SHEFFIELD CITY COUNCIL
Cabinet Report

Report of:	Executive Director, Resources
Date:	21 August 2013
Subject:	Revenue Budget Monitoring 2013/14 – As at 30 June 2013
Author of Report:	Allan Rainford; 35108

Summary: This report provides the month 3 monitoring statement on the City Council's Revenue Budget for 2013/14.

Reasons for Recommendations To formally record changes to the Revenue Budget and gain Member approval for changes in line with Financial Regulations.

Recommendations:

Please refer to paragraph 63 of the main report for the recommendations.

Category of Report: OPEN/~~CLOSED~~

Statutory and Council Policy Checklist

Financial implications
YES/~~NO~~ Cleared by: Eugene Walker
Legal implications
~~YES~~/NO Cleared by:
Equality of Opportunity implications
~~YES~~/NO Cleared by:
Tackling Health Inequalities implications
~~YES~~/NO
Human rights implications
~~YES~~/NO :
Environmental and Sustainability implications
~~YES~~/NO
Economic impact
~~YES~~/NO
Community safety implications
~~YES~~/NO
Human resources implications
~~YES~~/NO
Property implications
~~YES~~/NO
Area(s) affected
Relevant Scrutiny Board if decision called in
Overview and Scrutiny Management Committee
Is the item a matter which is reserved for approval by the City Council? NO
Press release
~~YES~~/NO

REVENUE BUDGET MONITORING 2013/14
AS AT 30 JUNE 2013

Purpose of the Report

1. This report provides the Month 3 monitoring statement on the City Council's Revenue Budget.

Summary

2. The budget monitoring position at month 3 shows a forecast overspend of £8.3m to the year end. This is summarised in the table below:

Portfolio	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
CYPF	90,422	89,675	747
PLACE	146,743	144,692	2,051
COMMUNITIES	182,551	171,039	11,512
CHIEF EXECUTIVE	3,204	3,120	84
RESOURCES	63,692	64,355	(663)
CORPORATE	(478,301)	(472,881)	(5,420)
GRAND TOTAL	**8,311**	**-**	**8,311**

3. The position at month 3 is unsustainable when set against the unearmarked revenue reserves of £11.2m and requires urgent management action to bring forecast expenditure into line with budget. This action includes Children Young People and Families and Place portfolios achieving a balanced position and Communities significantly reducing the current forecast overspend. The Council has been required to deliver approximately £182m of savings in the last 3 years and this current position will reflect the difficulty in implementing service delivery reductions of this scale. Nevertheless, EMT is focussed on delivering a set of actions to bring expenditure within budget.

4. The position on corporate budgets has partially offset the forecast overspending in Portfolios. The corporate budget position reflects additional income as a result of late grant adjustments that were not known at the time the Council budget for 2013/14 was agreed. They are available for use because there are no spending commitments attached to them. However, it should be noted that this is effectively a temporary solution because these grants can only be used once, and it does not

address the on-going nature of the cost pressures which are causing the forecast overspend.

5. Whilst it is not anticipated that there will be any further grants that were not included in the budget, It is proposed that should any become available that they are held corporately, providing that they are not ring-fenced, until such point that EMT agrees otherwise. If a Portfolio wishes to commit to use any such grants, they will need to submit a request via monthly budget monitoring to EMT. Until EMT approves such requests, any spending commitments made by the portfolios would be at their risk.

6. In terms of the month 3 overall forecast position of £8.3m overspend, the key reasons are:

   - Children Young People and Families (CYPF) are showing a forecast overspend of £747k, due to increased costs relating to free travel passes £435k and £807k across a number of areas within Children and Families, most significantly £319k on children's residential homes. These overspends are partly offset by £277k savings on the City Skills Fund and a £214k underspend as a result of additional Education Services Grant (ESG).

   - Place are showing a forecast overspend of £2.1m due to risks associated with contract negotiations to deliver waste management savings (£1.1m) and slippage on planned staffing efficiencies from the re-design of the former Housing / Regeneration and Development Service teams of £912k.

   - Communities are showing a overspend of £11.5m, due predominately to a £9.1m overspend in Care and Support relating to Learning Disability Services and the purchase of Older People's care and a £2.5m overspend on Mental Health purchasing budgets.

