Item No. 5.	Classification: Open	Date: 15 February 2011	Meeting Name: Cabinet
Report title:		Quarter 3 Revenue Monitoring Report – 2010/11	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Cabinet Member for Finance, Resources and Community Safety	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

1. This report sets out the current forecast for both the General Fund and the Housing Revenue Account for 2010/11 based on the position at the end of quarter three.

2. The Quarter 2 Revenue Monitoring Report identified some improvement on the position of the General Fund, with the projected adverse variance falling from the £4.189m reported to Cabinet in the Quarter 1 report to £2.765m. At that meeting, Cabinet asked officers to make further efforts to reduce this projected adverse variance. This work has resulted in further improvement, to the £962,000 projected adverse variance shown in this report. The projected adverse variances for both the Environment and Housing and the Regeneration and Neighbourhoods departments reported at quarter 2 have been turned around, whilst those for both Children's Services and Health and Community Services have been reduced.

3. Progress has also been made on the projected adverse variance on the Housing Revenue Account. This was reported to Cabinet as a projected adverse variance of £4.215m in the quarter 1 report, reducing to £3.675m in the quarter 2 report. Further work has reduced this to £2.798m in this report. Whilst it is disappointing that this reduction has been less marked than that on the General Fund, it must be seen in the context of the extraordinary one-off budget pressures arising from the 2009 fires at Lakanal and Sumner Road, together with pressures arising from regeneration initiatives.

4. Similarly, progress has been made in addressing the projected adverse variance on the Collection Fund. This had fallen from £1.135m in quarter 1 to £366,000 in quarter 2. This stands at £87,000 at the end of quarter 3.

5. Cabinet should note the £3.646m are projected to be used from Reserves this year. The report shows a net reduction in reserves over the year, although these remain at a prudent level.

6. Cabinet should also note the treasury management activity in the last quarter. No new borrowing has been taken in this period and debt to fund past capital spending remains at £762m. The council's investments total £239.1m. Cabinet should note the continuing low level of return made on these investments reflecting the very low money market rates over the last year.

RECOMMENDATIONS

7. 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.

8. That the cabinet notes the treasury management activity for the third quarter of 2010/11.

9. That the cabinet notes and approves the third quarter general fund budget adjustments as required and detailed in Appendix A.

10. That cabinet instructs strategic directors to continue to take further action to manage the cost of services within agreed budgets to deliver a balanced position by the end of the financial year.

BACKGROUND INFORMATION

11. This report provides a quarter 3 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.

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

Account/Fund	Forecast outturn variance unfavourable / (favourable) £'000	Forecast outturn variance reported at Quarter 2 £'000
General fund	962	2,765
HRA	2,798	3,675
Collection fund	87	366

General fund

15. There is an overall improvement of £1.803m compared to the position reported at quarter 2 which is due to improved forecasts across all departments.

16. This improvement reflects the fact that strategic directors have continued to take further action to ensure that they manage costs within their departments with the ultimate aim of delivering their services as per budgets agreed.

Quarter 3 general fund departmental monitor

17. The forecast outturn position for quarter 3 by department is presented in Table 2 below.

Table 2: General Fund forecast outturn

General fund	**2010/11 Original budget £'000**	**Budget movements £'000**	**2010/11 revised budget as at month 9 £'000**	**2010/11 Forecast outturn at month 9 £'000**	**Variance - over / (under) £'000**	**Variance reported at Q2 £'000**
Children's services	99,674	(1,932)	97,742	98,342	600	800
Health and community services	118,810	(472)	118,338	119,162	824	1,695
Environment and housing	76,074	(193)	75,881	75,849	(32)	207
Regeneration and neighbourhoods	30,296	(668)	29,628	29,345	(283)	163
Deputy chief executive	46,271	4,536	50,807	50,795	(12)	0
Communities, law and governance	13,070	(325)	12,745	12,645	(100)	0
Finance and resources	34,727	(2,697)	32,030	31,995	(35)	(100)
SCR income	(58,858)	(403)	(59,261)	(59,261)	0	0
Strategic and corporate	1,606	1,645	3,251	3,251	0	0
Total general fund before appropriations	**361,670**	**(509)**	**361,161**	**362,123**	**962**	**2,765**
Appropriations to/(from) reserves	2,195	(2,293)	(98)	(98)	0	0
General fund total	**363,865**	**399**	**361,063**	**365,887**	**962**	**2,765**
Area based grant	(43,956)	2,802	(41,154)	(41,154)	0	0
Net total	**319,909**	**0**	**319,909**	**321,532**	**962**	**2,765**
Schools budget	0	0	0	0	0	0
Appropriation to/(from) DSG reserves	0	0	0	0	0	0
Total	**319,909**	**0**	**319,909**	**321,532**	**962**	**2,765**

18. The key reasons for this improved position are as follows.

19. Children’s services

- Overall children’s services are able to show an improvement in the forecast outturn position from £800k to £600k between quarter 2 and quarter 3.

