

<b>Item No.</b> 16.	<b>Classification:</b> Open	<b>Date:</b> 14 December 2010	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Quarter 2 Revenue Monitoring Report – 2010/11	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Richard Livingstone, Finance and Resources	

## **FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE AND RESOURCES**

1. The report below sets out the current forecast for the general fund and the housing revenue account for 2010/11 based on the first half of the year.
2. There has been some improvement in the projected adverse variance in the general fund since the quarter 1 report, from the £4.189m reported in September to £2.765m. Cabinet members will recall that the unprecedented in-year budget reduction of £5.1m from government has had an impact on this figure. The recommendations below ask that officers continue to work to reduce this adverse variance. The report sets out explanations for the figures for each department.
3. Similarly, the projected adverse variance in the housing revenue account has decreased from the quarter 1 report, from £4.215m to £3.675m. The continued adverse variance arises from one-off pressures including the on-going costs arising from the fires at Lakanal and Carisbrooke Gardens and major regeneration initiatives.
4. Cabinet members should also note the projected net reduction in reserves as described in the report.
5. Cabinet are also asked to note the treasury management activity in the last quarter. No new borrowing was taken in this period and debt to fund past capital spending remains at £762m. No debt is due to mature in this financial year. The council's investments total £224.3m.

## **RECOMMENDATIONS**

6. That the cabinet notes:
  - the general fund outturn forecast for 2010/11 and the forecast net movement in reserves;
  - the housing revenue account's (HRA) forecast outturn for 2010/11 and movement in reserves.
7. That the cabinet notes the treasury management activity for the second quarter of 2010/11.

8. That the cabinet notes and approves the general fund budget adjustments as required, as detailed in Appendix A.
9. That cabinet instructs strategic directors to continue to take further action to manage the cost of services within agreed budgets.

## **BACKGROUND INFORMATION**

10. This report provides a quarter 2 update on the Council's 2010/11 outturn forecast for the general fund, HRA and collection fund based on the most current information available. Explanations for key variances are presented along with the action planned or taken by managers to address these variances.
11. There is an overall improvement in both the General Fund and the Housing Revenue Account compared to the position reported at quarter 1.
12. The report also identifies key variances in the council's savings plans for 2010/11 and reports on the movement expected on the council's reserves.
13. Information with regard to the council's treasury management activity is also presented in this report.

## **KEY ISSUES FOR CONSIDERATION**

### **Current forecast position**

14. The overall forecast position for the general fund, housing revenue account and collection fund is as follows:

Table 1: Summary forecast outturn

<b>Account/Fund</b>	<b>Forecast outturn variance unfavourable / (favourable) £'000</b>	<b>Forecast outturn variance reported at Quarter 1 £'000</b>
General fund	2,765	4,189
HRA	3,675	4,215
Collection fund	366	1,135

### **General fund**

15. There is an overall improvement of £1.424m compared to the position reported at quarter 1 which is due to more favourable forecasts in a number of departments including environment and housing, health and community services and regeneration & neighbourhoods and major projects.

## Quarter 2 general fund departmental monitor

16. The forecast outturn position for quarter 2 by department is presented in Table 2 below.

Table 2: General Fund forecast outturn

General fund	2010/11 Original budget £'000	Budget adjustments £'000	2010/11 revised budget as at month 6 £'000	2010/11 Forecast outturn at month 6 £'000	Variance - over / (under) £'000	Variance reported at Q1 £'000
Children's services	99,674	(257)	99,417	100,217	800	400
Health and community services	118,810	(196)	118,614	120,309	1,695	2,412
Environment and housing Regeneration & neighbourhood and major projects	76,074	(35)	76,039	76,246	207	1,068
Deputy chief executive	30,296	0	30,296	30,459	163	399
Communities, law and governance	46,271	2,921	49,192	49,192	0	0
Finance and resources	13,070	(269)	12,801	12,801	0	0
SCR income	34,727	(3,264)	31,463	31,363	(100)	(90)
Strategic and corporate	(58,858)	48	(58,810)	(58,810)	0	0
	1,606	1,821	3,427	3,427	0	0
<b>Total general fund before appropriations</b>	<b>361,670</b>	<b>769</b>	<b>362,439</b>	<b>365,204</b>	<b>2,765</b>	<b>4,189</b>
Appropriations to/(from) reserves	2,195	(769)	1,426	1,426	0	0
<b>General fund total</b>	<b>363,865</b>	<b>(0)</b>	<b>363,865</b>	<b>366,630</b>	<b>2,765</b>	<b>4,189</b>
Area based grant	(43,956)	0	(43,956)	(43,956)	0	0
<b>Net total</b>	<b>319,909</b>	<b>(0)</b>	<b>319,909</b>	<b>322,674</b>	<b>2,765</b>	<b>4,189</b>
Schools budget	0	0	0		0	0
Appropriation to/(from) DSG reserves	0	0	0		0	0
<b>Total</b>	<b>319,909</b>	<b>(0)</b>	<b>319,909</b>	<b>322,674</b>	<b>2,765</b>	<b>4,189</b>

