Meeting:	**Executive**
Date:	**04 December 2012**
Subject:	**Q2 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 2 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 2012/13 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 2 revenue report will be considered by the Corporate Resources Overview and Scrutiny Committee on 18 December 2012.

RECOMMENDATIONS:

The Executive is asked to:

1. note that the Revenue forecast position is projected to overspend budget by £1.4m; and

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

Reason for Recommendations:	*Note the financial position of the Council and that efforts continue to achieve a balanced budget outturn for 2012.*

Executive Summary

11. The report sets out the financial position for 2012/13 as at the end of September. 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, A4)

12. In Summary

- The 2012/13 forecast outturn is to overspend by £1.4m (£0.94m in June). This is an increase of £0.3m on August forecast and is driven by increased costs in Children's Services and Adult Social Care.
- The budget includes £2.1m of contingency costs which are also currently included in the forecast so no variance impact (actual = budget). Whilst it is assumed in the forecast that this will be spent, this is subject to review as there are no current calls on this contingency.
- If the contingency is not required the forecast outturn spend position will reduce accordingly.
- The current forecast position includes the planned use of, and proposed transfers to, reserves, of which the most significant is the creation of a £0.9m earmarked reserve in Adult Social Care, Health and Housing for residential futures. Sustainable Communities have also created an earmarked reserve for integrated consumer protection costs of £0.14m.
- The Year to Date (YTD) spend is £4.5m below budget (£2.8m in June). Rest of year spend to outturn on forecast requires an overspend of £5.9m. Executive Members should ensure that officers rigorously test the rest of year spend plans in order to reduce spend and in order to achieve a balanced budget.
- Risks and opportunities indicate a further potential risk of £0.63m.
- September non current debt (i.e. debt that is more than 14 days from date of invoice) is £8.3m, which is £3.7m lower higher than last month (due to payment of £3.2m of NHS debt in early September).

13. Directorate forecast outturn variances

The full year forecast as at September for Directorates after proposed use of reserves is a £1.4m overspend. The following are the key areas:

i) Social Care Health and Housing £0.1m above budget.

ii) Children's Services £1.6m above budget.

iii) Sustainable Communities £0.1m below budget.

iv) Corporate Services £0.5m above budget.

v) Corporate Costs and Contingency £0.7m below budget.

14. Directorate Year to Date (YTD) variances

YTD spend for 6 months to end of September (exc. Schools and HRA) at £80.1m after proposed use of reserves is below budget by £4.5m. The following are the key areas:

i) Social Care Health and Housing £2.5m below budget.

ii) Children's Services £0.4m above budget.

iii) Sustainable Communities £0.5m below budget.

iv) Corporate Services £1.0m below budget.

v) Corporate Costs and Contingency £0.8m below budget.

DIRECTORATE COMMENTARY

Social Care, Health and Housing

15. The General Fund outturn for the directorate is a projected over spend of £0.056m or 0.1%.

16. Adult Social Care is projecting an under spend of £0.05m (under spend of £1.23m at Quarter One). Within this service area is Older People package costs which are currently showing an over spend of £0.21m. People are living longer and the costs of dementia are on the increase. The budget setting process included an increase due to 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 £2.7m 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.

17. Within Physical Disabilities, the overall position on care packages is an under spend of £0.52m (under spend of £0.64m at Quarter One). This largely reflects reductions in nursing placement/diversion of funding to health. Additional budget was provided for Transitions from Children's Services and ten new cases are being reviewed currently.

18. Within the Older People client service group, the impact of former self funders continues to be tracked. Thirteen service users in this category have required council support during the first half year at an estimated full year cost of £0.21m. This is in line with 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.

19. 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 1,125 hours in the first half year, which is equivalent to a saving of £0.16m with a projected full year saving of £0.21m. It is evident that whilst this activity is reducing costs to the Council it is not able to completely mitigate the costs of the demographic increases.