   - Resources are showing a forecast reduction in spending of £663k, due to £946k savings on the housing benefits subsidy and £1m of insurance fund savings. These savings are partly offset by a £701k overspend in Business Information Solutions ICT costs, £169k unfunded E-Business project costs, £182k income shortfall on procurement savings targets and £211k within HR in relation to a delay in implementation of savings targets on supplies and services.

   - Corporate budgets are showing a forecast reduction in spending of £5.4m, due mainly to savings of £2m against the redundancy budget and the receipt of the aforementioned additional grant income totalling £3.4m.

- **Public Health -** From April 2013 certain functions of Public Health activity transferred to the City Council. The total budget for the year 2013/14 is £29.6m. As at month 3 the forecast position is £1.1m reduction in spending due to a number of vacancies within the Service and a decision by Cabinet on the 8th May not to fully allocate the grant in 2013/14, as there are still some risks and uncertainties around the contract negotiations and the finer detail around the DoH settlement. This forecast reduction in spending is not currently reflected within the overall outturn position but may need reviewing in light of the overall Council position.

Individual Portfolio Positions

Children Young People and Families (CYPF)

Summary

7. As at month 3 the Portfolio is forecasting a full year outturn of an overspend of £747k on cash limit (shown in the table below), and DSG is forecast to overspend by £134k. The key reasons for the forecast outturn position are:

- **Business Strategy:** £214k forecast reduction in spending, due to a £243k forecast overspend in Children's Public Health, offset by increased income of £480k on the Education Services Grant (ESG).
- **Children and Families:** £804k forecast overspend, due to £144k forecast overspend in legal fees, £95k forecast overspend in adoption, £180k in Fieldwork Services, £319k forecast overspend on residential homes and £108k forecast overspend on safeguarding children.
- **Inclusion and Learning Services:** £435k forecast overspend, due to £148k forecast overspend on faith travel passes, £255k forecast overspend on travel passes due to an increase in demand and £70k overspend on Learning Support.
- **Lifelong Learning, Skills & Communities:** £277k forecast reduction in spending, due to savings on the City Skills Fund.

Financials

Service	Forecast Outturn £000s	FY Budget £000s	FY Variance £000s
BUSINESS STRATEGY	4,728	4,942	(214)
CHILDREN & FAMILIES	67,881	67,077	804
INCLUSION & LEARNING SERVICES	5,257	4,822	435
LIFELONG LEARN, SKILL & COMMUN	12,557	12,834	(277)
GRAND TOTAL	**90,422**	**89,675**	**747**

Non DSG Budgets

Business Strategy

8. As at month 3, Business Strategy is currently forecasting a balanced budget for the Dedicated Schools Grant (DSG) and a reduction in spending of £214k (shown in the table above) relating to cash limit.

9. The position involves monitoring the likely level of Education Services Grant (ESG) income as a result of progress on the Academy conversion programme. Any relays in the programme may reduce the level of grant being paid to Academies in the current year. .

Place

Summary

10. As at month 3 the Portfolio is forecasting a full year outturn of an £2.1m overspend. The key reasons for the forecast outturn position are:

    - **Business Strategy & Regulation:** £1.1m overspend arising from risks associated with contract negotiations with the Contractor on the new service to deliver the full £2.1m waste management savings.

    - **Regeneration & Development Services:** £912k overspend primarily due to slippage in the delivery of the planned £2.2m staffing efficiencies from the fundamental re-design of the former Housing / Regeneration and Development Service teams.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s
BUSINESS STRATEGY & REGULATION	30,419	29,362	1,057
CAPITAL & MAJOR PROJECTS	(259)	(399)	139
CREATIVE SHEFFIELD	3,867	3,848	19
CULTURE & ENVIRONMENT	18,095	18,184	(89)
MARKETING SHEFFIELD	913	900	13
PLACE PUBLIC HEALTH	(0)	(0)	0
REGENERATION & DEVELOPMENT SER	93,708	92,796	912
GRAND TOTAL	**146,743**	**144,692**	**2,051**