17. The key reasons for this improved position are as follows:

- Health and community services

The position has improved from the previous quarter with a reduction in the adverse variance forecast from £2.41m to £1.69m. Main pressure areas include placements for younger disabled people and delays to the transfer of residential to community based care.

Management action is being taken across department to contain cost pressures, including;

- Close review of new placements made to minimise the use of expensive residential care
- Better procurement of all purchased care to ensure lowest possible price
- Holding staff vacancies and limiting use of agency staff
- Re-assessing existing care packages, both in and out of Borough
- Maximising all potential income streams

Whilst the budget is still under pressure the forecast position is prudent. The success of existing action plans and further work should see continued reduction in costs over the remainder of the year, with an aim to achieving as

close to a balanced budget as possible by March 2011.

- Environment and housing

Discussions with the leisure contractor are close to finalisation, and the director is confident of a satisfactory outcome for the Council. This will have a positive effect on the outturn variance. The community safety forecast position has improved considerably. There are three factors behind this improvement. Firstly a robust action plan has been put into place by the head of service. Secondly, agreement has been reached with regard to costs that can be recharged to the HRA for the warden and enforcement service on the Heygate Estate. Thirdly, the contract has now been signed for the warden service at Better Bankside. As a result income is now recognised in the outturn forecast. For the department as a whole, robust management action has dealt with a number of pressures e.g. in year loss of grant, such that the previously reported adverse variance position has been successfully managed down. This trend will be embedded through further management actions that are currently underway.

- Regeneration & neighbourhood and major projects

The reduction in costs for vacant posts for the director and support division within major projects are the main reasons for the overall improvement in the projections now reported. However, management action is being taken in regeneration and neighbourhood to address the areas of adverse variance by scrutinising and reducing expenditure where possible and updating all income projections based on latest available information. It is expected that these actions should result in an improvement in the forecast and lead towards a balanced budget position for the department at year end.

18. Children's services cost pressures have resulted in an increase in the forecast adverse variance from £400k in quarter 1 to £800k in quarter 2; the increase can be attributed to the increasing activity in SEN transport as well as cost pressures due to delays in implementing the reorganisation of the after school service. This adverse variance is in the context of a £2.7m reduction in grants in year; some of the grant cuts have been met by known favourable variances in year which has reduced the service's flexibility to absorb cost pressures. Although the majority of the in year budget cuts are on track; £100k of the area based grant (ABG) budget cut has not been able to be absorbed in year.
19. Children's services have realised in year savings of £100k through the ongoing process of renegotiating semi-independent placement contracts; this work is going to be extended to all placement contracts over the coming months. There are plans to reduce the transport variance through a revision of the policies and contract re-tender, however, this is unlikely to be fully realised until the next financial year. In the short-term, a review of individual pupil journeys is underway. Children's services continue to be committed to reduce this predicted variance in year by identifying areas where management action can be taken to reduce spending. The dedicated schools grant (DSG) is currently balanced. However, the final DSG allocation will not be known until mid-November when a budget pressure of around £200k is anticipated as a result of a DSG recoupment in year as a result of new academies.
20. The overall outturn position will continue to be closely monitored and all strategic directors are working to ensure that by the end of the year the budget, as agreed through the policy and resources strategy in February 2010 by council assembly will be delivered on target.

21. This level of unfavourable variance is higher than projections at this point in previous years, although there has been an unprecedented cut of £3.2m in ABG in year which is being managed. Quarter 2 monitors for 2007/08, 2008/09 and 2009/10 showed unfavourable variances of £1.625m, £2.867m (includes extraordinary items e.g. de Menezes inquest) and £1.275m respectively. This does remain a cause for concern and management action continues to be taken to address this.

### Housing revenue account

22. The latest forecast shows improvement over the quarter 1 position and is an indication that the actions taken by management in recent months are delivering the improvements necessary. The position has stabilised and there is evidence to suggest that the downward spend profile on repairs can continue, subject to continued adherence to the new procedures introduced, such that the variance in this area may be largely eliminated by year-end.
23. As previously reported there are also a number of exceptional items, outside the normal day to day activity that give rise to additional pressure on the HRA, e.g. major regeneration initiatives and the on-going costs arising from the fires at Lakanal and Carisbrooke Gardens, which are forecast to exceed the resources available. The goal remains to return a balanced position by March 2011 and minimise the call on HRA reserves.

