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|------------------------------------|--------------------------------|--|-----------------------------------|
| Item No. | Classification: Open | Date: January 26 2010 | Meeting Name: Executive |
| Report title: | | Revenue Monitoring 2009/10 – Quarter 2 | |
| Ward(s) or groups affected: | | All Wards | |
| From: | | Finance Director | |

RECOMMENDATIONS

1. The Executive notes the updated quarter two revenue monitoring report for the General Fund and Housing Revenue Account (HRA) as at 30 November 2009.
2. The Executive note that ongoing and unavoidable cost pressures will need to be addressed through the 2010/11 budget process.

BACKGROUND INFORMATION

3. The report provides detail on the position on the Council's 2009/10 outturn forecast for the General Fund, HRA and Collection Fund based on the information available at the end of November 2009. Explanations for key variances are presented along with the action planned or taken by managers to address these variances.
4. The report also identifies any key variances in the Council's savings plans for 2009/10.

KEY ISSUES FOR CONSIDERATION

General Fund Overall Position

5. In total, the general fund faces net service pressures of some £1.3m over the base budget for 2009/10. This represents approximately 0.4% of the total net general fund budget. Further management action will continue with the objective to reduce this adverse variation by the end of the financial year.
6. The main area of pressure on costs of service is within Children's Services (£1.9m). This budget pressure consists a number of underlying issues and is considered unavoidable in the circumstances. The reported variation comes after significant management action across service areas to minimise the financial impact of the various factors influencing expenditure.
7. This situation is largely due to a significant increase in costs with regard to specialist children's services. There has been an increase in the number of children requiring care and support and the cases continue to become more complex. These pressures are emerging at the same time as additional rigour and scrutiny is being applied by external regulation and inspection regimes, particularly with regard to safeguarding.

8. The impact of all of these changes has a collective consequence of driving up cost within the social care system. This is a situation compounded by the need to retain and recruit high quality staff. These issues are being experienced on a national scale, not least within London.
9. In line with expected project based activity across the Council, there are a number of expected calls on earmarked reserves in 2009/10, in particular in relation to the modernisation and regeneration and development programmes. In total, these commitments are currently forecasted at approximately £5.4m. They include support to enable the delivery of a number of critical efficiency targets such as the delivery of shared services. They also include calls in relation to the regeneration and development agendas, including support for the Bermondsey Spa, Elephant and Castle, Canada Water and Aylesbury projects.
10. Table 1 below shows the current forecast outturn position for quarter 2 by service. As the year has progressed this estimate has become more accurately defined as more up to date data and monitoring information has become available.

Table 1: Estimated projection of General Fund outturn position for 2009/10 as at quarter 2 (updated)

| General Fund | Full Year Budget | Full Year Forecast | Over (+) Under (-) spend |
|---|-------------------------|---------------------------|---|
| | £'000 | £'000 | £'000 |
| Children's Services | 98,560 | 100,508 | 1,948 |
| Health and Community Services | 101,110 | 101,862 | 752 |
| Environment and Housing | 75,463 | 75,998 | 535 |
| Regeneration and Neighbourhoods | 39,369 | 39,492 | 123 |
| Major Projects | 6,600 | 6,600 | 0 |
| Deputy Chief Executive | 48,079 | 48,134 | 55 |
| Communities, Law & Governance | 14,083 | 14,083 | 0 |
| Financial Management and IS | 22,462 | 22,470 | 8 |
| Strategic and Corporate | (60,008) | (62,154) | (2,146) |
| Total General Fund before appropriations | 345,718 | 346,993 | 1,275 |
| Appropriations to/(from) reserves | (5,404) | (5,404) | 0 |
| General Fund Total | 340,314 | 341,589 | 1,275 |
| Area based grant | (25,162) | (25,162) | 0 |
| Net total | 315,152 | 316,427 | 1,275 |
| Schools Budget | 1,115 | 920 | (195) |
| Appropriation to/(from) DSG reserves | (1,115) | (920) | 195 |
| Total | 315,152 | 316,427 | 1,275 |

11. For information only, appendix C sets out the position as at the end of the first quarter of 2009/10. At that time, the outturn position was much less certain given the limited information available, the difficulty in determining trends and limited understanding of the effectiveness of management actions being taken.
12. As part of the 2009/10 General Fund budget agreed by Council Assembly in February 2009, new commitments of approximately £17m were approved. The current position reflects the full allocation of these resources across a range of Council services.
13. Also, and as part of the same General Fund budget approval ,for 2009/10, the Council agreed an ambitious programme of savings and efficiencies in excess of £17.3m. Again, the current position reflects the expected delivery of these targets. Currently there is a potential shortfall of £1.1m in achievement for the year. However management actions continue with the objective of meeting the target by the end of the year as closely as possible and meeting the target in full for 2010/11. This is explored in more detail in paragraphs 32 to 36 below.