Communities

Summary

11. As at month 3 the Portfolio is forecasting a full year outturn of an £11.5m overspend.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s
BUSINESS STRATEGY	11,950	12,229	(278)
CARE AND SUPPORT	112,813	103,759	9,054
COMMISSIONING	46,984	44,682	2,302
COMMUNITY SERVICES	10,804	10,370	435
GRAND TOTAL	**182,551**	**171,039**	**11,512**

Commentary

12. The key reasons for the forecast outturn position are:

- **Business Strategy:** Forecast reduction in spending of £278k. In month 2 we held the vacancy control / non-essential expenditure savings target in Business Strategy pending allocation across the individual budget heads. In month 3 the forecasts have been rigorously challenged and savings on staff and spend now reflected across the rest of the services, a small element of vacancy control is still held in Business Strategy (£125k) to reflect anticipated vacancies that may occur in the second half of the year. The remainder is due to savings initiatives identified in Business Strategy of £153k.

- **Care and Support:** Significant overspend forecast of £9.1m. This overspend is across Older People's / Physical Disabilities (together, known as "Adults") / Learning Disabilities (LD) care purchasing budgets, and is due to the full year effect of 2012/13 activity, and anticipated continued growth in 2013/14. This position includes the use of the corporate contingency, identified in the budget process, for Adult Social Care.
- Care purchasing budgets for Adult Social Care client groups, before using the corporate contingency, are forecasting overspends of; Older people / Physical Disabilities £6.6m; Learning Disabilities £6.5m. This reflects on-going pressures highlighted last financial year from changes in activity around hospital discharges and continuing care packages; impacts of self-directed support budget savings not being achieved; on-going pressures due to demographic changes; as well as anticipated pressures from the re-provision of care for service users previously in Health hostels.
- There are also overspends in LD "In-House" provision of £426k, predominantly in staffing, with Locality 1 overspending by £204k and Locality 2 by £222k.
- This overall position includes a range of interventions and management action to reduce spending. An intensive programme of work is underway to assess and evaluate further saving options. In addition, there are underspends in other areas, such as £400k on the Local Assistance Scheme and savings on miscellaneous Assessment and Care Management business units, due to managed vacancy levels.
- The above increase has also been offset by increased audit "clawback" of £532k (OP/PD 140k, MH £47k and LD £346k) of unspent Direct Payments to Service Users. The target for this was £800k, which increased to £1m in month 2, and is now expected to be £1.5m (£700k-plus has been clawed back to date).
- **Commissioning:** a forecast £2.3m overspend due to: Mental Health purchasing budgets forecasting an over spend of £2.5m, due to an increase in the number of people coming to us for care provision (predominantly using SDS Personal Budgets); alongside a Substance Misuse purchasing overspend of £68k. Other areas forecasting an overspend in this Service are; Strategic Commissioning and Partnerships £146k, on staffing; LD strategy & Delivery £166k on LD-specific Housing Related Support; and Mental

Health Commissioning £152k, relating to savings on the S75 Agreement with SHSCT not being achieved. These are, to some degree, offset by the target underspend of £500k on Housing Related Support Programme (formerly Supporting People).

- **Community Services:** forecasting £435k overspend. Libraries are reporting an over spend of £189k, due to on-going pressures on business rates, contract cleaning and utilities, along with income shortfalls. Locality Management show an over spend of £232k, due to part year (rather than full year) implementation of the Community Assemblies budget saving. Community Safety has a small overspend of £13k and Public Health is reporting a balanced position.

Resources

Summary

13. As at month 3 the Portfolio is forecasting a full year outturn of a reduction in spending of £663k. The key reasons for the forecast outturn position are:

- **Business Information Solutions:** £701k overspend due to reduced income from project recharges (£300k) and costs of £400k for which a contribution from Capital can no longer be made.
- **Commercial Services:** £169k overspend in Commercial services due to unfunded E-Business project costs.
- **Commercial Services (savings):** £182k income shortfall due to estimates of cashable savings being below target.
- **Human Resources:** £211k overspend due to implementation of savings on supplies and services being delayed.

