This is detailed in the table below.

Table 5 – HRA Summary

	2018/19 Budget	Quarter 1 Forecast	Variance
	£M	£M	£M
Net rent income	(69.63)	(69.79)	0.16 F
Service charges & other income	(2.82)	(2.82)	0.00
Misc. Adjustments	0.00	0.00	0.00
RTB admin	(0.13)	(0.13)	0.00
Total income	(72.58)	(72.74)	0.16 F
Management	21.57	22.14	0.57 A
Depreciation	19.53	19.53	0.00
Responsive & Cyclical repairs	14.79	15.73	0.94 A
Other revenue spend	0.10	0.10	0.00
HRA cost of rent rebates	0.00	0.00	0.00
Total service expenses	55.98	57.49	1.51 A
Capital charges	6.17	5.71	0.46 F
Repayment of loans	5.96	5.96	0.00
Revenue contribution to capital	4.47	4.47	0.00
Total expenditure	72.58	73.63	1.05 A
(Surplus) / Deficit for the year	0.00	0.89	0.89 A

39. The forecast position for the year end on income and expenditure items shows an adverse forecast variance of £0.89M compared to this budget. The service are currently reviewing how this adverse position can be mitigated.

40. Responsive repairs £0.94M adverse variance

The trend for repairs expenditure is continuing at the same rate as was experienced in 2017/18, leading to an increased risk of overspend in this area. There is therefore a forecast overspend to reflect this, with ongoing discussions taking place as to any available actions to help mitigate this risk.

Supervision & Management £0.57M adverse variance

Following the further roll out of universal credit there has been an increase in rent arrears it has been necessary to increase the provision for doubtful debts, resulting in an adverse variance of £0.89M.

Various smaller discretionary budgets forecast to underspend to mitigate the debt provision increase creating a favourable variance of £0.26M.

There is also increased income from the Better Care Fund to fund Family Mosaic TUPE staffing costs which has led to a favourable variance of £0.06M.

Interest & Principal re-payments £0.46M favourable variance

Principal repayments, as calculated in the HRA Business Plan, have been amended

to reflect the current treasury management assumptions. The updated timing of repayments has given rise to a forecast favourable variance of ££0.46M.

Dwelling rents (£0.16M favourable)

Right-to-buy sales have been less than forecast since the Business Plan assumptions were set in the previous financial year. This has led to a higher rental income figure due to the higher number of properties in the Housing Revenue Account.

Collection Fund

41. Appendix 4 shows the forecast outturn position for the Collection Fund, with the position being a surplus on both council tax and business rates. Table 6 shows the forecast change in position for the Collection Fund.

Table 6 – Collection Fund Forecast 2018/19

	Council Tax £M	NDR £M	Total £M
Change in 2018/19 (Deficit) Surplus	0.77	0.94	1.71
(Reduction)/Increase in year-end Surplus brought forward from 2017/18	2.39	2.11	4.50
Overall 2018/19 Surplus	3.16	3.05	6.21
SCC Share of Surplus	2.72	1.25	3.97

42. The Council's share of the surplus for council tax is £2.72M and its share of the business rates surplus is £1.25M, giving a net surplus of £3.97M. These will be taken into account in setting the 2019/20 Council Tax and General Revenue Fund Budget.

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 Section 151 officers duty to ensure good financial administration within the Council.

Other Legal Implications:

46. None.

RISK MANAGEMENT IMPLICATIONS

47. See comments within report.

POLICY FRAMEWORK IMPLICATIONS

48. None.

KEY DECISION? No

WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Appendices

1.	Key Financial Risk Register
2.	Health Indicators.
3.	Treasury Management Quarterly Benchmarking, Prudential Indicators and Financial Outlook Qtr. 1
4.	Collection Fund Qtr. 1

Documents In Members' Rooms

1.	None
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No
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Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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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 2018/19 to 2021/22 (Approved by Council February 2018)	