

<b>DECISION-MAKER:</b>	CABINET
<b>SUBJECT:</b>	CORPORATE REVENUE FINANCIAL MONITORING FOR THE PERIOD TO THE END OF SEPTEMBER 2011
<b>DATE OF DECISION:</b>	21 NOVEMBER 2011
<b>REPORT OF:</b>	CABINET MEMBER FOR LEISURE, CULTURE & RESOURCES
<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 six months to the end of September 2011, 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 budget for 2011/12 as at Month 6 (September), which is a forecast under spend at year end of **£20,000** against the budget approved by Council on 16 February 2011, as outlined in paragraph 4.
- (ii) Note that the baseline forecast over spend for portfolios is £1.5M.
- (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 the Risk Fund includes £1.9M to cover service related risks, and that the estimated draw at Month 6 is £560,000 to cover expenditure which is included within the baseline forecast portfolio over spend of £1.5M. At this stage of the year it has been prudently assumed that the remainder of the Fund will be fully utilised.
- (v) Note that the Revenue Development Fund totals £1.2M. At this stage of the year it has been assumed that the remainder of the Fund will be fully utilised.
- (vi) Note that £100,700 has been allocated from the contingency to fund the majority of the cost of introducing a market supplement of £1,400 per annum for a range of social workers within Children's Services & Learning on a temporary six month basis. This now fully utilises the contingency of £250,000 which was originally built into the 2011/12 budget.
- (vii) Note the forecast level of balances which will not fall below the minimum level of £4.5M 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 2011/12 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 2011/12 as at Month 6 (September), which is a forecast under spend at year end of **£194,100** against the budget approved by Council on 16 February 2011, as outlined in paragraph 19.

**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 Executive Directors have been consulted in preparing the reasons for variations contained in the appendices.

**4. Financial Summary**

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 **£20,000**, as shown below:

	<b>Forecast Outturn Variance £000's</b>	<b>Forecast Outturn Variance %</b>
<b>Baseline Portfolio Total</b>	<b>1,482.2 A</b>	<b>0.7</b>
Draw From Risk Fund	560.0 F	
<b>Portfolio Total</b>	<b>922.2 A</b>	<b>0.4</b>
Capital Asset Management	750.0 F	
Other Expenditure & Income	192.2 F	
<b>Net Total General Fund</b>	<b>20.0 A</b>	<b>0.0</b>

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 £922,200 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 Social Care & Health	1,162.3 A	560.0	602.3 A	0.9	2
Children's Services & Learning	338.1 A	0.0	338.1 A	0.9	3
Environment & Transport	32.6 A	0.0	32.6 A	0.1	4
Housing	143.6 F	0.0	143.6 F	1.5	5
Leader's	248.8 F	0.0	248.8 F	3.3	6
Leisure & Culture	401.6 A	0.0	401.6 A	5.7	7
Resources	60.0 F	0.0	60.0 F	0.1	8
<b>Portfolio Total</b>	<b>1,482.2 A</b>	<b>560.0</b>	<b>922.2 A</b>	<b>0.4</b>	

The corporate and key issues affecting each portfolio are set out in Appendices 2 to 8, as per the previous table.

5. **Remedial Action**

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.

6. **Capital Asset Management**

The favourable variance of £750,000 is primarily due to a reduction in net interest payable resulting from lower than anticipated borrowing costs. This has been as a consequence of the fact that we have borrowed at lower rates than originally estimated. Lower rates have been achieved through a conscious decision to continue to utilise short term debt which remains available at lower rates than long term debt due to the depressed market. The predictions based on all of the economic data are that this will continue for the remainder of the year.

7. **Other Expenditure & Income**

The favourable variance of £192,200 relates to four off setting factors:

- Corporate Savings (£1.8M A)
  - Delayed implementation of the changes to Terms & Conditions (£1,316,000 A) – When the budget was set in February an implementation date of 1 April was assumed on the basis that a collective agreement was still possible. The implementation date achieved was delayed as no collective agreement was reached with the Trade Unions, meaning that a notice period of three months was required. As a consequence, the changes were not implemented until 11 July resulting in a reduction in the saving to be achieved in 2011/12.