Offset by:

- **Housing & Council Tax Benefit:** £946k reduction in spending on the benefits subsidy. This reduction in spending represents less than 0.5% movement on a demand led £191m budget.
- **Central Costs:** £1m reduction in spending due to income from insurance saving.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s
BUSINESS INFORMATION SOLUTIONS	1,503	802	701
COMMERCIAL SERVICES	795	626	169
COMMERCIAL SERVICES (SAVINGS)	(638)	(820)	182
CUSTOMER FIRST	3,057	3,057	0
CUSTOMER SERVICES	2,899	2,788	111
FINANCE	2,221	2,336	(115)
HUMAN RESOURCES	1,379	1,168	211
LEGAL SERVICES	5,265	5,265	0
PROGRAMMES AND PROJECTS	1,130	1,054	76
TRANSPORT AND FACILITIES MGT	32,098	32,098	0
TOTAL	49,709	48,374	1,335
CENTRAL COSTS	13,927	14,979	(1,052)
HOUSING & COUNCIL TAX BENEFIT	56	1,002	(946)
GRAND TOTAL	**63,692**	**64,355**	**(663)**

Chief Executive's

Summary

14. As at month 3 the Portfolio is forecasting a full year outturn of an overspend of £84k. The key reasons for the forecast outturn position are:

- **Policy Performance and Communication:** £84k overspend due to high Election canvassing costs.

Financials

Service	Outturn £000s	Budget £000s	Variance £000s
ACCOUNTABLE BODY ORGANISATIONS	0	0	0
POLICY, PERFORMANCE & COMMUNICATION	3,339	3,255	84
PUBLIC HEALTH	(135)	(135)	0
GRAND TOTAL	**3,204**	**3,120**	**84**

Corporate items

Summary

15. The month 3 forecast position for Corporate budgets is a £5.4m reduction in spending. The table below shows the items which are classified as Corporate and which include:

- **Corporate Budget Items:** corporate wide budgets that are not allocated to individual services / portfolios, including capital financing costs and the provision for redundancy / severance costs.
- **Corporate Savings:** the budgeted saving on review of management costs and budgeted saving from improved sundry debt collection.
- **Corporate income:** Formula Grant and Council tax income, some specific grant income and contributions from reserves.

Financials

	FY Outturn £'000	FY Budget £'000	FY Variance £'000
Corporate Budget Items	93,290	95,381	-2,091
Savings Proposals	-450	-499	49
Income from Council Tax, RSG, NNDR, other grants and reserves	-571,141	-567,763	-3,378
Total Corporate Budgets	**-478,301**	**-472,881**	**-5,420**

16. Corporate Budget items are showing a forecast reduction in spending of £2.1m due mainly to the reassessment of the budget requirement for redundancy cost of £2m and other miscellaneous income of £91k including the recovery of previous years' National Non-Domestic Rates (NNDR) overpayments.

17. The Management Review project achieved general fund budget savings in excess of £1.2m as forecast. However, the budget for the corporate element of these savings of £500k was slightly underachieved by £49k and is represented by the overspend on the Savings Proposals line.

18. There is additional income of £3.4m. This additional income has resulted from late adjustments to grant awards and includes a £1.1m RSG refund, £947k un-ringfenced adoption grant and a £1.4m LACSEG refund.

Public Health

19. From April 2013 certain functions of Public Health activity transferred to the City Council. The total budget for the year 2013/14 is £29.6m. As at

month 3 the forecast position is £1.1m reduction in spending due to a number of vacancies within the Service and a decision by Cabinet on the 8th May not to fully allocate the grant in 2013/14 as there are still some risks and uncertainties around the contract negotiations and the finer detail around the DoH settlement. This forecast reduction in spending is not current reflected within the overall outturn position but may need reviewing in light of the overall Council position.

Housing Revenue Account

20. The 2013/14 HRA budget as reported to Cabinet on 16Th January 2013 was based on a £7.2m (excluding Community Heating) surplus. This surplus is to be used to finance the HRA Capital Investment Programme. The budget has now been adjusted to take account of the approved carry forward of £800km for major ICT projects; upgrade to the Choice Based Lettings website and upgrade of the Open Housing Management System (OHMS) and further budget adjustments at month 3, for Parkhill Security; Going Local and Bed & Breakfast costs, which has resulted in a revised budget surplus of £6.2m.

