Nottinghamshire County Council

Report to Finance & Property Committee
17 December 2012

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE & PROCUREMENT

FINANCIAL MONITORING REPORT

Purpose of the Report

1.1 To provide a summary of the financial position of the County Council for the year to date including year-end forecasts.

1.2 To note the use of contingency as approved outside of this Committee, and approve the new requests as reported here.

1.3 To provide an update on the progress being made by the Procurement team in contributing to the County Councils savings plans.

1.4 To note the Capital Programme expenditure and latest forecasts.

Information and Advice

2. Background

2.1 This report is part of the regular financial monitoring reporting cycle and follows the update to Finance and Property Committee in November.

3. Summary Financial Position

3.1 Table 1 sets out the summary revenue position of the County Council.

Table 1 – Summary Financial Position

Previously reported Variance	Committee	Annual Budget £'000	Actual to Period 7 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
9,482	Children & Young People	162,683	58,262	171,731	9,048
2,100	Adult Social Care & Health	194,359	106,435	196,459	2,100
144	Transport & Highways	59,618	26,456	59,023	(595)
594	Environment & Sustainability	26,610	13,625	26,974	364
0	Community Safety	4,177	1,699	4,177	0
235	Culture	12,583	8,275	12,981	398
(88)	Policy	25,923	14,587	26,023	100
379	Finance & Property	27,426	16,378	27,139	(287)
(329)	Personnel	5,581	8,059	5,581	0
0	Economic Development	762	660	762	0
12,517	**Net Committee (under)/overspend**	519,722	254,436	530,850	11,128
(16,200)	Central items	(22,798)	(23,296)	(37,898)	(15,100)
(3,683)	**Forecast prior to use of reserves**	**496,924**	**231,140**	**492,952**	**(3,972)**
(2,602)	Transfer to / (from) reserves	(2,690)	(1,675)	(5,292)	(2,602)
0	Transfer to / (from) General Fund	4,930	0	4,930	0
(6,285)	**Net County Council**	**499,164**	**229,465**	**492,590**	**(6,574)**

3.2 The Committees are currently forecasting a net overspend of £11.1m, which is largely attributable to an overspend in Children and Young People (CYP). It is important to stress that the position of CYP is largely offset by a Corporate Contingency of £4m and earmarked reserves of £1m, ie a net Committee overspend of £4m. Based upon the County Council's financial performance in recent years, the level of savings achieved in year is expected to increase. The commentary below provides a further detailed explanation to the major variances.

3.3 After the budgeted contribution to the General Fund of £4.9m, the forecast out-turn position overall for the County Council is a saving of £6.6m. This is an increase in the expected saving of £0.3m since the last monitoring report.

4. Committee and Central Items

The main variations that have been identified since the start of the financial year are explained below.

Children and Young People (forecast £9m net overspend)

4.1 This Committee forecast has reduced by £0.4m since last month - the main variance between forecast outturns is within the Early Years and Early Intervention Service where savings are expected due to new commissioning arrangements. As previously reported, an overspend due to non-achievement of the Business Support Services Review (BSSR) business case offsets this making a net minor underspend in Youth Families and Culture. £0.6m has been set aside in a reserve for the BSSR incase it is required at the end of the financial year.

4.2 Children's Social Care division is forecasting an overspend of £5m, of which £2.4m is due to the number of external placements which continue to be forecast to increase, in net terms, by an average of 9 children each month until the end of the financial year. In addition, the cost of agency staff is now predicted to overspend by £1.6 million with continuing problems around filling vacancies, particularly in social work teams and the Safeguarding and Independent Review Service. A further £0.9 million overspending is now anticipated on legal fees in the light of the latest activity data.

4.3 The overall Committee variance, is largely offset by the £4m of contingency that was set aside at the beginning of the financial year. It is also reduced by the application of a number of earmarked reserves, which were established to meet some of the known pressures. The Corporate outturn has factored in the use of £1m of these reserves. The Corporate Director will continue to review the position and a recommendation as to whether the contingency should be permanently returned to CYP will be made in the new year. However, this will impact on the resources available to the authority over the Medium Term.