Table 3: Estimated projection of HRA outturn position for 2010/11 as at quarter 2

	Net Expenditure			
	Full Year Budget £'000	Forecast Outturn £'000	Forecast Variance £'000	Forecast Variance at Q1 £'000
<b><u>Regeneration &amp; Neighbourhoods</u></b>				
Housing Strategy & Options - Community Housing Services	1,767	1,741	(26)	1
Housing Strategy & Options - Strategy & Regeneration	1,728	1,747	19	69
<b><u>Strategic Services</u></b>				
Debt Charges & Financing	101,110	101,168	58	30
Major Project Costs	6,000	7,038	1,038	1,200
<b><u>Environment &amp; Housing</u></b>				
Housing Management	(96,343)	(93,666)	2,677	2,540
Home Ownership Unit	(28,290)	(28,047)	243	385
Other Services	14,028	13,967	(61)	(10)
<b><u>HRA Carry Forward</u></b>	0	(273)	(273)	0
<b>Housing Total</b>	<b>0</b>	<b>3,675</b>	<b>3,675</b>	<b>4,215</b>
<b>Contribution from Reserves</b>			<b>(3,675)</b>	<b>(4,215)</b>

## Collection fund

24. As a billing authority the council is required to maintain a collection fund account, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and demonstrate the way in which these have been distributed to preceptors and the general fund. The council must take into account the estimated surplus or deficit on the collection fund balance when setting the council tax for the following year.
25. The latest calculations estimate the balance on the collection fund to be a deficit of £366k as at 31 March 2011. The estimate is based on September system reports adjusted for the level of 'reliefs and exemptions' applied, which are assumed to be at a level similar to the 2009/10 outturn proportion. This therefore takes into account the sharp increase in exemptions that were applied late on in 2009/10 that resulted in a significant unfavourable difference of £696k between the projected and outturn position in 2009/10.
26. The forecast deficit for this quarter has been revised downwards from the first quarter by £769k. This is attributable to a change in the council tax base between reporting periods, which will increase income due.

## Savings and efficiencies - 2010/11 budget - Quarter 2

27. The council targeted £20.8m combined savings and efficiencies for the general fund and housing revenue account in 2010/11. At the end of quarter 2, £17.3m of these targeted savings were forecast to be achieved. The main shortfall being within the HRA where £2.3m of the £7.3m savings are now forecast not to be achieved.

Table 4: Forecast of savings achieved

	Agreed by Council £'000	Total Forecast Savings £'000	Variance as at Q2 £'000	Variance as at Q1 £'000
Children's Services	(2,200)	(2,050)	150	0
Health and Community Services	(3,280)	(2,262)	1,018	870
Environment and Housing	(1,528)	(1,528)	0	0
Regeneration & neighbourhoods and major projects	(1,127)	(1,027)	100	100
Finance & Resources	(893)	(873)	20	0
Deputy Chief Executive	(820)	(820)	0	0
Communities, Law and Governance	(583)	(583)	0	15
Corporate	(3,000)	(3,000)	0	0
<b>Total General Fund</b>	<b>(13,431)</b>	<b>(12,143)</b>	<b>1,288</b>	<b>985</b>
HRA	(7,328)	(4,995)	2,333	1,599
<b>Total Savings 2010/11</b>	<b>(20,759)</b>	<b>(17,288)</b>	<b>3,621</b>	<b>2,584</b>

28. The Children's Services shortfall in meeting these savings is due to unexpected delays in the implementation of the transfer of the operation of the after school services to schools. However, this transformational change is now progressing

well, with positive buy in from schools and the impact will be fully realised next year.

