Meeting:	**Executive**
Date:	**21 August 2012**
Subject:	**Quarter 1 Revenue Report 2012/13**
Report of:	**Councillor Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**
Summary:	The report provides information on the revenue position as at Quarter 1 2012/13 and the forecast outturn position for 2012/13.

Advising Officer:	Charles Warboys, Chief Finance Officer
Contact Officer:	Charles Warboys, Chief Finance Officer
Public/Exempt:	Public
Wards Affected:	All
Function of:	Executive
Key Decision	Yes
Reason for urgency/ exemption from call-in (if appropriate)	Not applicable

CORPORATE IMPLICATIONS

Council Priorities:

Sound financial management contributes to the Council's Value for Money and enables the Council to successfully deliver its priorities. The recommendations will contribute indirectly to all 5 Council priorities.

Financial:

1. The financial implications are set out in the report.

Legal:

2. None.

Risk Management:

3. None.

Staffing (including Trades Unions):

4. Any staffing reductions will be carried out in accordance with the Council's Managing Change Policy and in consultation with the Trades Unions.

Equalities/Human Rights:

5. Equality Impact Assessments were undertaken prior to the allocation of the 2011/12 budgets and each Directorate was advised of significant equality implications relating to their budget proposals.

Public Health:

6. None.

Community Safety:

7. None.

Sustainability:

8. None.

Procurement:

9. None.

Overview and Scrutiny:

10. The 2012/13 Quarter 1 revenue report will be considered by the Corporate Resources Overview and Scrutiny Committee on 11 September 2012.

RECOMMENDATIONS:

The Executive is asked to:

1. note that the Revenue forecast position is to overspend budget by £0.83M; and

2. request officers to continue with their efforts to achieve a minimum balanced outturn or an under spend.

Reason for Recommendations:	*To enable a greater contribution to reserves to be made, thus strengthening the Council's long term financial position.*

Executive Summary

11. The report sets out the financial position for 2012/13 as at the end of June. It sets out spend to date against the profiled budget and the forecast financial outturn. Explanations for the variances are set out below in section 3. This report enables the Executive to consider the overall financial position of the Council and agree any further actions to deliver as a minimum a balanced financial year end.

KEY HIGHLIGHTS (Appendices A1, A2, A3)

In Summary

12.
- The 2012/13 forecast outturn is to overspend by £0.8M.
- The current forecast position includes the planned use of and proposed transfers to reserves.
- The Year to Date (YTD) spend is £2.8M below the profiled budget. However, this should not be seen as indicative of the full year position due to seasonal spend and timing of grants received. After accounting for the proposed use of and transfers to reserves this is largely consistent with the forecast position.
- Risks and issues indicate a further risk to forecast of £0.5M.
- Non current debt (i.e. debt that is more than 14 days from date of invoice) is £12.3M, which is £1.5M higher than last month.

13. Directorate forecast outturn variances

The full year forecast as at June for directorates after proposed use of reserves is £0.8M overspend. The following are the key areas:

i) Social Care Health and Housing £0.3M below budget.
ii) Children's Services £0.8M above budget.
iii) Sustainable Communities £0.1M below budget.
iv) Corporate Services £0.6M above budget.
v) Corporate Costs and Contingency £0.3M below budget.

14. Directorate Year to Date (YTD) variances

YTD spend for 3 months at £38M after proposed use of reserves is below budget by £2.8M. The following are the key areas:

vi) Social Care Health and Housing £1.9M below budget.
vii) Children's Services £0.2M above budget.
viii) Sustainable Communities £0.2M below budget.
ix) Corporate Services £0.5M below budget.
x) Corporate Costs and Contingency £0.5M below budget.

DIRECTORATE COMMENTARY

Social Care, Health and Housing

15. The **General Fund** outturn for the directorate is a projected under spend of £0.25M or 0.5% after proposed use of earmarked reserves.