21. As part of the implementation of CBL additional resources of £142k are required for a 3 month period to enable the transition team to work through and verify some 80,000 registrations.

22. Around half of potential registrants have access to the internet. The proposal includes assisting those who cannot easily access the internet and if necessary encouraging those to complete registration over the phone.

23. Due to the impact of Welfare Reform the Income Management Unit (IMU) are requesting additional resources to help mitigate the impact on arrears. IMU plan to work with partners to support tenants to manage the introduction of Universal Credit. The current projections are that rent arrears will increase to approximately £23m by 2017/18 (from £9.9m 2012/13). With insufficient resources this could increase further.

24. Additional resources of £155k 2013/14, £265k 2014/15 and £219k going forward are required. All staff recruited would be appointed on a temporary basis.

HOUSING REVENUE ACCOUNT	FY Outturn £'000	FY Budget £'000	FY Variance £'000
1.RENTAL INCOME	(142,487)	(142,579)	92
2.OTHER INCOME	(5,142)	(4,779)	(363)
3.FINANCING	53,059	54,581	(1,522)
4.OTHER CHARGES	3,719	3,181	538
5.REPAIRS	33,094	33,092	2
6.TENANT SERVICES	49,581	50,350	(769)
Grand Total	**(8,176)**	**(6,154)**	**(2,022)**

25. As at month 3 the full year outturn position is a forecast in-year surplus of £8.2m. At this stage, this represents a projected improvement of £2m from the revised budget. However, there are indications that further pressures will emerge on the account during the year, these will be reported in due course as further information becomes available. Overall, any predicted improvement on the account will be factored into the planned update of the Business Plan and Capital Investment Programme later in the year.

26. The main reason for the variation in the overall improved position reported above relates to a predicted reduction in capital financing costs of £1.5m. This is primarily a result of reduced interest costs arising from the Councils on-going active Treasury Management Strategy.

27. Now that that HRA is self-financing, the Council has to consider the long term risks on interest rates and ensure that its 30 year business plan includes a sustainable level of debt.

28. Other main areas contributing to the year-end forecast position include:

- Revised Service Charge income (£400k)
- Increase in General Charges £500k
- Decrease in Running Costs (£700k)

COMMUNITY HEATING	FY Outturn £'000	FY Budget £'000	FY Variance £'000
Income	(3,510)	(3,548)	38
Expenditure	3,799	4,218	(419)
Grand Total	**289**	**670**	**(381)**

Community Heating

29. The budgeted position for Community Heating is a contribution from Community Heating reserves of £700km. As at month 3 the forecast position is a contribution from reserves of £300km resulting in a

reduction in spending of £400km. This is largely due to a reduction in energy consumption compared to budget**.**

Corporate Financial Risk Register

30. The Council maintains a Corporate Financial Risk Register which details the key financial risks facing the Council at a given point in time. The most significant risks are summarised in this report for information together with a summary of the actions being undertaken to manage each of the risks.

2013/14 Budget Savings and Emerging Pressures

31. There will need to be robust monitoring in order to ensure that the level of savings required for a balanced budget in 2013/14 are achieved, especially given the cumulative impact of £182m of savings over the last three years.

32. Whilst preparing the budget, Officers have identified numerous pressures which, if left unchecked, could lead to significant overspends in 2013/14 and beyond. The following pressures have been highlighted because they present the highest degree of uncertainty.

33. The advent of the Government's Business Rates Retention Scheme in April 2013 transfers a substantial proportion of risk to local government, particularly in relation to appeals, charitable relief, tax avoidance, hardship relief and negative growth. The issue of appeals dating back to the 2005 rating list is the greatest risk causing concern across all authorities. There are properties with a rateable value of £195m under appeal currently in Sheffield, with an allowance for £14.8m of refunds in 2013/14. Officers are still working to estimate the impact of appeals, but in reality the picture will only become clearer when actual trends are monitored in year.