20. The Learning Disabilities service area is projecting an under spend of £0.01m after reserves. A reserve of £0.57m 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.

21. The Commissioning service is projecting an over spend of £0.07m. This is a combination of an over spend on contracts of £0.20m offset by a projected under spend of £0.25m on residential fee uplifts due to deferred implementation. Customer income is projected to under achieve by £0.14m against budget within the Business & Performance service area.

22. Housing Revenue Account (HRA) is subject to a separate report on this agenda.

Children's Services

23. The full year projected outturn position for 2012/13 is £1.60m overspend (£0.82m overspend quarter 1). This assumes full spend against allocated grants.

24. The budget to date is £13.35m compared to actual spend to date of £13.70m, over budget by £0.35m. The main spend to date variances relate to Children with Disabilities £0.23m, School Support £0.35m and Transport £0.79m. This is a contribution of periodic spend and the trend of spend associated with Education budgets.

25. The two areas contributing to the current forecast overspend are Child Protection and Children in Care £1.25m (£0.45m quarter one), and the Fostering and Adoption Service £0.59m (£0.38m quarter one). 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.

26. Between April 2011 and March 2012, the number of Looked After Children increased by 32 to 208. The number of children currently in care, at 227, is below that of statistical neighbours, where the average is approximately 255 children.

The number of children with a child protection plan (CPP) is now 250. Central Bedfordshire is now above the national figure and statistical neighbours for this category.

Work to determine whether thresholds for child protection plans are sound, and whether the plans formulated properly address concerns for children, continues to be undertaken through auditing.

Sustainable Communities

27. Sustainable Communities annual expenditure budget is £47.7m. Profiled spend to date is £22.23m which is £0.52m below budget taking into account use of earmarked reserves (June £0.15m).

28. The forecast spend to the year end is £47.58m an underspend of £0.13m (£0.01m over in June). An improvement of £0.06m vs. last month.

29. Economic Growth Skills and Regeneration has forecast an overspend of £0.02m which is an improvement of £0.05m from quarter one. Extra grant funding of £0.02m has been secured to support the delivery of the regeneration projects.

30. Highways and Transport has forecast an over spend of £0.15m which is an increase of £0.12m from quarter one.

The unforeseen prolonged wet weather caused additional damage to the roads by accelerating the rate at which pot holes form. There has also been an increase in the number of call outs to deal with flooding incidents. This has resulted in an increased spend of £0.15m.

A previous reported overspend of £0.03m on land fill tax is being absorbed by the service.

The previous reported under achievement of car park income of £0.04m due to issues when the service was first transferred is being offset by reduced expenditure in parking and traffic management.

31. Planning has forecast an underspend of £0.07m which is an improvement on quarter one.

Costs incurred by Albion have increased and in an increasingly competitive market they are less able to realise a surplus on each project. This has reduced the contribution to central overheads by £0.02m.

The professional services budget within Development Planning is forecast to underspend by £0.10m. This reflects the prudent procurement of specialist work and legal advice to support Development Strategy and other Local Plan documents.

32. Community Safety Public Protection Waste and Leisure has forecast an under spend of £0.27m which is an improvement of £0.06m to quarter one.

There is additional £0.04m income within public protection. The money related to a prosecution has been forecast and it is proposed to transfer this to a reserve at the end of the year.

To enable the reconfiguration of the North waste collection fleet to fit in with BEaR project solution the purchase of new residual vehicles has been delayed incurring additional maintenance costs of £0.05m.

Additional savings have been generated from the renegotiation of the Household Waste Recycling Centre contract and lower green waste contract costs have contributed to an underspend.

There has been increased advisor costs of £0.03m for the BEaR project due to the consultancy work on funding options and investigation works at the Thorn Turn site.

Leisure Service have forecast an underspend of £0.130m due to salaries and related spend, renegotiation of the leisure contract for the south area and additional income from the physical activity programme.