16. The **Adult Social Care** service is projecting an under spend of £1.24M. Within this service area is Older People package costs which are currently showing an over spend of £0.307M. People are living longer and the costs of dementia are on the increase. The budget setting process included an increase in demography of 5%, equivalent to £1.8M. This also has to cover the cost of former self funders requiring local authority support.
The year-to-date position on Adult Social care is an under spend of £1.8M which indicates a much higher forecast under spend for the full year. Whilst some budgets have been profiled, including Transitions, there are some areas of activity where the pattern of spend will increase later in the year due to phased recruitment and new projects. In addition there are some one-off expenditure reductions in quarter one relating to prior year items (over-accrual of external home care).

17. The impact of former self funders continues to be tracked. Five service users in this category have required council support during the first quarter of 2012/13 at an estimated additional full year cost of £0.332M. This is less than for the equivalent period in 2011/12 but, given the current financial climate; this trend is unlikely to diminish and will continue to put pressure on the Council's budget.

18. Challenging efficiency targets were set against the Older People service area and these are mainly on track. The Reablement service continues to achieve reductions in care with 570 hours in quarter one, which is equivalent to a saving of £0.092M with a projected full year saving of £0.216M. It is evident that whilst this activity is reducing costs to the Council it is not able to completely mitigate the costs of the above.

19. The Learning Disabilities service area is projecting an under spend of £0.412M after reserves which is partially a result of provider prices being held static between years and also lower than anticipated costs of Ordinary Residence in 2012/13. A reserve of £0.566M is held to meet the expected impact of two major de-registering providers but this process has been delayed and the reserve is expected to cover all current year costs.

20. The Commissioning service is projecting an over spend of £0.280M. This is a combination of an over spend on the equipment pooled budget of £0.144m and an efficiency shortfall of £0.114m in relation to the Mental Health services. Customer income is projected to under achieve by £0.799m against budget within the Business & Performance service area. This mainly relates to an under-achievement of customer income with the major items being Telecare Charges, residential care charges and House Sales.

21. HRA is subject to a separate report.

<u>Children's Services</u>

22. Children's Services annual expenditure budget is £32,637k.

23. The full year projected outturn position for 2012/13 is £0.822M overspend. This assumes full spend against allocated grants.

24. The budget to date is £5.08M (including schools) compared to actual spend to date of £5.63M, above budget after allowing for Use of Reserves by £0.247M.

25. There are some detailed profiled budgets within SAP and work continues with budget managers during July to further update profiles. The main spend to date variances relate to Children with Disabilities £0.15M, School Support £0.29M and Transport £0.46M. This is a contribution of the impact of spend against grants, where spend will be periodic and the trend of spend associated with Education budgets.

26. The two areas contributing to the current forecast overspend are Child Protection and Children in Care (£452k), and the Fostering and Adoption Service (£379k). This pressure is due to additional expensive specialist children placements, increases in Looked After Children and the cost of agency workers covering qualified posts. The development and recruitment of qualified social workers to fill vacancies is an ongoing activity. A recruitment campaign has been launched and early responses are positive. First interviews will take place in August.

27. Between April 2011 and March 2012 the number of Looked After Children increased by 32. In the first quarter of 2012/13 the number has increased by a further 27 bringing the number of Looked After Children from 176 as at March 2011 to 235 as at June 2012. This number is expected to rise since the rise in the number of children with a child protection in all probability will result in a small proportion of those children becoming Looked After. In order to minimise the impact of these, all high cost placements are agreed by the Interim Assistant Director.

28. Not currently forecast are a number of possible risks that could see the budget variance rise over the forthcoming months:

29. Needs led budgets within Child Protection and Fostering and Adoption following a significant increase in referrals and placements and the additional impact of recent OFSTED inspection recommendations on safeguarding which increase the need for qualified social workers and support staff.

30. Service Level Agreement with Bedford Borough for Fostering and Adoption ceasing in February 2013 resulting in a reduction to income and an increase in costs.