- HMRC Mileage Rate (£27,000 A) – The changes to Terms & Conditions included a reduction in mileage rates to match the HMRC rate. This rate was 40p but shortly after the budget decision HMRC increased it to 45p which reduced the saving to be achieved in 2011/12. The full year impact of this is £107,800 and this will be reflected in the revised budget forecast position for future years.
- Management Restructure (£443,000 A) – As part of a range of measures designed to address the severe financial position facing Southampton City Council and reflect the wider significant changes to the public sector, the Chief Executive announced plans to implement a new organisation of Council services early in 2011/12. The plans are well underway and will deliver proposed savings in 2012/13 of approaching £1.0M. However, in 2011/12 the originally estimated implementation timescale has been revised resulting in an in year adverse variance. Savings that accrue within 2011/12 will be included within Portfolio forecasts due to the fact that the changes are being managed locally taking into account service needs.
- Exceptional Items (£2.8M F) – As a result of two separate issues a favourable variance has arisen. The items are:
  - Supporting People (£1,340,000 F) – In previous years this ring-fenced grant was not fully spent despite service plans being fully delivered and the balance was held separately for use in future years. This grant is no longer ring fenced and as such is available to use within the General Fund.
  - Reduced Street Lighting PFI Payments (£1,462.00 F) – During the early stages of the PFI contract the Council is to receive ‘service deductions’ in view of the fact that the contractor will need time to undertake work to install new columns. These deductions are currently estimated to be £1.46M in 2010/11.
- Contribution to Direct Revenue Financing of Capital (DRF) (£1.0M A) – Additions to the Capital Programme were included in the Capital Programme Update report which was approved by Council on 14 September 2011 which require funding of £1.0M from DRF.
- Surplus on Trading Areas (£221,100 F) – Fleet leasing costs have been lower than estimated due to a number of factors, most notably a number of vehicle lease extensions (which are less expensive than new leases) and the purchase of a number of vehicles in preference to leasing where this is currently more economic. During the period of the lease, charges to users are not currently reviewed and reduced.  
At present, the full financial implications are under investigation but this is a significant variance and may, if appropriate justify an element of rebate to the main fleet users.

These items are all one off in nature. However, when the budget was set in February it was planned to utilise the funding released from Supporting People to support the budget position in 2012/13 and this will no longer be possible. This change has been reflected in the revised budget forecast position for future years will be addressed as part of the development of the budget for 2012/13.

## 8. Risk Fund

Potential pressures that may arise during 2011/12 relating to volatile areas of both expenditure and income are being managed through the Risk Fund.

A sum of £1.9M 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.

At Month 6, it is estimated that pressures within portfolios will require the allocation of £560,000 from the Risk Fund, as shown in the table below but it has been prudently assumed that the remainder of the Fund will be fully utilised.

<b>Portfolio</b>	<b>Service Activity</b>	<b>£000's</b>
Adult Social Care & Health	Adult Disability Care – Dementia	100.0
Adult Social Care & Health	Adult Disability Care – Increase in Elderly population	400.0
Adult Social Care & Health	Learning Disability – Transition/ILF	60.0
<b>Portfolio Draw From Risk Fund</b>		<b>560.0</b>

The Risk Fund, which previously stood at £2.3M now totals £1.9M following the allocation of £385,000. The funding allocated is shown below:

<b>Portfolio</b>	<b>Service Activity</b>	<b>£000's</b>
Adult Social Care & Health	Learning Disability Services	200.0
Environment & Transport	Income – Bus Shelter Contract	185.0
<b>Funding Allocated From the Risk Fund</b>		<b>385.0</b>

## 9. Revenue Development Fund

The majority of the revenue developments are complex strategic projects around which there are uncertainties in relation to timing and speed of progress. Consequently, it was agreed that funding for these projects be placed into a Revenue Development Fund to enable the Council to retain flexibility in funding.