Key General Fund pressures

Children's Services

14. In Children's Services, the main adverse budget variances relate to increases in spend in Specialist Children's Services and continuing increases in costs of the Council's Home to School contract for the transport of pupils with SEN (Special Education Needs).
15. Specialist Children's Services has experienced significant increases in the number of high cost placements for looked after children over the last 18 months. In 2008/09, related costs were offset by a one-off 'windfall' of asylum seekers grant totalling some £1m. The department is currently projecting an adverse variance of some £1.2m on these placements during 2009/10.
16. The Assessment & Safeguarding unit is also experiencing considerable pressure as the volume of cases requiring assessment increases as a result of the Baby Peter case. In order to ensure proper management of the increased caseload in Children's Services, it has been necessary to take on additional staff on a short-term basis. Additionally, in order to retain and invest in existing staff, the service will be awarding market factor honoraria. A major recruitment campaign has also commenced to attract new permanent staff. Similar recruitment problems and attendant budget pressures have been experienced nationally across all Children's Services Departments, and impacted particularly in London.
17. Contingency budgets of £852k have been released to Children's Services (see paragraphs 37 to 41) in recognition of the increased costs relating to Specialist Guardianship Orders and to Mother & Baby placements. Demand for provision in the latter area, however, continues to rise.
18. Whilst an adverse variance is also still projected in respect of Home to School Transport, a number of measures to control the increasing costs were introduced from September following a review by KPMG in order to prevent costs escalating further.

19. At the same time, rigorous management action is being taken across the rest of Children's Services to identify opportunities for delaying or curtailing activities and recruitment in order to minimise the overall projected adverse variance for the department as a whole. Through such action it should be possible to contain all budget pressures apart from those identified in Specialist Children's Services.

Health and Community Services

20. Health and Community Services current forecast adverse variance is £752k. This follows significant management action to reduce budget pressures. It is anticipated that ongoing management action will reduce the adverse variance to a balanced budget position by year end.
21. The main reasons for adverse variation concerns fewer people than expected no longer receiving services as a result of eligibility changes and a delay in re-tendering homecare. Also there has been an increase in the number of people requiring learning disability services, and the high costs associated with a small number of individual placements.

Environment and Housing

22. Environment and Housing budget pressures centre around the continued costs of the leisure and culture units exceeding budgeted levels, income run rate being below budgeted levels and residual costs of units proposed for closure or reorganisation to meet savings target, along with project management costs for leisure management.
23. However this has been mitigated by a one-off underspend within the waste management contract which reduces the departmental pressure overall to £535k. It is anticipated that the management action currently being undertaken will reduce this variance further.

Regeneration and Neighbourhoods

24. The net adverse variance of £123k in Regeneration and Neighbourhoods is largely due to the further reduced income on building control as a result of reduced activity in the building and property sectors and project management costs. Management action currently being undertaken to address these issues is expected to reduce this projected adverse variance.

Deputy Chief Executive

25. A small net adverse variance of £55k is currently projected in the Deputy Chief Executive's department. This is largely as a result of unavoidable costs in the relation to the clienting of the revenues and benefits contract during the transition period leading to the end of the Liberata arrangement, increased security and energy costs in the One Stop Shops and reduction of income in the registration service due to a continued fall in demand for the service. However this adverse variance is mitigated by underspends in organisational development bringing the overall adverse variance down to £55k.

Strategic & Corporate

26. There is a £2.1m favourable variance projected for strategic and corporate budgets. This relates to a clawback of salary budgets (approximately £1m) following the pay award announcement (see paragraphs 42 to 43). The remaining £1.1m is represented by a number of 'windfall' elements including a one off increase in external receipts (e.g. rental income) and reductions in external payments (e.g. deferral of some of the increase in the LPFA Levy). Interest rates have failed to increase and pressures therefore remain on the Council's targets for earnings on cash investments.
27. This favourable variance will be utilised to help meet the unavoidable spend pressures within the current budget. Ongoing pressures will be addressed through the business and budget setting process for 2010/11.

Housing Revenue Account (HRA) Overall Position

28. Table 2 below shows that the housing revenue account (HRA) is currently projecting a forecast outturn that exceeds the base budget by £4.8m.

Table 2: Estimated projection of HRA outturn position for 2009/10 as at quarter 2 (updated)

| | Full Year Budget | Full Year Forecast | Over (+) Under (-) spend |
|--------------------------------------|-----------------------------|-------------------------------|---|
| | £'000 | £'000 | £'000 |
| Housing Revenue Account | 0 | 4,759 | 4,759 |
| Appropriation to/(from) HRA reserves | 0 | (4,759) | (4,759) |
| Total | 0 | 0 | 0 |

29. This arises from a number of pressures including higher than anticipated repairs and maintenance costs and a variance from the planned works programme. This has resulted in less work being billed to leaseholders than anticipated.
30. Management action continues to stabilise the position, but there remains significant spending pressure across the services. In 2008/09, the HRA was broadly neutral at year-end, but achieved this largely through income windfalls. There is no expectation this will be repeated in 2009/10, therefore any shortfall against budget will be a first call against HRA reserves, which are limited and have been declining over a number of years. The main elements of the management action plans put in place in housing management to redress the adverse variance are the implementation of consistent procedures for addressing responsive repairs work and increased QS scrutiny. A review of legal and other support costs is also currently underway.

31. It should be noted that the Council is currently in the process of addressing the impacts of the major fire at Lakanal and other emergency incidents. These are subject to insurance claims and assessments; any shortfall will again fall on the HRA reserves. For major works required, there may also be an impact on the Housing Investment Programme.

Savings and Efficiencies - 2009/10 budget

32. For the General Fund and HRA combined, the Council targeted savings and efficiencies of more than £27m in 2009/10. These savings are monitored closely throughout the year as their delivery is important to the achievement of the Council's business plan and to support the delivery of critical services to residents and businesses. A summary of the current position is shown in Table 3 below.