Corporate Services & Corporate Costs

33. The full year budget for the directorate of £42.54m is made up of:

Corporate Services £28.4m

Corporate Costs £13.80m

Contingency & Reserves £0.34m

34. The Directorate is currently forecasting an outturn underspend of £0.13m after use of earmarked reserves (£0.36m over in June). The key forecast variances identified are:

35. £0.17m net pressure within People & Organisation, Legal Services, the main items being £0.19m pressure as a result of increased Children's cases workload and a £0.12m saving in Members' Costs resulting from a new Executive structure and lower superannuation costs than budgeted.

36. £0.08m net pressure within People & Organisation, People, due to additional Health and Safety staffing needed (£0.040m pressure) and unachievable income target within HR Traded Services (£0.15m pressure). This has been mitigated in part by other overall reductions in salary costs and vacancy savings (£0.10m saving).

37. £0.45m net pressure within Resources, Finance, made up from the following variances: £0.24m pressure in Revenue and Benefits, mainly due to Department for Work and Pensions now recouping £0.30m more Housing Benefit subsidy for 2009/10 year, £0.13m due to the bursary service ceasing, reflecting an unachievable income target; £0.25m insurance income shortfall largely as a result of fewer schools buying the insurance package and £0.12m underspend in Audit following a reduction in audit fees and salary savings following staff secondments.

There are savings in debt management costs of £0.40m, managed within the Finance team, the benefits of which are recorded in Corporate Costs.

38. Under spend of £0.10m within Resources, ICT representing savings against superannuation costs.

39. Within Corporate Costs, the impact of non achievable budget efficiencies from prior years has been offset by lower than budgeted interest payable (£0.40m).

40. Under spend of £0.25m in Contingency & Reserves following a higher than budgeted New Homes Bonus award.

RESERVES POSITION

Earmarked Reserves

41. The opening balance of Earmarked Reserves is £18.5m (Excluding HRA and Schools). The current reported position proposes the planned use of £4.55m Earmarked reserves and proposed transfer to reserves of £1.1m. This would result in a forecast closing position of £15.0m earmarked reserves at year end.

General Reserves

42. 2011/12 outturn enabled us to make additional contributions to the General Fund reserve. 2012/13 budget is to make further contributions of £1.4m.

RISKS AND UPSIDES (Appendix C)

43. Risks and issues indicate a net risk of £0.63m.

DEBTORS (Appendix D)

44. General Central Bedfordshire Council sales debtors (excluding house sales and grants) for September amounted to £7.9m. Of this £2.4m was over 60 days; all of which is actively being managed.

£1.6m is actively being chased; £0.3m 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 £1.3m is in respect of charges against houses which will be repaid once the houses are sold.

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

i) Adult Social Care general fund debt at the end of Quarter 2 2012/13 stood at £5.96m (£8.4m for Quarter 1) of which £2.1m was house sales debt, £2.2m Health Service debt and £0.2m other Local Authorities. Of the remaining £1.5m general debt, £1.0m (68%) is more than 60 days old. This includes legacy debt of £0.33m as well as Central Bedfordshire debt.

ii) Of the Adult Social Care debt aged more than 60 days, 19% is under query and 4% flagged for write-off. Excluding Health Service and house sales debt, there are 30 debtors whose outstanding balance is greater than £0.01m – these are all under active management.

iii) Total debt for Children's Services is £0.39m (£1.43m quarter 1), £0.17m is debt over 61 days. The debt over £0.01m totals £0.26m (£0.89m June), £0.17m of which relates to Bedford Borough.

iv) The total debt for Sustainable Communities at the end of September was £2.46m, a decrease of £0.47m over June's figures. Invoices relating to developers legal contributions to deliver planning requirements associated with new developments account for £1.71m or 69% of debt. About 70% of debt is less than three months old. All debt recovery is in accordance with Council policy.

v) Overall Corporate Resources debt has decreased by £0.28m in the month. There is currently £0.35m that is over 90 days old; this represents 24% of the current total debt. Finance has circulated to relevant Budget Managers details of customers who had debt of over £0.01m which was more than 60 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 E)

46. The authority received its benchmarking results for quarter 1 ending 30 June 2012 which compared the authority's treasury Management activities against 38 other local authorities.