29. In health and community services, there is a shortfall forecast of £1m against the budgeted savings of £3.3m. This shortfall has increased from the position reported at quarter 1 by £148k and is due to the following:
  - learning disabilities - £292k (£300k at Q1) slippage due to CQC delays in de-registration, homecare and £26k slippage due to delays in the completion of a review of provision in the Southwark outreach service.
  - older People (OP) and physical disabilities (PD) commissioning - £100k (nil at Q1) slippage on this saving relates to issues with the retendering of the ICES service.
  - OP & PD - £500k (£370k at Q1) slippage is due to difficulties in the negotiations to date on service re-design and contract change in relation to residential placements.
  - welfare rights – no movement from Q1, £100k slippage is due to the corporate approach to welfare rights service being delayed.
30. In response to the above, a management action plan within health and community services has identified alternative savings of £1m against care and non care expenditure.
31. In regeneration & neighbourhoods and major projects, there remains a £100k variance due to a shortfall in the expected income from advertising boards. Officers are exploring other savings options to enable all budgeted savings to be achieved during 2010/11.
32. In finance and resources a variance of £20k is due to residential properties at Tooley Street being let out later than was expected. It is expected that some of this variance will be mitigated through insurance premiums which will be added to rents.
33. There are a number of factors that contribute to the reported variance against the proposed savings target within the HRA at this point.
  - The anticipated contract savings of £1m proposed through the re-organisation of the quantity surveying function within the wider asset management & investment programme team will not be fully realised in the current year. The forecast at quarter 2 is necessarily prudent, reflecting activity levels over the initial months of this financial year, but there are tentative signs that the new management and operational arrangements are becoming embedded and should now start to deliver cost reductions. A concerted effort on engineering, voids and R&M contracts have identified and rectified control weaknesses and revised expenditure profiles and the recoupment of contract sums from contractors should mitigate the reported position by year-end. Quarter 3 should give a more realistic assessment of progress and likely outturn.
  - Plans to introduce a differential charging policy for garages has not progressed as originally planned, therefore income assumptions predicated on the basis of a July increase, then subsequently November will not now be achieved. This accounts for the deterioration in the position reported previously which now assumes that implementation of

the new charging policy will not occur during 2010/11. The shortfall against budget is £1.25m.

- Savings arising from the accommodation review will not now be fully realised during 2010/11. It is estimated that around half of the £200k savings identified can be delivered in year one, with a further £50k from other facilities related activity, giving rise to a £50k shortfall against the target. It is anticipated that the full sum will be achievable from year two onwards.
- The commercial property portfolio is showing a shortfall against both the 2010/11 savings target (£33k) and the base rental income budget overall. The income target was predicated on prior-year activity which is being adversely affected by current economic conditions. This function is subject to review during 2010/11 with a view to improving the net revenue contribution to the HRA.

## **Reserves**

34. The Council's 2010/11 general fund revenue budget includes funding for planned contributions to reserves of some £2.2m in total. These include:
  - £900k contribution to the modernisation reserve held for investment in modern ways of working and process re-engineering and that allow for efficiency savings to be delivered in the future,
  - £300k set aside for the future costs that will arise through changes in the council's management structure as the modernisation agenda is taken forward, and
  - £1m contribution to reserves to support the ongoing regeneration and development agenda within the borough.
35. During the course of the year approval is given for additional movements to and from earmarked reserves. These include:
  - effecting a technical accounting requirement by a contribution to reserves for reasons in relation to smoothing the rental charge for Tooley Street over the first five years. This effectively allows the council to reflect the average rent charge over this period taking into account the rent free period,
  - a release of reserves in respect of the new horizons project on revenues and benefits,
  - a planned use of reserves in respect of the regeneration projects around Canada Water and Bermondsey Spa of £246k, and
  - a planned use of reserves of £393k in respect of Southwark schools for the future.



36. Table 5 below summarises the projected movements in reserves.

Table 5: Summary of projected reserve movements in 2010/11

<b>Reserve</b>	<b>2010/11 opening balance</b>	<b>Projected change in reserves</b>	<b>Release of reserve for capital</b>	<b>2010/11 forecast closing balance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
General fund earmarked	(61,377)	(1,426)		(62,803)
DSG reserve	(4,010)			(4,010)
Schools Balances	(10,114)			(10,114)
HRA earmarked	(14,124)	3,675		(10,449)
<b>Total</b>	<b>(89,625)</b>	<b>2,249</b>	<b>0</b>	<b>(87,376)</b>

### Treasury management

37. The council's treasury management activity relates to both cash and debt balances. The cash earns interest until it is needed in spending and the debt funds current and past capital spend met through borrowing. In managing these activities local authorities should, under the Local Government Act 2003, have regard to guidance on investments and sums set aside to repay debt issued by the Government and the Treasury Management in the Public Services Code of Practice and the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy CIPFA.
38. At 30 September 2010, the council's debt and cash balances were £762m and £224m respectively. The debt funds past capital expenditure not otherwise met from capital receipts, grants or revenue, and the cash is invested until it is used in spending.
39. Three investment firms (AllianceBernstein, Aberdeen Fund Management and Invesco Asset Management) manage the council's exposure to certificates of deposits (liquid bank deposits) and bonds and an in-house operation focuses on meeting day to day cash volatility using money market funds, call accounts and short term deposits.
40. In September the sums managed externally was reduced by £20.9m and brought in house to ensure that the council can meet cash requirements in the second half of the year. The sum managed externally now stands at £150m, with £74m held internally.
41. The sum invested with each counterparty at 30 September 2010 is set out in Table 6 below. The part-year return to September 2010 is 0.67% reflecting the very low level that money market rates have been at since last year.