Table 3: Savings and Efficiencies as at Quarter 2 (updated)

| | Agreed by Council £'000 | Forecast £'000 | Variance £'000 |
|------------------------------------|--|---------------------------|---------------------------|
| Children's Services | (2,931) | (2,781) | 150 |
| Health and Community Services | (4,125) | (3,400) | 725 |
| Environment and Housing | (1,107) | (1,077) | 30 |
| Regeneration and Neighbourhoods | (1,030) | (1,030) | 0 |
| Major Projects | (178) | (178) | 0 |
| Deputy Chief Executive | (1,581) | (1,400) | 181 |
| Communities, Law and Governance | (631) | (631) | 0 |
| Financial Management and IS | (1,460) | (1,460) | 0 |
| Strategic and Corporate | (4,293) | (4,293) | 0 |
| Total General Fund | (17,336) | (16,250) | 1,086 |
| HRA | (9,674) | (8,901) | 773 |

33. As set out above, in Children's Services, the tragic case of Baby Peter and the subsequent Laming review have placed severe pressure on budgets in the children looked after (CLA) service. The planned saving of £150k is not now achievable although management action continues to attempt to make up the shortfall.

34. Health and Community services variance relates to eligibility criteria and homecare savings targets. In summary, the complexity of the review of eligibility criteria means that the process is taking longer than planned and savings are therefore not accruing at the rate originally planned. The matter remains under close review and the original target remains for future years. In respect of homecare, the tendering process continues although the need for further analysis and detailed evaluation has extended the process that is now due to complete in mid 2010.

35. For the Deputy Chief Executive's Department, contract efficiency savings of £181k are not now expected to be achieved due to the termination of the Liberata contract from April 2011.

36. For the HRA, there are several variances which lead to the projected underachievement of £773k of savings. These are:

- Agreed savings on essential legal fees; where the target of £100,000 is not expected to be met due to demand-led activity running above budget target. This has meant the anticipated reduction in volumes has not materialised. The situation will be reviewed for 2010/11.
- Agreed savings resulting from recruitment drag; where the agreed target of £1,147k will have a shortfall of £613k due to the need for additional capacity and expertise within estate property management to support some key unforeseen operational functions (e.g. major works, repairs and Lakanal).
- Agreed savings on Parking Income; where the agreed target of £240k will not be fully realised as activity is below the target on which the base budget assumptions were predicated. This is resulting in a shortfall of approximately £60k.

Contingency

37. As part of the budget process for 2009/10, a number of specific budget pressures that could not be fully quantified were identified. Estimates of the extent of these pressures, based on previous and anticipated trends, were used to create a central contingency base budget of £1.2m, a resource to be released into departmental base budgets in year once the extent of the pressures could be quantified. Any unused contingency would be allocated to reinforce Council reserves and balances or could be used to resource one off activities or budget pressures.

38. Children's Services identified two specific budget pressures in relation to special guardianship orders and CLA, outlined next.

39. Special Guardianship Orders: following a judicial review case in respect of Lewisham Council, it was necessary to revise our kinship care policy to reduce the risk of Southwark being taken to judicial review. This meant an increase in the allowances awarded when an agreement is made to fund a Special Guardianship Order (SGO). In addition to the increase in funding, the average number of placements under these orders has increased significantly. The claim against contingency is £372k.

40. Children looked after (CLA): the CLA service is seeing a significant increase in the cost and volume of parenting assessments since 2007/08. The costs have been increasing as legal aid and children and family court advisory and support (CAFCAS) etc no longer pay for some of these assessments. The volume increases are due to the effects of the Baby Peter case and advocates asking for independent assessments via the courts. The claim against contingency is £480k.

41. These resources have been released following claims being submitted to the finance director for approval. However because they are volume based, these budget allocations will need to be monitored carefully to ensure that the amount allocated remains appropriate for purpose.

Employee budgets

42. In setting the 2009/10 budget, an assumption was made that employee costs would rise by 2%. This assumption was made in the context of some uncertainty and represented a prudent assessment at that time. The budget increase was to be reviewed and monitored closely.
43. Following agreement of the 1% pay award for 2009/10 and after allowing for the late 0.3% increase to the 2008/9 pay award, an appropriate adjustment (a 0.7% claw back) was implemented to adjust the salary budgets to the correct increase level. This claw back is in the region of £1m and is available to help meet demand pressures identified in this report.

Collection Fund

44. 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 council tax, and demonstrates the way in which these have been distributed to preceptors and the general fund. The Council must also take into account the estimated surplus or deficit on the Collection Fund balance when setting its council tax for the following year. At quarter 2, the Council is forecasting a surplus of £1.6m as at 31 March 2010, of which £1.2m is attributable to the Council and £0.4m to the GLA.
45. The surplus is due mainly to higher than expected council tax billing in 2009/10, principally as a result of new developments being completed in the borough, and a reduction in discounts following a review of entitlements at the end of 2008/09.

Reserves

46. The Council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained so as to finance calls for expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and investment in regeneration and development where spend may be subject to unpredictable market and other influences.
47. The allocations to revenue budgets are reflected in Tables 1 and 2 and are subject to approval arrangements.