Sustainable Communities

31. Sustainable Communities manages a gross expenditure budget of £58.069M and income budget of £10.357M leaving a net expenditure budget of £47.712M.

32. Sustainable Communities' overall financial position is forecast at £0.098M under budget after the use of earmarked reserves of £0.611M for one-off specific projects.

33. The Directorate has an annual savings target of £3.988M. At the end of June, the savings delivered totalled £0.814M.

34. The Director's Group has forecast a small underspend of £0.01M.

35. Economic Growth Skills & Regeneration has forecast an overspend of £0.079M.

36. In order to deliver the major remodelling of library service and support roll out of the superfast broadband in 2013 the service has forecast an overspend on salaries but this is partly offset by a drawdown of the external funded regeneration reserve.

37. The service secures significant external grants during the year and the effect on the budget of the division is closely monitored and forecasts will be amended and reported once the amounts of such grants have been confirmed.

38. Highways &Transport Division has forecast an over spend of £0.046M.

39. Due to projecting lower income from car parks than expected as a result of issues with dealing with backlog of Penalty Charge Notices appeals traffic management has forecast an overspend of £0.040M. The technical issue which led to the backlog has been resolved and work continues to deal with the outstanding appeals. The service area is closely monitoring the situation and forecasts will be reviewed accordingly.

40. An increase in landfill tax has resulted in an overspend of £0.032M in highways contracts.

41. These are partly offset by an underspend in the Assistant Director area.

42. The Planning Division has forecast a small underspend of £0.003M.

43. Community Safety Public Protection Waste and Leisure Division has forecast an under spend of £0.209M.

44. Due to the renegotiation of the interim Household Waste Recycling Centre contract until March 2013, lower gate fees from the retendered green disposal contracts and the effect of indexation for contract uplift there is a forecast underspend on waste of £0.155M.

45. There is a forecast underspend on salaries in Community Safety.

Corporate Services & Corporate Costs

46. The full year budget for the directorate of £42.242M is made up of:
Corporate Services £28.097M
Corporate Costs £13.801M
Contingency & Reserves £0.344M

47. The directorate is currently forecasting an outturn pressure of £0.360M after proposed use of earmarked reserves. Key forecast variances identified are:

48. £0.067M within People & Organisation, Legal Services, the main items being £0.175M pressure as a result of increased Children's cases workload and a £0.118M saving in Members' Costs resulting from a new Executive structure and lower superannuation costs than budgeted.

49. £0.147M within People & Organisation, People, due to agency costs for maternity cover, additional costs within Health and Safety and unachievable income target within HR Traded Services following cessation of the service.

50. £0.470M within Resources, Finance, as a result of £0.300M Housing Benefit subsidy repayment for 2009/10 year, following audit, £0132M due to the bursary service ceasing, reflecting an unachievable income target; at the time of budget setting, the continued provision of the bursary service was still under consultation, therefore included in the budget as continuing service, £0.145M insurance income shortfall largely as a result of fewer schools buying the insurance package and £0.118M underspend in Audit following a reduction in audit fees and salary savings following staff secondments. There are savings in debt management costs of £0.350M, managed within the Finance team, the benefits of which are recorded in Corporate Costs.

51. Under spend of £0.097M within Resources, ICT representing savings against superannuation costs.

52. Within Corporate Costs, the impact of non achievable budget efficiencies from prior years has been offset by lower than budgeted interest payable (£0.350M).

53. Under spend of £0.253M in Contingency & Reserves following a higher than budgeted New Homes Bonus award.

54. The YTD Department spend is currently £1.011M under the profiled YTD budget. Some of the material amounts that have been identified as contributing to this underspend are lower than budgeted Interest costs (-£0.262M), more than budgeted New Homes Bonus being received (-£0.240M) and Invest to Save budgets not yet being allocated in SAP to specific projects (-£0.137M).