- This improvement can mainly be attributed to management action taken to cease the retention payments to staff from September, within specialists services delivering an improvement of £80k and £100k realised in-year through renegotiating semi-independent placement contracts; this work is going to be extended to all placement contracts over the coming months

- However, ongoing pressures in demand led services remain including: children looked after placements; children with disabilities placements and care packages; and supporting vulnerable no recourse to public funds families.

- There are also underlying home to school contract pressures which are being mitigated by other favourable variances elsewhere in children's services. 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

- The remaining adverse variance is in the context of a £2.7m reduction in grants 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.

- 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. The final DSG allocation of £176.7m creates a budget pressure of around £200k because of DSG recoupment in year as a result of new academies.

20. Health and community services

- The position has improved from the previous quarter with a further reduction in the adverse variance forecast from £1.7m to £824k.

- The key reduction is from an extensive review of prior year care contract commitments, which were accrued from 2009/10 for payment in the current financial year. This work is ongoing and will continue until year end.

- Main pressure areas remain placements for younger disabled people and delays to the transfer of residential to community based care.

- Management action continues to be taken across the 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 remains prudent. The success of existing action plans will 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.

21. Environment and housing

    - The overall positive variance of £32k is an improvement of £239k from what was reported last quarter reflecting significant work by officers to enforce budgetary targets. Previously forecast service closures costs for the Camberwell Leisure Centre have been significantly reduced by robust contract negotiation, and variances due to the impact of the area based grant reduction have been addressed. Reduced expenditure within sustainable services provides an additional contribution to the positive variance. Management action continues, with the aim of further improving the overall variance.

22. Regeneration & neighbourhoods

    - The reduction in costs for vacant posts for the director and support division within major projects are the main reasons for the favourable variance being reported in the departmental monitor. Furthermore, management action has also been taken in regeneration and neighbourhoods to address some of the areas of concern by scrutinising and reducing expenditure where possible and updating all income projections based on latest available information. These actions have contributed to the favourable variance currently being reported.

23. 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.

Housing revenue account

24. The quarter 3 outturn forecast continues to show steady improvement. The management actions implemented over recent months to stabilise the position are taking effect with repairs in particular continuing its downward expenditure trajectory. Notwithstanding this, significant cost pressures remain on the housing management side, but there is an expectation that the outturn position will be broadly neutral by year-end through these measures and the specific application of earmarked reserves to mitigate major project commitments.

Table 3: Estimated projection of HRA outturn position as at quarter 3 (M09)

	Net Expenditure			
	2010/11 Full Year Budget £'000	**2010/11 Forecast Outturn £'000**	**Forecast Variance £'000**	**Q2 Forecast Variance £'000**
Regeneration & Neighbourhoods				
Housing Strategy & Options - Community Housing Services	1,767	1,744	(23)	(26)
Housing Strategy & Options - Strategy & Regeneration	1,729	1,745	16	19
Strategic Services				
Debt Charges & Financing	101,109	100,956	(153)	58
Major Project Costs	6,000	7,077	1,077	1,038
Environment & Housing				
Housing Management	(95,685)	(94,079)	1,606	2,677
Home Ownership Unit	(28,613)	(27,788)	825	243
Other Services	13,693	13,536	(157)	(61)
HRA Carry Forward	0	(393)	(393)	(273)
Housing Total	**0**	**2,798**	**2,798**	**3,675**
Contribution from Reserves			**(2,798)**	**(3,675)**

Collection fund

25. 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.

26. The estimated year-end balance on the collection fund at quarter three is a deficit of £87k, which is an improvement of £279k compared to the forecast at quarter two. The estimate is based on December system reports adjusted for the level of 'reliefs and exemptions' applied. The improved position is due mainly to the forecast provision for bad debts being less than expected. This is due to an improvement in the age profile of the debt. It should be noted that the elements making up the collection fund income, such as the number of accounts billed and exemptions and discounts granted, are volatile, which means that the outturn position could vary significantly from this estimate.

27. 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, and this will be the quarter three estimate. The deficit is shared between the Council and the GLA, with the Council's share being £65,096 and the GLA's being £22,164.

Savings and efficiencies - 2010/11 budget - Quarter 3

28. 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 3, £16.7m of these targeted savings were forecast to be achieved. The two main shortfalls are within the HRA, where £2.4m of the £7.3m savings are now forecast not to be achieved; and within Health and Community Services where £1.6m of the £3.3m savings are now forecast not to be achieved.