Table 4: Summary of reserve movements as at quarter 2 (updated)

| | Opening balance | Change in reserves | Forecast closing balance |
|------------------------|------------------------|---------------------------|---------------------------------|
| Reserve | £'000 | £'000 | £'000 |
| General fund earmarked | (71,988) | 5,404 | (66,584) |
| HRA earmarked | (18,176) | 4,759 | (13,417) |
| General Fund balances | (18,271) | | (18,271) |

48. The change in earmarked reserves includes estimated future changes. The projected planned calls on general fund earmarked reserves include £2.0m for the modernisation and improvement programme, which includes £0.5m contribution for the Southwark Circle project from the financial risk reserve. £2.2m for property and re-housing project costs including Bermondsey Spa and Canada Water, £0.8m for Aylesbury and £0.3m for Southwark Schools for the Future. In addition £1m in relation to the costs of transition to in-house provision of the revenues and benefits service.
49. There are also planned net movements into reserves of £0.9m which includes £0.2m of unspent DSG that will be transferred to an earmarked reserve as these funds must be used for the benefit of schools.

Community Impact Statement

50. This report monitors expenditure on council services, compared to the planned budget agreed in February 2009. Although this monitoring report has been judged to have no or a very small impact on local people and communities, future decisions to manage predicted adverse variances may require detailed consideration of the impact on local people and communities as appropriate including consultation where required.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|----------------------------|-------------------|------------------------------|
| Revenue Monitoring 2009-10 | 160 Tooley Street | Cathy Doran 020 7525 4396 |

APPENDICES

| No. | Title |
|------------|--|
| Appendix A | Detailed explanation of key forecast outturn variances from budget as at quarter 2 |
| Appendix B | Additional risks that may impact on the forecast outturn |
| Appendix C | General Fund and HRA 2009/10 year-end position as at quarter 1 |