RESERVES POSITION

<u>Earmarked Reserves</u>

55. The opening balance of Earmarked Reserves is £18.5M (Excluding HRA and Schools). The current reported position proposes the planned use of £2.5M Earmarked reserves, and release of £0.4M. This would result in a forecast closing position of £15.2M earmarked reserves at year end.
Consideration should be given to applying for a new redundancy capitalisation directive for 12/13.

<u>General Reserves</u>

56. 2011/12 outturn enabled us to make additional contributions to the General fund reserve. 2012/13 and 2013/14 plan is to make further contributions, which will be subject to review.

RISKS AND UPSIDES

57. Risks and issues indicate a net risk of £0.5M.

DEBTORS (Appendix B)

58. General CBC sales debtors (excluding house sales and grants) for June amounted to £16.7M. Of this £4.9M was over 60 days; all of which is actively being managed.

59. £2.5M is actively being chased; £0.6M identified as disputed and work to resolve is underway. £0.2M has instalment agreements in place and £0.2M is being dealt with through legal channels. A further £1.4M is in respect of charges against houses which will be repaid once the houses are sold.

60. The largest items of note within the total debt are:

i) Adult Social Care, Health and Housing General Fund debt at the end of Quarter 1 2012/13 stood at £8.4m (£6.5m for March 2012) of which £2.2m was house sales debt, £4.1m Health Service debt and £0.6m other Local Authorities. Of the remaining general debt of £1.5m, £1.1m (68%) is more than 60 days old. This includes legacy debt of £0.360m as well as Central Bedfordshire debt. Of the debt aged more than 60 days, 65% is being actively worked on (with solicitors, payable by instalments etc). Excluding PCT and house sales debt, there are 31 debtors whose outstanding balance is greater than £0.010m – these are all under active management.

ii) Total debt for Children's Services is £1.43M, £0.491M over 61 days. The debt over £0.010M totals £0.892M, £0.202M of which relates to Bedford Borough.

iii) Sustainable Communities - The total debt at the end of June was £2.937M, an increase of £0.164M over May's figures. Invoices relating to developers legal contributions to deliver planning requirements associated with new developments account for £2.266M or 77% of debt. All debt recovery is in accordance with Council policy. About eighty three percent of debt is less than three months old. Two debtors owe £0.760M between them, accounting for 26% of the total.

iv) Corporate Services - Overall debt has decreased by £1.522m in the month. This large decrease is mainly due to invoices for payroll services that were included in May's figures and collected by Direct Debit at the start of June. There is currently £0.280M that is over 90 days old; this represents 16% of the current total debt.

v) This month finance has circulated to relevant Budget Managers details of Invoices that are over £0.010M and are more than 30 days overdue. Budget Managers are working to resolve recovery of these debts and progress is being followed up at monthly budget meetings.

Treasury Management (Appendix C - Dashboards)

61. The authority has benchmarked its treasury management activities against 84 other local authorities to gain additional understanding of its treasury management performance in a wider context. The key benchmarked information is included in the Treasury Management Performance dashboard attached at Appendix C.

Borrowing

62. The total borrowing of the authority as at 31 June 2012 was £320.6m, of this amount, £307.1 was with the Public Works Loan Board (PWLB) and £13.5m was Market Debt. The profile of debt is spilt so that the authority has 71% Fixed PWLB debt, 25%, Variable PWLB debt and 4% Fixed Market debt, as shown in A1 on the Treasury Management Performance Dashboard.

63. The Council's average cost of borrowing in 2011/12 was 3.52% compared to benchmark authorities average of 4.49%. A2 of the dashboard shows how CBC favourably compares to other benchmarked authorities.

64. The Authority continued to benefit from the conversion of long term debt from fixed to variable rate that was originally undertaken during 2009/10. This consisted of the Council repaying £35.6m of its fixed PWLB debt averaging 4.72% and replacing it with variable rated debt which averaged 0.73%. This generated revenue savings of £1.3m (£1.2m after Premium write off) in 2011/12.