The Revenue Development Fund which previously stood at £1.4M now totals £1.2M following the allocation of £0.2M to fund additional costs within Safeguarding associated with the increase in referrals. At this stage of the year it has been assumed that the remainder of the Fund will be fully utilised in 2011/12.

## 10. Contingency

The contingency was originally set at £250,000 and all of this has been allocated as follows:

- Grants to Voluntary Organisations (£104,300) – Allocated from the contingency to fund the recommendations contained in the 2010/11 Grants to Voluntary Organisations report as approved by Cabinet on 21 June 2010.

- Meals On Wheels (£45,000) – Allocated from the contingency to reflect the fact that the savings proposal to increase the cost of Meals on Wheels has been reviewed and amended such that the planned increase in income will not be delivered in 2011/12.
- Social Workers Retention (£100,700) - Allocated to Children's Services & Learning. Current market conditions nationally are such that the supply of social workers is insufficient to meet demand and there is significant competition between authorities to recruit and retain high calibre social work staff. The council has acted to try and retain qualified social work staff by proposing a market supplement of £1,400 per annum for a range of social workers within Children's Services & Learning on a temporary six month basis. This will cost an additional £108,000 for 2011/12 and £100,700 will be met from the Contingency with the rest managed within the bottom line of the Portfolio.

11. **Approved Carry Forward Requests**

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 following consultation with the Cabinet Member for Leisure, Culture & 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 be actively monitored each month.

12. **Potential Carry Forward Requests**

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

13. **Key Portfolio Issues**

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

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.

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>
Adult Social Care & Health	Adult Disability Care	787.1	2 – ASCH 1
Adult Social Care & Health	Learning Disability	702.8	2 – ASCH 2
Children's Services & Learning	Tier 4 Safeguarding Specialist Services	1,117.0	3 – CSL 3
Children's Services & Learning	Safeguarding Mgt & Legal Services	488.6	3 – CSL 4
Children's Services & Learning	Tier 3 Social Work Teams	357.1	3 – CSL 5
Environment & Transport	Off Street Car Parking	214.6	4 – E&T 1
Environment & Transport	Itchen Bridge	239.9	4 – E&T 3

### **Corporate Favourable Variances**

<b>Portfolio</b>	<b>Corporate Issue</b>	<b>Favourable Forecast £000's</b>	<b>See Appendix &amp; Reference</b>
Children's Services & Learning	Commissioning & Workplace Development	953.5	3 – CSL 1
Children's Services & Learning	Prevention & Inclusion Teams	465.5	3 – CSL 2
Environment & Transport	Waste Disposal	480.2	4 – E&T 2
Environment & Transport	Highways & Street Lighting Partnership	225.3	4 – E&T 4

14 **Impact of the Strike Action**

The financial impact of the strike on General Fund services is reflected in the forecast position and details relating to each portfolio are included in Appendices 2 to 8.

The corporate position as at Month 6 (September) is summarised below:

	<b>£000's</b>
Additional Costs	850
Strike Deductions	(530)
Other Savings	(70)
Net Impact	250

There will be an ongoing financial impact until the dispute is resolved and this position will be monitored closely.

The position in relation to the dispute has since September moved on and the council issued a joint press statement with the trade unions on 14 October. This announced that the council and union representatives had concluded negotiations and reached a position which could be the basis for a proposed settlement to the current industrial dispute. The details of the proposal were released in early November and the unions will now be asking their members to vote on the improved offer on the basis that the offer is the best that can be achieved through negotiation.

If the offer is accepted then the additional cost to the council in 2011/12 is likely to be in the region of £475,000, with £300,000 being the cost of backdating the changes. At this stage this has not been factored into the forecast position contained in this report.