| | | | |
|---|--|-----------------------------|--------------|
| Lead Officer | Duncan Whitfield, Finance Director | | |
| Report Author | Jennifer Seeley, Deputy Finance Director | | |
| Version | Final | | |
| Dated | 18/01/10 | | |
| Key Decision? | Yes | Date on Forward Plan | January 2010 |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER | | | |
| Officer Title | Comments Sought | Comments included | |
| Strategic Director of Communities, Law and Governance | No | No | |
| Finance Director | Yes | Yes | |
| Executive Member | Yes | Yes | |
| Date final report sent to Constitutional/Community Council/Scrutiny Team | | | 18/01/10 |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|---|--|
| Children's services | |
| <p>5-11 Services and Inclusion (GF)</p> <p>Budget £11,657k Forecast £12,444k Variance £ 787k</p> | <p>This projected adverse variance relates to continuing increased costs on the Council's Home to Schools contract for the transport of pupils with SEN. The number of pupils transported is up by 22 to 408 but more significantly, there has been an increase in the number of rounds from 93 last year to 110 this year (additional 17 rounds). In advance of the retendering of the contract for the provision of this service from August 2011, consultancy support has been sought from KPMG to identify options for achieving shorter term savings within the existing contractual arrangements. As a result, a number of immediate measures to reduce costs were introduced from September. These include the use of the corporate taxi contract (rather than the Home To School contract) to transport pupils who do not need to be escorted and to negotiate a lower contract specification with regard to the age of vehicles and the provision of named drivers.</p> |
| <p>Specialist Children's Services (GF)</p> <p>Budget £51,948k Forecast £53,943k Variance £ 1,995k</p> | <p>The service has experienced significant increases in the number of high cost placements for looked after children over the last 18 months. The additional costs arising from these placements during 2008-9, were offset by a one-off 'windfall' of asylum seekers grant totalling some £1m. We are currently projecting a total adverse variance of some £1.2m on these CLA placements during 2009/10. This includes increased costs of some £560k relating to an increase of 6.2 (or 21%) in high cost residential placements and £365k in respect of an increase of 10.5 (or 36%) in semi-independent placements.</p> <p>Further increases in costs of some £0.7m are projected on disability placements, direct payments and accommodation costs relating to families with no recourse to public funds.</p> |
| <p>Other Education Services</p> <p>Budget £ 34,956k Forecast £ 34,122k Variance (£ 834k)</p> | <p>A reduction in the projected level of traded income is now expected. This, however, will be offset by increased savings in the 0-5 service and from implementation of the new structure for integrated youth support. Further reductions in expenditure will be achieved through reduced use of agency cover and through the review of recruitment plans across education services. Additional income from government grants is also now projected. The opportunity will be taken during the remainder of the financial year to explore further such options to offset the unavoidable increased costs relating to Home to School Transport.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| <p>Children's Services Schools Budget (DSG)</p> <p>Budget £ 1,115k Forecast £ 920k Variance (£ 195k)</p> <p>To DSG reserves year end £ 195k Variance after to reserves £ nil</p> | <p>The net budget in this area relates to the release of previous year's underspends from the DSG reserve. Schools Forum has now fully committed these reserves to one-off projects.</p> <p>Opportunities continue to be explored to identify areas of expenditure currently charged to General Fund budgets that might legitimately be funded from the schools budget.</p> |
| Health and Community Services | |
| <p>Summary</p> <p>Budget £ 101,110k Forecast £ 101,862k Variance £ 752k</p> | <p>Adult Health and Community Services is forecasting an adverse variance of £752k.</p> <p>There has been significant progress made in recent months in reducing the projected adverse variance, but there have also been emerging pressures in learning and physical disabilities and budget shortfalls relating to unachievable savings including the deferment of home care retendering and delays in implementing the review of benefits advice Council-wide.</p> <p>Key pressure areas are: Older People £1.7m mainly due to the complexity of the eligibility review resulting in savings not accruing at the rate originally planned; Learning Disabilities £700k additional clients; Physical Disabilities £300k additional clients.</p> <p>A robust management action plan was put together early in the year with the aim of reducing the adverse variance to a balanced budget position by year end. This action consists of an extensive programme of efficiencies and savings which includes the following: more effective commissioning of care packages and residential accommodation £1.2m; reductions in non-care costs £200k; reductions in agency staff £200k; a range of efficiencies across the department £1.2m. Currently there is a shortfall in achieving these efficiencies that equates to the current projected overspend but efforts are being redoubled.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| Environment and Housing | |
| <p>Summary</p> <p>Budget £75,463k Forecast £75,998k Variance £ 535k</p> | <p>Departmental budget pressures centre around the continued costs of the leisure and culture units exceeding budgeted levels, income run rate being below budgeted levels and residual costs of units proposed for closure or reorganisation to meet savings target.</p> <p>There is no firm agreement over central funding for increased project management costs and any compensation payments to Fusion as a result of service closures. On the plus side there is one off underspend within the waste management contract which reduces the departmental pressure overall. It is anticipated that the management action currently being undertaken will reduce this variance further.</p> |
| <p>Public Realm</p> <p>Budget £10,523k Forecast £10,725k Variance £ 202k</p> | <p>The main adverse variance is in the Parks Business Unit and is due to projected shortfall in income within Cemeteries from failure to be able to increase fees and charges. As a result of a zero based budgeting exercise carried out to explore opportunities for reducing costs and increasing income, the adverse variance has decreased. There are also budget pressures in South Dock Marina but the Head of Service is confident that it can be managed to be within budget by the year end.</p> |
| <p>Community Safety</p> <p>Budget £14,144k Forecast £14,267k Variance £ 123k</p> | <p>The anticipated adverse variance of £123k reflects unbudgeted staff costs due to delays in implementing the revised structures within the division. It is anticipated that the recruitment freeze for the rest of the year and detailed review of the staffing structure will reduce the adverse variance for the division.</p> |
| <p>Waste Management and Transport</p> <p>Budget £27,852k Forecast £27,551k Variance (£ 301k)</p> | <p>The division is currently projecting a one off underspend of £301k mainly due to reduction in waste tonnage and performance deductions on the unitary charge of the Waste PFI contract.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|---|--|
| <p>Culture, Libraries, Leisure and Learning</p> <p>Budget £12,734k Forecast £13,245k Variance £ 511k</p> | <p>Leisure An adverse variance of £367k relates mainly to the continued costs of the leisure investment programme with regard to the external consultancy costs (£222k) and additional costs due to delay in the start of the new Fusion contract (£145k).</p> <p>Culture Events anticipate an adverse variance by £106k from increased security and health & safety requirements on larger events and change of venue for fireworks. Other budget pressures include R&M for Kingswood House £20k and Cuming Museum £35k for additional, storage and archiving costs. The Head of Service is exploring ways of mitigating this by some tighter budgeting elsewhere in the division but adverse variance is forecast.</p> |
| Regeneration and Neighbourhoods | |
| <p>Summary</p> <p>Budget £ 39,369k Forecast £ 39,492k Variance £ 123k</p> <p>Various</p> <p>Variance (£ 148k)</p> | <p>Overall, Regeneration and Neighbourhoods is forecasting an adverse variance of £123k.</p> <p>General underspends across the division totalling £148k</p> |
| <p>Development Control</p> <p>Budget £ 1,580k Forecast £ 1,642k Variance £ 62k</p> | <p>Projected adverse variance is mainly due to a shortfall in superannuation budget and also an increase in legal fees.</p> <p>Action taken: Ongoing close monitoring of all discretionary expenditure items. Variation in superannuation budgets/shortfall to be resolved at a departmental level as part of the closing process.</p> |
| <p>Building Control</p> <p>Budget £ 1k Forecast £ 86k Variance £ 85k</p> | <p>The general reduced activity in the building and property sectors is reflected in a projected significant reduction in income for the Building Control Teams.</p> <p>Action taken: Continuous review of staffing requirement with the view to reducing engagement of temporary staff and external contractors. There is also close monitoring of discretionary expenditure items. Market share is holding at 75% but there is continuous efforts to increase the council share.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| <p>Strategy and Regeneration</p> <p>Budget £ 8,372k Forecast £ 8,496k Variance £ 124k</p> | <p>Net adverse variance is mainly due to the shortfall on project management costs.</p> <p>Action taken: New approach agreed to ensure that all legitimate staffing and professional costs relating to project management of capital schemes to be capitalised with proper supporting information. An exercise is currently underway to implement a system of time recording against capital project/schemes. The completion of this exercise is expected to reduce the current projected adverse variance.</p> |
| Major Projects | |
| <p>Summary</p> <p>Budget £ 6,600k Forecast £ 6,600k Variance £ 0k</p> | <p>No variance from budget is projected.</p> <p>Note that budgets for 2009/10 are still under review in light of major reorganisation and consequent structural changes. Any additional budgetary requirement funded from regeneration reserves is subject to agreement and approval by the Finance Director.</p> |
| Deputy Chief Executive | |
| <p>Summary</p> <p>Budget £ 48,079k Forecast £ 48,134k Variance £ 55k</p> | <p>Overall, Deputy Chief Executive's is forecasting an adverse variance of £55k. The main variances are shown below.</p> |