	Agreed by Council £'000	Total Forecast Savings £'000	Variance as at Q3 £'000	Variance as at Q2 £'000
Children's Services	(2,200)	(2,200)	0	0
Health and Community Services	(3,280)	(1,699)	1,581	1,018
Environment and Housing	(1,528)	(1,528)	0	0
Regeneration & Neighbourhoods	(1,127)	(1,027)	100	100
Finance and Resources	(893)	(877)	16	20
Deputy Chief Executive	(820)	(820)	0	0
Communities, Law and Governance	(583)	(583)	0	0
Corporate	(3,000)	(3,000)	0	0
Total General Fund	**(13,431)**	**(11,734)**	**1,697**	**1,138**
HRA	(7,328)	(4,970)	2,358	2,333
Total Savings 2010/11	**(20,759)**	**(16,704)**	**4,055**	**3,471**

29. In health and community services, there is a shortfall forecast of £1.6m against the budgeted savings of £3.3m. This shortfall has increased from the position reported at quarter 2 by £563k and is due to the following:

- learning disabilities - £279k (£292k at Q2) slippage due to CQC delays in de registration homecare and £25k 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 - £310k (£100k at Q2) slippage on this saving relates to issues with the retendering of the ICES service.

- OP & PD - £500k (£500k at Q2) slippage is due to difficulties in the negotiations to date on service re-design and contract change in relation to residential placements.

- welfare rights – £389k (£100k at Q2) slippage is due to the corporate approach to welfare rights service being delayed.

- Supporting people - £78k (nil at Q2) slippage is due to delays in revising contracts due to difficulties in notifying providers.

30. In response to the above, a management action plan within health and community services has identified alternative savings of £1.6m against care and non care expenditure.

31. In regeneration and neighbourhoods, 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 the variance of £16k 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 be fully unrealised in the current year. The forecast at quarter 3 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.

- 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. The position 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/ rechargeable office costs will not now be fully realised during 2010/11. It is estimated that around half of the £200k identified savings relating to the accommodation review 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. Additionally a shortfall of £25k is projected against rechargeable office costs (telephones).

- 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. Contributions to and from general fund reserves remain as reported at quarter 2 except for an increase in the reserve to be released for the new horizons project from £2.469m to £3.993m.

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

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

Reserve	2010/11 opening balance £'000	Projected change in reserves £'000	Release of reserve for capital £'000	2010/11 forecast closing balance £'000
General fund earmarked	(64,594)	98	750	(63,746)
DSG reserve	(4,010)			(4,010)
Schools Balances	(10,114)			(10,114)
HRA earmarked	(14,124)	2,798		(11,326)
Total	**(92,842)**	**2,896**	**750**	**(89,196)**

Treasury management

36. 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.

37. At 31 December 2010, the council's debt and cash balances were £762m and £239m 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.

38. 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.

39. The sum invested with each counterparty at 31 December 2010 is set out in Table 6 below. The part-year return to December 2010 is 0.79% reflecting the very low level that money market rates have been at since last year.

Table 6: Investment counterparty exposure

EXPOSURE - DEC 2010 COUNTERPARTY AND RATINGS						
Counterparty	£m	Long term rating	Short term rating	Support rating	Country	Country long term rating
BARCLAYS BK	13.5	AA-	F1+	1	UK	AAA
BANQUE NATIONAL de PARIS	0.5	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	10.8	AA-	F1+	1	FRANCE	AAA
CREDIT INDUST ET COMRCL	5.4	AA-	F1+	1	FRANCE	AAA
DEUTSCHE BK	10.0	AA-	F1+	1	GERMANY	AAA
EUROPEAN INV BK	10.7	AAA	F1+		SUPRANATIONAL	AAA
FORTIS BK	5.1	A+	F1+	1	BELGIUM	AA+
GLOBAL TREAS FUNDS-MMF	5.0	AAA	F1+		GLOBAL	
HSBC	0.7	AA	F1+	1	UK	AAA
ING BK	8.7	A+	F1+	1	NETHERLANDS	AAA
INT BK RECONST DEVT	2.3	AAA	F1+		SUPRANATIONAL	AAA
LLOYDS TSB/BK SCOTLAND	28.0	AA-	F1+	1	UK	AAA
NATIONWIDE BSOC	3.7	AA-	F1+	1	UK	AAA
NORDEA BK FINLAND	0.5	AA-	F1+	1	FINLAND	AAA
RABOBANK	0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST	33.9	AA-	F1+	1	UK	AAA
SANTANDER UK	21.5	AA-	F1+	1	UK	AAA
SOCGEN	17.0	A+	F1+	1	FRANCE	AAA
SVENSKA	7.1	AA-	F1+	1	SWEDEN	AAA
UBS	2.6	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	51.6	AAA	F1+		UK	AAA
Total	239.1					

40. 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.

41. As reported at quarter 2, 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 falling 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 excepting to issue revised consultation in January which will identify the impact the PWLB action has had.

Community impact statement

42. 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 7355
2010/11 treasury activity	160 Tooley Street	Karsan Varsani 0207 525 4301
2010/11 collection fund	160 Tooley Street	Salik Zahid 0207 525 4370

APPENDICES

No.	Title
Appendix A	Budget movements

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead Officer	Duncan Whitfield. Finance director	
Report Author	Cathy Doran, Finance and resources	
Version	Final	
Dated	28 January 2011	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Strategic Director of Communities, Law & Governance	Yes	Yes
Finance Director	Yes	Yes
List other officers here		
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		28 January 2011