Adult Social Care & Health (forecast £2.1m net overspend)

4.4 The estimated forecast is based on expenditure/savings in previous years, proposed savings, commitments and budget pressures.

4.5 As previously reported the Think Local, Act Personal programme will result in £2.6m additional expenditure being incurred, but this will be funded by reserves, as shown in the transfer to/from reserves line in Table 1 above and detailed in the reserves section at 4.18.

4.6 The remainder forecast, £0.5m underspend, is based on an underspend in Older Adults, offset by several smaller overspends across client contribution income, supported employment income and Integrated Community Equipment Service (ICES).

4.7 The Younger Adults Learning Disability budget (£62 million) is being closely monitored as current commitments suggest substantially higher spend than in the previous year.

Transport & Highways (forecast £0.6m net underspend)

4.8 The main variance within this Committee relates to underspends in Highways due to vacant posts creating salary savings, and the receipt of additional Section 38 income.

Finance & Property (forecast £0.3m net underspend)

4.9 The net variance within this Committee comprises small savings across Finance, IT and Property.

Central Items (forecast £15.1m net saving)

4.10 Corporate Budgeting primarily consists of interest and payments on cash balances and borrowing, together with various grants and contingency.

4.11 Interest payments are currently forecast to be £4.3m less than the original budget. This is primarily due to slippage on the capital programme in 2011/12 which reduced the need to borrow. In addition, the level of expected cash balances during 2012/13 means that the Council is less likely to need to borrow than had been predicted in the original budget.

4.12 As previously reported the Local Services Support Grant (LSSG) allocation is £0.4m less than budgeted. This is partially offset by additional grants, primarily the Community Rights to Challenge grant.

4.13 The 2012/13 Contingency budget was originally set at £15.6m, of which, £10.0m has been earmarked for redundancy. In addition, at the start of this financial year, the following departmental transfers to/from the contingency were agreed:

- £8m from ASCHPP into the corporate contingency
- £4m from CFCS into the corporate contingency
- £1m from E&R into the corporate contingency
- £0.75m into T&H from the corporate contingency
- £3m into Procurement from the corporate contingency

4.14 Redundancy payments made in the current financial year to date total £3.8m. A further £6.5m is expected to paid in the remainder of the year, taking the total forecast, including pension strain, to £10.3m. £5.3m of this will be met by the 2011/12 provision. Of the remaining £5m, £3.7m relates to pension strain costs and £1.3m relates to schools becoming academies. These figures are currently included within the central items in Table 1 and as such are currently forecast to be contained within the current year's budget. This negates the need to utilise the £3.1m Redundancy Reserve which will continue to be earmarked for future years' costs.

4.15 A new Section 188 notice was published on 31 October 2012 and the consultation period for this will run to 29 January 2013. Although the related costs are likely to fall in the following financial year, the County Council will have to make a provision in 2012/13 for the expected redundancy costs of 2013/14. The size of the provision is based on the number of posts affected and the average redundancy cost in 2012/13. An initial estimate equates this to £5m and this figure has been included in the current forecast. Should the final figure vary from this, the balance will be met or transferred to the Redundancy Reserve as appropriate.

4.16 Since the previous financial monitoring report, two requests for contingency have been approved as follows:

- Staffing to support Economic Growth and Tourism £34,000 in 2012/13, with the full year costs of £138,000 being taken into account in the Medium Term Plan (approved at Policy Committee 14 November 2012).
- Replacement of the mosaic outside County Hall £30,000 (approved Full Council 1 November 2012). Note, this will be transferred to an earmarked reserve to ensure funding remains available should completion of the scheme fall after the end of the current financial year.