| <p>Organisational Development</p> <p>Budget £ 1,759k Forecast £ 1,597k Variance (£ 162k)</p> | <p>This has arisen from additional grant funding of £149k which has been released from reserves to Organisational Development. This will be used to fund the apprentices scheme, and expenditure will be allocated against these grants for that purpose. In addition the forecasts have been reduced to take account of the element of apprentices' salaries which are recharged to the departments which use them.</p> |
| <p>Client Services</p> <p>Budget £38,717k Forecast £38,934k Variance £ 217k</p> | <p>The adverse variance in Client Services is mainly due to Client Unit costs of £120k relating to the use of agency staff to cover vacant posts and additional accommodation costs needed to recognise the difference between the standard charge made in 2008/2009 and the actual accommodation costs; increased security and energy costs in the One Stop Shops of 119k; and a reduction of income in the Registration Service due to a continued reduction in demand for the service of £142k. However this is mitigated by around £164k of underspends.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| Communities, Law & Governance | |
| <p>Summary</p> <p>Budget £14,083k Forecast £14,083k Variance £ 0k</p> | <p>No variance from budget is projected.</p> |
| Financial Management and IS | |
| <p>Summary</p> <p>Budget £22,462k Forecast £22,470k Variance £ 8k</p> | <p>Although there are expected to be variances between certain areas, FMS is projected to be almost on budget for the year, with a projected adverse variance of £8k. Adverse variances on consultants and redundancy costs are offset by savings on external audit and salaries. Previously reported adverse variances in Information Services will be absorbed.</p> |
| <p>Management Team</p> <p>Budget £ 747k Forecast £ 1,211k Variance £ 464k</p> | <p>There is a significant projected adverse variance of £464k. Of this, £246k is for anticipated redundancy/retirement costs arising from the Finance Shared Services Review and a further £218k is for one off consultancy costs.</p> |
| <p>Financial Transaction Shared Services</p> <p>Budget £ 1,780k Forecast £ 1,362k Variance (£ 418k)</p> | <p>There is a significant projected underspend of £418k relating to vacancies within the newly created Financial Transaction Shared Services division.</p> |
| HRA | |
| <p>Summary</p> <p>Budget net £ nil Forecast £ 4,759k Variance £ 4,759k</p> <p>Reserves funding year end (£ 4,759k) Variance after reserves £ nil</p> | <p>Headline position shows a £4.8m variance against budget. This represents a worsening in the position reported previously and reflects the extent of the spending pressure in relation to the day to day management and maintenance of the housing stock, and other specific and extraordinary factors that have a disproportionate effect on the budget this year.</p> <p>Any shortfall will be a first call against HRA reserves, which have seen a marked decline in recent years and continue to be under severe pressure.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|---|---|
| <p>Regeneration and Neighbourhoods (HRA) - Community Housing Services - Strategy and Regeneration</p> <p>Budget £ 2,925k Forecast £ 2,981k Variance £ 56k</p> | <p>Housing Regeneration Initiatives within Strategy and Regeneration is leading on several new Council initiatives/ priorities designed to deliver savings and generate more capital resources down the line. These are currently costing in excess of any base budget savings occurring through vacancies across both divisions and are likely to remain for the foreseeable future.</p> <p>On the temporary accommodation side, hostel numbers are generally consistent with budget projections and whilst estate numbers are falling quicker than expected, the lack of suitable estate properties coming on stream is limited and remains problematic. Overall, this is broadly neutral in budget terms as repair costs are also lower than planned. Legal caseload and tenant removal costs are higher than expected, but are being contained within the overall outturn forecast.</p> <p>Week 35 shows property void rate is 8.5% overall, but within budget target. Temporary accommodation collection performance is 98.61% against a management target of 95% and a budgeted target of 90%.</p> |
| <p>Strategic Services (HRA)</p> <p>Budget £105,169k Forecast £102,783k Variance (£ 2,386k)</p> | <p>This activity comprises all central overheads and non-operational functions within the HRA, specifically housing subsidy, debt charges and financing, CERA and central support charges and other shared service functions provided to the HRA.</p> <p>Interest receivable on cash balances is forecast to be c. £0.6m lower than budgeted (£626k), less some minor offsetting savings on debt management (£55k) and debt interest (net £23k). With LIBOR rates looking set to stay at a historically low average of around 0.5% for the year and balances brought forward (including the MRA Reserve), lower than expected due to the funding requirement for 2008/09 capital expenditure, the shortfall is acute in 2009/10 and has been factored into budget planning assumptions for 2010/11.</p> <p>The reduction in leaseholder major works billing referred to below is partially offset by a reduction in the contribution to the investment programme as this moves in proportion to the value of billing, currently estimated at £2.9m. This saving needs to be considered alongside the negative income variance reported by HOU below, giving rise to an adverse impact of £1.9m overall.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| HRA (continued) | |
| <p>Environment & Housing (HRA) - Home Ownership Unit</p> <p>Budget (£30,556k) Forecast (£25,888k) Variance £4,668k</p> | <p>Headline position is distorted by virtue of the reduction in capital works billing referred to below, but the underlying position is an underspend comprising employees, running costs and Leaseholder Fund of £0.2m.</p> <p>Revenue Service Charges £16.1m (net) has been billed at the end of period 8 against a full year budget of £16.4m with some further limited billing anticipated as 2008/09 actualisations are completed. Collection performance shows £11.2m has been collected against a target of £15m. At this stage both collection and billing remain on target.</p> <p>Capital Service Charges Net billing of £4.5m is assumed at period 8 against a full year budget of £10m, but this remains subject to further fluctuation as account adjustments continue to be processed over the remainder of the year. The extent of this year's variance from budget occurs as programmed works assumed for budget planning purposes have been subject to alteration, postponement and cancellation. Notwithstanding the scale of the variation, it is substantially mitigated by a reduction in the level of revenue support to the Investment Programme of £3.6m, which is directly linked to the value of capital billing, thereby softening the effect on the I&E (net £1.9m). In terms of collection performance, £5.3m (including Major Works loans) has been collected and remains on track to meet the budget target of £8m.</p> <p>Commercial Property Forecast on budget, albeit the current economic conditions may impact on the rent debit. The third quarter billing run should provide a better indication of activity and income performance.</p> |
| <p>Other Environment & Housing (HRA) Services (See below for Housing Management)</p> <p>Budget £14,195 Forecast £14,018k Variance (£177k)</p> | <p>The forecast reflects anticipated employee savings within the Commissioning function</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|--|--|
| <p>Environment and Housing (HRA) - Housing Management</p> <p>Budget (£ 91,733k) Forecast (£ 88,770k) Variance £ 2,963k</p> | <p>The forecast variance has been revised upwards following further review and analysis, and comprises:</p> <ul style="list-style-type: none"> +£882k Employee costs. Arises within Estate Property Management where there is a need for additional capacity and expertise to support key operational functions. To be addressed through changes in the organisational structure during 2010. +£746k Consultant Services. Provision of external validation of the stock condition survey and undertaking additional specialist work to enhance the SCS. Implementation of a dedicated Fire Risk Assessment (FRA) management team. +£1.12m Repairs and Maintenance contract. High volumes/ values of reactive repairs, greater than the budget can realistically sustain. New controls have recently been implemented within the repairs function which should begin to redress the current imbalance. However, as we move towards 2010/11, existing activity levels cannot be sustained and it is crucial that volumes and unit costs are managed more effectively to ensure expenditure is contained within budget. +£736k Other repairs and maintenance. Increased expenditure on dry-risers, lightning protection and the installation of fire signage. These works have been prioritised and condensed into a shorter timeframe than originally planned. +£588k Compensation, Legal and Professional Fees. Cost of legal services within Area Management - an action plan is in place to reduce expenditure, through more robust management controls on disbursement & estimating the cost of actions prior to commencement. However, the effects of this are yet to impact on spend forecasts. +£252k Area Estate costs. The cost of electricity in communal areas is running ahead of budget. A project is underway to map all meters to ensure accurate and timely readings and improve operational and financial control, in conjunction with the Council's energy team. (£ 761k) Heating contract. Savings generated through the new contract remain above those originally expected, but less than previously forecast.. (£ 614k) Works contracts. Implementation of tighter expenditure controls and improved contract management are delivering savings against a number of works contracts, e.g. door entry. <p>Rent Income</p> <p>Week 35 collection performance is 99.78% for Housing Management (99.6% adjusted for e.o.y. timing) against a management target of 99.5% and a budgeted target of 100%. Collection performance shows signs of improvement over previous months, albeit remains below the budgeted target and is likely to push arrears higher (c. £0.4m) by year-end. Cash receipts are down 0.75% year-on-year, whilst housing benefit is up 0.9% by comparison, which is indicative of the current economic conditions. In terms of rent debit raised compared to budget, this is currently running marginally above budget and may assist in mitigating the dip in collection. However, there is no prospect of a repeat rent windfall on the scale experienced in 2008/09.</p> |