Table 6: Investment counterparty exposure

INVESTMENT COUNTERPARTY EXPOSURE £m & RATING at 30 SEP 2010						
COUNTERPARTY		LONG TERM RATING	SHORT TERM RATING	SUPPORT RATING	COUNTRY	COUNTRY RATING
BARCLAYS BK	8.5	AA-	F1+	1	UK	AAA
BANQUE NATIONAL de PARIS	0.5	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	12.4	AA-	F1+	1	FRANCE	AAA
EUROPEAN INV BK	15.4	AAA	F1+	0	SUPRANATIONAL	AAA
FORTIS BK	5.1	A+	F1+	1	BELGIUM	AA+
GLOBAL TREAS FUNDS-MMF	13.5	AAA	F1+	0	GLOBAL	0
HSBC	0.7	AA	F1+	1	UK	AAA
ING BK	12.5	A+	F1+	1	NETHERLANDS	AAA
INT BK RECONST DEVT	1.2	AAA	F1+	0	SUPRANATIONAL	AAA
LCR FINANCE-UK GUARANTD	8.3	AAA	F1+	1	UK	AAA
LLOYDS TSB/BK SCOTLAND	24.6	AA-	F1+	1	UK	AAA
NATIONWIDE BSOC	13.8	AA-	F1+	1	UK	AAA
NORDEA BK FINLAND	7.5	AA-	F1+	1	FINLAND	AAA
RABOBANK	0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST	25.5	AA-	F1+	1	UK	AAA
SANTANDER UK	15.0	AA-	F1+	1	UK	AAA
SOCGEN	7.0	A+	F1+	1	FRANCE	AAA
SVENSKA	0.6	AA-	F1+	1	SWEDEN	AAA
UBS	2.6	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	49.2	AAA	F1+	0	UK	AAA
<b>Grand Total</b>	<b>224.3</b>					

42. No new borrowing was taken this quarter and debt to fund past capital spending remains at £762m, the level it was at throughout 2009/10. All debts are at fixed rates from the Public Works Loans Board (a division of HM Treasury and a competitive source of funds). There is no debt maturing this year so no replacement finance is needed. However funds may be needed to pay for future capital expenditure ahead of receipts or other funding.
43. As part of the government's actions under the comprehensive spending review (CSR), the Public Works Loans Board (PWLB) raised the cost of borrowing for councils by 1% across the board. There are no immediate cost consequences for the council from this rise. However, if borrowing rates stay at this level the council could be exposed to additional costs than would otherwise be incurred from:
- the cost of new supported or prudential borrowing will be higher
  - some £200m of debt falls due to be refinanced in 2013/14 - 2015/16. Although the existing debt is much higher than prevailing rates (loans range between 8% and 10%), the gain from refinancing at lower rates will be reduced (and after assuming long term rates do not escalate in the next three years)
  - the change in rates could affect the communities and local government's (CLG's) national model of debt financing under the HRA subsidy reform, which could adversely affect the amount of Southwark debt CLG is prepared to redeem, leading to a greater cost burden on the HRA after the reform. CLG are now expecting to issue revised consultation in January which will identify the impact the PWLB action has had.

## Community impact statement

44. This report monitors expenditure on council services, compared to the planned budget agreed in February 2010. Although this report has been judged to have no or a very small impact on local people and communities, the projected expenditure it is reporting reflects plans designed to have an impact on local people and communities, which will have been considered at the time the services and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the council's policies and objectives.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
2010/11 departmental revenue monitoring submissions	160 Tooley Street	Vernon Smith 0207 525 57355
2010/11 treasury activity	160 Tooley Street	Karsan Varsani 0207 525 54301

## APPENDICES

No.	Title
Appendix A	General Fund Budget Adjustments

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Richard Livingstone, Finance and Resources	
<b>Lead officer</b>	Duncan Whitfield, Finance director	
<b>Report author</b>	Cathy Doran, Finance and resources	
<b>Version</b>	Final	
<b>Dated</b>	2 December 2010	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Communities, Law & Governance	No	No
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
<b>Date final report sent to constitutional team</b>	2 December 2010	