34. Adult social care demand pressures, plus the impact of changes in health i.e. the Right First Time programme and reductions in Continuing Health Care (CHC) funding, have already presented challenges on delivering the Communities portfolio budget in 2012/13. As a result of these pressures, the portfolio's outturn position was an overspend of around £6.4m for care and support services in 2012/13, and a further £3m is built into the 2013/14 budget. Current Spend is well above this level.

35. In Children Young People & Families portfolio, the key area to highlight is the changes to the Criminal Justice System for children on remand from April 2013, with a possible impact of £700k built in as a pressure, but the exact impact is very uncertain. The £700k pressures are currently covered by efficiency savings that still have to be firmed up. There is no clarity on any funding from Central Government for this new burden.

Digital Region

36. The Council faces risks on its direct investment, as well as on guarantee clauses to key contractors. Provision has been made in the 2011/12 accounts for the potential capitalised costs of the losses on current operations and the procurement, but the final costs will only be clarified as part of the re-procurement process.

Capital Receipts & Capital Programme

37. Failure to meet significant year on year capital receipts targets due to depressed market and reduced Right-to-Buys, resulting in potential over-programming / delay / cancellation of capital schemes.

Pension Fund

38. Bodies whose Pension liability is backed by the Council are likely to find the cost of the scheme a significant burden in the current economic context. If they become insolvent the resulting liability may involve significant cost to the Council.

Electric Works

39. The running costs of the business centre are not covered by rental and other income streams. The approved business plan set aside contingency monies to cover potential deficits in its early years of operation. However, there remains a risk that the occupancy of units within Electric Works might be slower (lower) than that assumed within the business case, such that the call on the contingency is greater (earlier) than planned.

40. A refresh of the financial model was undertaken for 2011/12 budgeting purposes and again for 2012/13. The assumed level of occupancy for 2011/12 was 68% and the actual achieved was 64%. Most of the income shortfall was made up from conference lettings and virtual services. A target of 78% was set for 2012/13. At December 2012, the target was 79% but the actual was only 63%, mainly as the result of the termination of a tenant's licence due to trading conditions. A report on the future of Electric Works will be brought to Members in 2013.

Contract Spend

41. The high and increasing proportion of Council budgets that are committed to major contracts impairs the Council's flexibility to reduce costs or reshape services. This is exacerbated by the fact that in general these contracts carry year-on-year inflation clauses based on RPIx which will not be available to the Council's main funding streams, e.g. Council Tax, RSG and locally retained Business Rates.

Economic Climate

42. There is potential for current adverse economic conditions to result in increased costs (e.g. increased homelessness cases) or reduced revenues. The Council seeks to maintain adequate financial reserves to mitigate the impact of unforeseen circumstances.

NHS Funding Issues

43. There are significant interfaces between NHS and Council services in both adults' and children's social care. The Council has prioritised these services in the budget process, but savings have nevertheless had to be found. Working in partnership with colleagues in the Health Service, efforts have been made to mitigate the impact of these savings on both sides. However, on-going work is required now to deliver these savings in a way that both minimises impacts on patients and customers and minimises financial risks to the NHS and the Council.

44. The Council is participating in the Right First Time (RFT) programme with the Clinical Commissioning Group (CCG) and Hospital Trust. This programme aims to shift pressures and resources from the hospital to community settings over the longer term, which should assist the Council in managing adult social care pressures. However, there are short-term pressures from the programme changes that are adding costs to the Council.

Housing Regeneration

45. There is a risk to delivering the full scope of major schemes such as Parkhill and SWaN because of the severe downturn in the housing market. This could result in schemes 'stalling', leading to increased costs of holding the sites involved, and in the case of SWaN, potential exposure to termination payments. In addition, the ending of the Housing Market Renewal programme has caused funding pressure on the Council's capital programme, e.g. on site clearance work and in enabling further phases of commenced demolition schemes.

Trading Standards

46. There is a low risk that it is not possible to recover outstanding contributions from the other South Yorkshire Authorities. However, negotiations are in the final stages and there is an expectation that an agreement will be reached.

External Funding

47. The Council makes use of a number of grant regimes, central government and European. Delivering the projects that these grants fund involves an element of risk of grant claw back where agreed outputs are not delivered. Strong project management and financial controls are required.