Detailed explanation of key forecast outturn variances from budget as at quarter 2

| Service and Division | Explanation |
|---|---|
| <p>Carry forward (HRA)</p> <p>Budget £ nil</p> <p>Forecast (£ 365k)</p> <p>Variance (£ 365k)</p> | <p>Part of the HRA reserves are earmarked to fund a range of one-off projects and specific revenue cost pressures, which are outside the base budget. Expenditure is recorded in the Income and Expenditure Account and contributes to the overall outturn position. In some cases re-provision is required as they are programmed to span more than one financial year or may have incurred slippage, whilst others, such as the Tenants Fund and Leaseholders Fund carry forward balances from year to year. This forms part of the overall HRA reserves mentioned below.</p> |
| <p>HRA reserves</p> <p>Movement at outturn estimated at £4.76m to HRA</p> | <p>The ring-fenced nature of the HRA allows balances to be carried forward year on year to meet budget variations, which can either be negative or positive, giving rise to fluctuations in the level of reserves. In the event that these cost pressures cannot be fully mitigated during 2009/10, this will represent a first call on reserves. This is currently estimated at circa £1.57m. This movement is shown in the Table in the Overview section at the start of this report.</p> |

Additional risks that may impact on the forecast outturn

| Service | Division | Additional risks identified |
|--|---|---|
| Health and Community Services | All | <p>The following assumptions have been used in preparing this statement:</p> <p>The programme of management action is targeted with achieving a balanced budget at year end. This is under constant review by SMT and the Modernisation Board. This forecast only includes savings that are deemed to have been achieved.</p> <p>Support Service Recharges will not be above budget;</p> |
| Environment and Housing | Leisure Management (high risk) | <p>Although Surrey Docks and Dulwich leisure centres are included in the current refurbishment programme, there is a risk of further loss on income claims during closure and unforeseen expenditure as a result of planning requirements. There is also uncertainty about the level of unscheduled R&M costs that will be incurred for maintaining remaining leisure centres which are included in the wider regeneration programme where decisions have not yet been made. As part of the Capital Refresh project, bids have been submitted for refurbishing Seven Islands and Elephant & Castle centres.</p> |
| | Public Realm (Street Markets) (medium risk) | <p>As a result of delay in implementing increased fees and charges proposed for Street Markets and actions taken to strengthen the management of the unit, the planned reduction of deficit brought forward from previous years will not be implemented in time. The cumulative deficit, of £523k at start of the year, in this ring fenced account will become a call on General Fund if adequate actions are not taken to clear the deficit. The Head of Service is working on a number of measures to compile a formal 3 year recovery plan to reduce the deficit and put the accounts in a better footing.</p> |
| | Parking (medium risk) | <p>Although the Parking income is projected to be on budget for the current year, the latest run rate shows that similar level of income is unsustainable in the long term. Economic downturn and better compliance are possible reasons.</p> |
| Regeneration and Neighbourhoods | Property Services | <p>There is a risk of delayed disposals and increased voids due to current market conditions.</p> |
| | Building Control | <p>Fee income is generally dependent on the level of external building related activities. In light of the general sluggish condition of the market and the possibility of worsening conditions, the fee projections may be susceptible still.</p> |