65. The Council in conjunction with its external advisers continues to look into further opportunities for debt restructuring in accordance with its Treasury Management Strategy (TMS), which authorises the authority to borrow up to 35% variable debt. However, since 2010 the movement in rates has been such that no further conversions are financially viable, as the cost of the early repayment premia means the pay back period would be typically in excess of 11 years.

66. In 2011/12 no additional borrowing was taken out by the Council for General Fund purposes. The council used internal resources in lieu of borrowing to fund capital commitments during the year. The Council did however take out £165m to fund the settlement payment for the Self Financing of the HRA.

67. The authority's Treasury Management Strategy states that no more than 20% of the authority's debt should mature in any one financial year. A4 of the dashboard shows the maturity profile of the Council's debt. This demonstrates that the highest amount the council has maturing in one year is £45m which equates to 14% of our debt maturing in 2022.

Investments

68. The Council's main priorities when investing remain security and liquidity. In the current climate the Council is finding it needs to keep more of its investment highly liquid so that it has the option to withdraw funds quickly at the first signs of stress.

69. To facilitate this, the Council has opened three money market funds and a call account with Lloyds. This will allow the council to diversify its investment portfolio further in liquid funds. B1 of the treasury dashboard shows the breakdown of investment by institutions as at 31 June 2012. B3 of the dashboard shows the maturity portfolio of the councils investments with just over £24m of its investments, which equates to 36.2%, being held in call accounts and money market funds and the remainder on deposit maturing within 3 months. This has resulted in new deposits being placed at interest rates of between 0.4% to 1% in the first quarter.

70. In 2011/12 the Council average rate of return on investments was 1.61% compared to benchmark authorities' average of 1.19%. B2 of the dashboard shows how the authority favourably compares to other benchmarked authorities.

Cash Management

71. The range of daily cash movements in Quarter 1 of 2012/13 has ranged between net payments of £10.4m and net income of £12.8m. Graph C1 on the dashboard demonstrates the volatility of the cash movement.

72. C2 on the dashboard sets out the range of cash outflows and inflows. In Quarter 1 of 2012/13 the gross cash movement of the Council varied between £55m and £70m within a calendar month.

73. C3 of the dashboard shows the level of investments held by the Council. This shows an upward trend of cash holdings within the Council which is typical for all councils as large cash receipts are collected earlier in the year and related expenditure follows in later months / years (e.g. monies from the PCT comes in mid June which is spent over the year, and receipts for some grants / S106 monies may take several years to spend).

74. The Councils actual average cash holding in 2011/12 was £71m which is considerably lower than the benchmarked average of £109m. C4 of the dashboard illustrates how the Council compares to other benchmarked authorities.

Outlook

75. The UK Bank Base Rate is not expected to rise until perhaps 2015/2016. Which means that short-term rate of return on investment will remain at very low levels.

76. Therefore, the Council plans to continue using its cash balances in lieu of borrowing to fund capital expenditure and where possible use internal cash balances to pay off maturing debt. In the current climate the Council is also keeping new investments fairly liquid overall although this will have an adverse impact on investment income.

77. Currently it is expected that there will be a shortfall in investment income in 2012/13 by approximately £100k. However on the upside we are expecting the cost of borrowing to be below budget by up to £500k. Naturally the outturn will become clearer later on in the year as there are a number of variables which are outside the Council's control which will have an impact, such as the base rate, the economic climate, confidence in the government (both in the UK and outside), and the credit ratings, share prices and confidence in the counterparties on our lending list. Other factors will be the timings of capital receipts and grants and the speed of capital expenditure in the financial year.

Appendices:
Appendix A1 – Council Revenue Summary
Appendix A2 – Directorate Summary
Appendix A3 – Subjective Analysis
Appendix B – Debtors
Appendix C – Treasury Management Performance Dashboard

Background Papers:
None