Education Funding

48. During 2012/13 18 (9 primary / 9 secondary) of the Council's maintained schools became independent academies. In 2013/14 a further 25 academy conversions are currently anticipated (20 primary / 5 secondary). To date 4 primary schools have converted in 2013/14.

49. Academies are entitled to receive a proportion of the Council's central education support services budgets. Based on projected academy conversions it is estimated that:

    - In 2012/13 £635k of DSG funding was deducted from the Council and given to the Academies. For 2013/14, it is estimated that up to £1.75 million of DSG funding will be given to academies to fund support services.
    - In 2013/14 it is estimated that up to £3.25 million will be deducted from the Council's DCLG funding, under the new Education Services Grant (ESG), and given to academies.

50. If an academy is a sponsored conversion then the Council will have to bear the cost of any closing deficit balance that remains in the Council's accounts. It is estimated that this may be up to £750k based on current projected academy conversions during 2013/14.

51. Where new independent schools (free schools) or Academies are set up and attract pupils from current maintained PFI schools, then the funding base available to pay for a fixed long term PFI contract would reduce, leaving the Council with a larger affordability gap to fund. There are also further potential risks if a school becoming an academy is a PFI school, as it is still unclear how the assets and liabilities would be transferred to

the new academy and whether the Council could be left with residual PFI liabilities.

Treasury Management

52. The on-going sovereign-debt crisis is subjecting the Council to significant counterparty and interest rate risk. Counterparty risk arises where we have cash exposure to banks and financial institutions who may default on their obligations to repay to us sums invested. There is also a real risk that the Eurozone crisis could impact upon the UK's recovery, which in turn could lead to higher borrowing costs for the nation.

53. The Council is mitigating counterparty risk through a prudent investment strategy, placing the majority of surplus cash in AAA highly liquid and diversified funds. On-going monitoring of borrowing rates and forecasts will be used to manage our interest-rate exposure.

Welfare Reforms

54. The government is proposing changes to the Welfare system, phased in over the next few years, which will have a profound effect on council taxpayers and council house tenants in particular. The cumulative impact of these changes will be significant. Changes include:

    - Abolition of council tax benefit – due from April 2013 to be replaced by a local scheme. It will be cash limited and subject to a 10% reduction from current levels. The Council approved a replacement scheme, including a hardship fund in January 2013, but there are risks to council tax collection levels and pressures on the hardship fund.

    - Housing Benefit changes – there are a number of proposals where the anticipated impacts are that a number of claimants will receive fewer benefits than they do now, thereby impacting on their ability to pay rent.

    - Introduction of universal credit – from October 2013 administered by DWP. Along with the impact of reducing amounts to individuals and the financial issues that might cause, the biggest potential impact of this change is the impact on the HRA and the collection of rent. This benefit is currently paid direct to the HRA; in future this will be paid direct to individuals. This will potentially increase the cost of collection and rent arrears. There will also be an impact on the current contract with Capita and internal client teams.

Housing Revenue Account (HRA)

55. There are a number of future risks and uncertainties that could impact on the 30 year HRA business plan. As well as the introduction of Universal Credit, outlined in the risk above, the main identified risks to the HRA are:

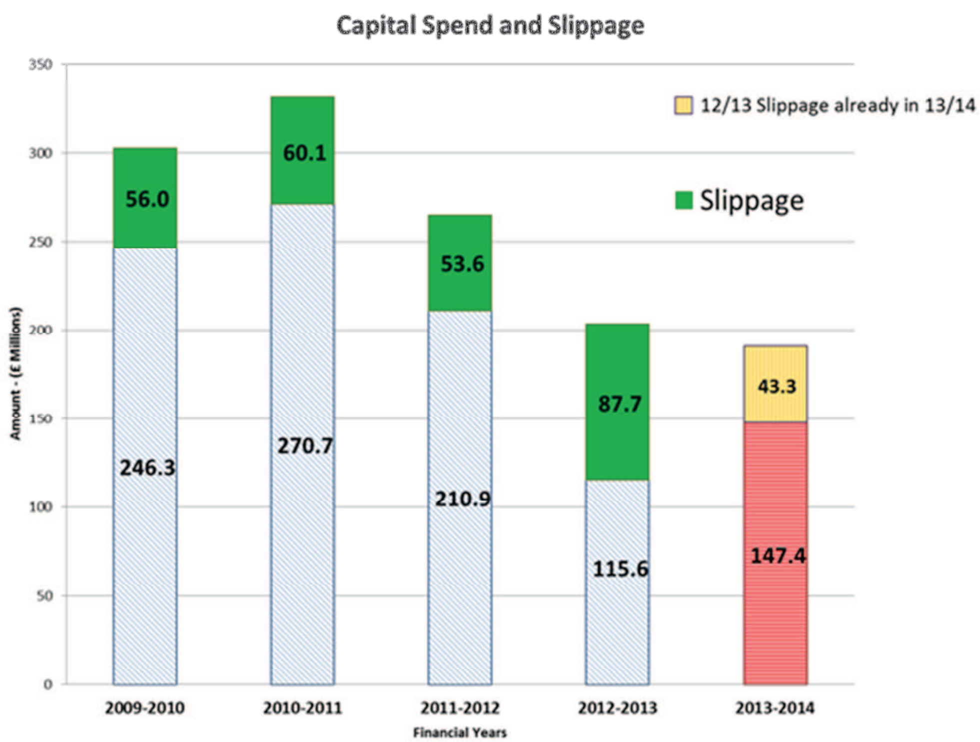
- Interest rates: fluctuations in the future levels of interest rates have always been recognised as a risk to the HRA, and;
- Repairs and Maintenance: existing and emerging risks within the revenue repairs budget include unexpected increased demand (for example due to adverse weather conditions).

Capital Programme Monitoring and Approvals 2013/14 – As at 30th June 2013

Background

56. Last year the monthly Capital Monitoring report demonstrated the unacceptable level of performance on Capital Programme Delivery. Forecasts were either not completed or too optimistic. This resulted in £43.3m of unplanned slippage at the end of 2012-13.

57. The graph below shows the impact of adding the slippage from 2012/13 onto the approved Capital Programme for 2013-14.



This would give a programme for 2013-14 of £190.7m which is substantially above the £115.6m delivered in 2012-13.

58. The initial performance figures for 2013-14 show that performance has at best kept pace with the that seen in 2012-13 but it is clear that the project managers' own forecasts show a shortfall against budget approaching £50m, and, given the current spending levels, it is evident that the shortfall on budget will grow once the exercise is complete. In the circumstances, therefore, given the significant amount of effort being put into the re-profile, a report on the capital programme will follow at a future date when a realistic programme has been devised.

59. In effect, officers will be preparing a revised capital programme by recognising a large amount of slippage and then re-profiling this into future years. Normally slippage requests would be taken through Cabinet as part of the monthly monitoring report. In order to determine a more accurate Budget, as quickly as possible, it is proposed that the approval of the slippage be delegated to the Cabinet member for Finance. Any new approvals would be submitted to Cabinet as required by Financial Regulations

Implications of this Report

Financial implications

60. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2012/13 and, as such it does not make any recommendations which have additional financial implications for the City Council.

Equal opportunities implications

61. There are no specific equal opportunity implications arising from the recommendations in this report.

Property implications

62. Although this report deals, in part, with the Capital Programme, it does not, in itself, contain any property implications, nor are there any arising from the recommendations in this report.

Recommendations

63. Members are asked to note the updated information and management actions provided by this report on the 2013/14 budget position.

64. Members are asked to approve the recommendation in paragraph 5 which states that any additional grants received which are not in the

approved 2013/14 budget, are to be held corporately until such point that EMT agrees otherwise.

65. Approval of the slippage to be delegated to the Cabinet member for Finance in order to expedite the re-profiling of the Capital programme.

Reasons for Recommendations

66. To formally record changes to the Revenue Budget and the Capital Programme and gain Member approval for changes in line with Financial Regulations and to reset the capital programme in line with latest information.

Alternative options considered

67. A number of alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members. The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to which funding is put within the Revenue Budget and the Capital Programme.

Eugene Walker
Director of Finance

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