Additional risks that may impact on the forecast outturn

| Service | Division | Additional risks identified |
|--|----------------------------|---|
| | Strategy and Regeneration | A system for time recording against capital schemes may not be implemented on time. |
| | Community Housing Services | <p>Volatile Homelessness numbers.</p> <p>Potential cost over-runs due to delays in handing over properties to previous Landlords.</p> <p>Final redundancy costs could exceed current projections.</p> |
| Communities, Law and Governance | Legal Services | The ongoing restructuring in legal services support and the formation of the community engagement division will cause a degree of disruption. There is a risk that unforeseen events could damage performance and cause a departmental adverse variance. |
| Deputy Chief Executive | All divisions | <p>Client Services includes the Revenues and Benefits service. The outturn on the benefits paid and related subsidy received depends upon factors which can only be determined at the year end. In previous years this has resulted in a large credit on these accounts. Although there is no reason to expect a change to this pattern in 2009/2010, it cannot be guaranteed.</p> <p>There are a number of shared services reviews either in progress or scheduled which will impact significantly on the DCE. If the full savings built into these reviews are not achieved this would have an adverse effect on the department's variance.</p> |

Additional risks that may impact on the forecast outturn

| Service | Division | Additional risks identified |
|---|-------------------------------------|--|
| Financial Management Services and IS | All divisions | <p>The finance shared service review is ongoing and involves significant changes to the way the service is delivered.</p> <p>An increase in the use of consultancy services.</p> <p>Current year savings depend on further reduction in staffing levels being achieved.</p> <p>An inquest is to be held by the Southwark Coroner's Service into the deaths caused by the fire that occurred in Lakanal House on 3 July 2009. It is not known when the inquest will begin or how long it will last, but it is thought that it may not begin until 2011. The cost of the inquest is likely to be substantial and it is not yet known how it will be funded, and there may be some preliminary costs associated with it in the current financial year.</p> |
| HRA Environment & Housing | Project costs estimated at £3.5-£4m | <p>In addition to the mainstream HRA, there are other major cost pressures which are of an exceptional nature and therefore being accounted for outside the revenue monitor at this point. Re-housing of Heygate residents as part of the regeneration programme, together with early activity on Aylesbury has major cost implications for which mainstream funding is limited. In addition, costs specific to the Lakanal House fire and associated safety works across the stock are now gearing up. It is too early to accurately quantify the potential revenue impact, nor investment needs, as the full ramifications remain unknown. Landlord costs falling to the Council after insured losses will be met through a combination of HRA revenue, earmarked reserves and Housing Investment Programme resources.</p> |

Estimated projection of General Fund outturn position for 2009/10 as at quarter 1

| | Full Year Budget | Full Year Forecast | Over (+) Under (-) spend |
|---|------------------|--------------------|--------------------------------|
| | £'000 | £'000 | £'000 |
| Children's Services | 95,797 | 98,784 | 2,987 |
| Health & Social Care | 102,897 | 104,359 | 1,462 |
| Environment and Housing | 75,367 | 76,333 | 966 |
| Regeneration and Neighbourhoods | 37,115 | 37,510 | 395 |
| Major Projects | 5,365 | 5,365 | 0 |
| Deputy Chief Executive | 44,010 | 44,010 | 0 |
| Communities, Law, Governance | 14,402 | 14,402 | 0 |
| Financial Management and IS | 17,898 | 17,966 | 68 |
| Strategic & Corporate | (47,274) | (47,274) | 0 |
| Total General Fund before appropriations | 345,577 | 351,455 | 5,878 |
| Appropriations to/(from) reserves | (5,263) | (5,263) | 0 |
| General Fund Total | 340,314 | 346,192 | 5,878 |
| Area based grant | (25,162) | (25,162) | 0 |
| General Fund net total | 315,152 | 321,030 | 5,878 |
| Schools Budget | 0 | (632) | (632) |
| Appropriation to/(from) DSG reserves | 0 | 632 | 632 |
| Total | 315,152 | 321,030 | 5,878 |

Estimated projection of HRA outturn position for 2009/10 as at quarter 1

| | Full Year Budget | Full Year Forecast | Over (+) Under (-) spend |
|--------------------------------------|------------------|--------------------|--------------------------------|
| | £'000 | £'000 | £'000 |
| Housing Revenue Account | 0 | 1,950 | 1,950 |
| Appropriation to/(from) HRA reserves | 0 | (1,950) | (1,950) |
| Total | 0 | 0 | 0 |

Note: Full Year Budget amended to reflect organisational changes, including reallocation of support costs.