15. **General Fund Balances**

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 2010/11, the September update of the capital programme, the draft budget proposals published in October and the forecast position for 2011/12 as outlined in this monitoring report:



	2010/11	2011/12	2012/13	2013/14	2014/15
	£000's	£000's	£000's	£000's	£000's
<b>Opening Balance</b>	<b>19,849.5</b>	<b>17,393.9</b>	<b>13,379.7</b>	<b>4,961.6</b>	<b>4,909.7</b>
Draw from / (to Support) Revenue	2,369.2	3,024.0	807.0	5,000.0	5,000.0
Draw to Support Capital	(499.6)	(645.0)	(300.0)		
Draw for Strategic Schemes (Rev & Cap)	(4,325.2)	(6,393.2)	(8,925.1)	(5,051.9)	(4,957.7)
<b>Closing Balance</b>	<b>17,393.9</b>	<b>13,379.7</b>	<b>4,961.6</b>	<b>4,909.7</b>	<b>4,952.0</b>

The minimum level of balances is set at £4.5M and consequently the above prediction indicates that this will be maintained in the medium term. As a consequence £452,000 is available within balances and this can be used to mitigate the impact of the additional cost associated with the negotiated settlement outlined in paragraph 14.

#### 16. **Implementation of Savings Proposals**

Savings proposals of £11.9M were approved by Council in February 2011 as part of the overall budget package for 2011/12.

This was subsequently reduced due to changes made in relation to Meals on Wheels and Grants to Voluntary Organisations and the reduction was met from contingencies as outlined in paragraph 10. The delivery of the remaining savings which total £11.8M is key to the financial position of the authority and below is a summary of the progress as at the end of the first quarter:

Portfolio	Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved
	%	%	%
Adult Social Care & Health	27.2	66.0	6.8
Children's Services & Learning	100.0	0.0	0.0
Environment & Transport	64.9	30.9	4.2
Housing	91.0	9.0	0.0
Leader's	85.7	14.3	0.0
Leisure & Culture	48.3	4.2	47.6
Resources	89.1	10.9	0.0
<b>Total General Fund</b>	<b>69.0</b>	<b>25.7</b>	<b>5.3</b>

The overall shortfall in the delivery of the savings proposals is currently forecast as £0.6M or 6% of the financial total to be delivered and Appendix 9 contains further details.

Where savings are not on track to be achieved this is due to non implementation in some cases but also due to the impact of factors such as rising demand for services which have meant that despite being implemented the financial savings have not materialised.

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 2012/13 and future years will be addressed as part of the development of the budget.

17. **Financial Health Indicators**

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.

18. **Quarterly Treasury Management Report**

The Council approved a number of indicators at its meeting of the 16 February 2011 and Appendix 11 outlines current performance against these indicators in more detail.

19. **Housing Revenue Account**

The expenditure budget for the HRA is £63.9M and the income budget is £63.9M. The overall forecast position for the year end shows a favourable variance of £194,100. There are no corporate variances to report but the detail is set out in Appendix 12.

## **RESOURCE IMPLICATIONS**

### **Capital**

20. None.

### **Revenue**

21. Contained in the report

### **Property/Other**

22. None

## **LEGAL IMPLICATIONS**

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

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

**Other Legal Implications:**

24. Not applicable.

**POLICY FRAMEWORK IMPLICATIONS**

25. Not applicable.

<b>AUTHOR:</b>	Name:	Alison Chard	Tel:	023 8083 4897
	E-mail:	Alison.Chard@southampton.gov.uk		

**KEY DECISION?** Yes/No    YES

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

**SUPPORTING DOCUMENTATION**

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

**Appendices**

1.	General Fund Summary
2.	Adult Social Care & Health Portfolio
3.	Children's Services & Learning Portfolio
4.	Environment & Transport Portfolio
5.	Housing Portfolio
6.	Leader's Portfolio
7.	Leisure & Culture 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
----	------

**Integrated Impact Assessment**

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
--	--------

**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 2011/12 to 2013/14 (Approved by Council on 16 February 2011)	
----	---	--