The key bench marked information has been attached as Appendix E - Section A.

Borrowing

47. The authority has repaid £5m in maturing debt in the first half of the year and continues to internally borrow for new capital projects.

The total borrowing of the authority as at 30 September 2012 was £315.5m (nominal), of this amount, £302m was with the Public Works Loan Board (PWLB) and £13.5m was Market Debt. This is split between the General fund and HRA.

	PWLB Fixed £m	PWLB Variable £m	Market (LOBO) £m	Total £m
General Fund	101.4	35.6	13.5	153.5
HRA	120.0	45.0	0.0	165.0
TOTAL	221.4	80.6	13.5	315.5

The profile of debt is spilt so that overall the authority has 71% Fixed PWLB debt, 25%, Variable PWLB debt and 4% Fixed Market debt, as shown in Section A on the Treasury Management Performance Dashboard (Appendix E).

Investments & Deposits

48. In accordance with Public Sector best practice the Council's main priorities remain security and liquidity, before yield.

In the current climate the Council continues to keep its investment highly liquid so that it has the option to withdraw funds quickly at the first signs of stress.

It is also diversifying its portfolio; deposits and investments are made in a range of accounts such as call accounts, fixed deposits, money market funds, all in line with the Council's approved policy for selecting suitable counterparties.

B1 of the treasury dashboard shows the breakdown of investment by institutions as at 30 September 2012. B3 of the dashboard shows the maturity portfolio of the Council's investments with just under £27m of its investments, which equates to 36.35%, being held in call accounts and money market funds and the remainder of short term investments on deposit maturing within 3 months. This has resulted in new deposits being placed at interest rates of between 0.4% to 1.4% in the first half of the year.

49. In the first quarter the Council average rate of return on investments was 1.55% (includes long term investment in the Lime Fund) compared to the benchmark authorities' average of 1.23%. B2 of the dashboard shows how the authority favourably compares to other benchmarked authorities.

Cash Management

50. Daily cash movements in the first half of 2012/13 have ranged between net payments of £11.2m and net income of £12.8m. Graph C1 on the dashboard demonstrates the volatility of the cash movement.

51. C2 on the dashboard sets out the range of cash outflows and inflows. In the first half of 2012/13 the monthly gross cash movement of the Council, both inflows and outflows, has varied between £50m and £70m.

C3 of the dashboard shows the level of deposits and 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).

The Council's actual average cash holding in 2012/13 was £71.3m (previous year £71m) which is considerably lower than the benchmarked average of £120.2m. C4 of the dashboard illustrates how the Council compares to other benchmarked authorities.

Outlook

52. The UK Bank Base Rate is not expected to rise until perhaps 2015/2016 implying that the short-term rate of return on investments and deposits will remain at very low levels.

Therefore, the Council plans to continue to use cashflow balances in lieu of borrowing to fund capital expenditure and where possible 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.

Currently it is expected that there will be a shortfall in investment income in 2012/13 by approximately £0.05m. However on the upside it is expected that the cost of borrowing to be below budget by up to £0.65m. Naturally the outturn will become clearer later on in the year. There are a number of variables which are outside the Council's control which will have a impact on treasury activity, 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 the Council's lending list. Other factors will be the timings of capital receipts and grants and the progress of the capital programme.

Appendices:

Appendix A1 – Council Revenue Summary

Appendix A2 – Directorate Summary

Appendix A3 – Monthly forecast variance

Appendix A4 – Subjective Analysis

Appendix C – Risks and Upsides

Appendix D – Debt

Appendix E – Treasury Management Performance Dashboard

Background Papers:
None.