4.17 Further requests have been submitted and require approval as follows:

- Care Home refurbishment – an additional £300,000 has been requested, on top of the £600,000 provision made at the end of 2011/12.
- Retford Day Services £750,000.
- Continued support for the non-statutory debt recovery project £17,000

4.18 Taking these requests into account, the total contingency budget is forecast to be underspent by £11.2m.

Transfer to/from Reserves (forecast £2.6 net underspend)

4.19 As previously reported - an underspend in Adult Social Care & Health Committee will result in £1m reduction in use of reserves – showing against this line as an overspend. Offset against this, is the application of £1m of a number of earmarked reserves in CFCS. In addition, Members have also approved the use of £2.6m of reserves to deliver the Think Local, Act Personal programme. In the first instance, the remaining uncommitted Social Care Grant Reserve of £2.1m will be utilised with the balance being met from other departmental reserves.

Transfer to/from General Fund (forecast in line with budget)

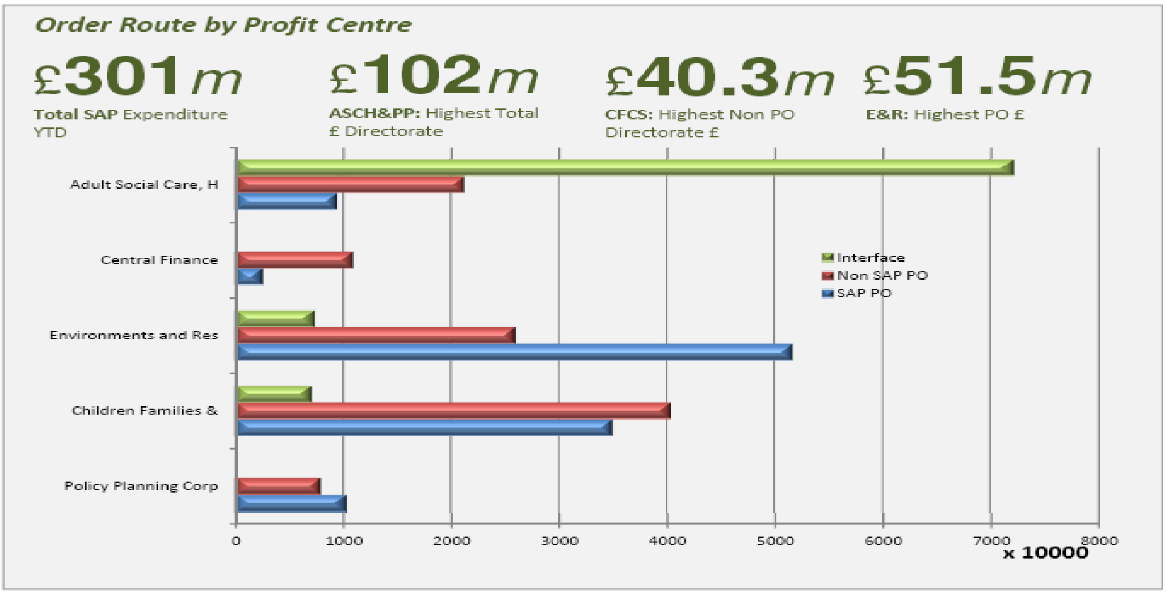
4.20 The latest forecast includes the budgeted £4.9m contribution to General Fund balances. Should the forecast underspend occur, a further contribution to General Fund balances will be made.

5. Progress with savings and risks to the forecast

5.1 The Council is now in its second full year of the savings programme having successfully delivered over £70m in 2011/12. The target for the current financial year is £34.8m. Officers are currently reviewing the deliverability of individual schemes and targets as part of the Medium Term Planning process. Should schemes be identified as at risk, short term delays could be offset by the current year underspend, allowing sufficient time for schemes to be in place, or alternative savings to be identified as permanent base budget reductions. Where alternatives cannot be found, the contingency budget will need to be used. Progress with this exercise will be reported through future budget monitoring reports.

6. Procurement Team Performance

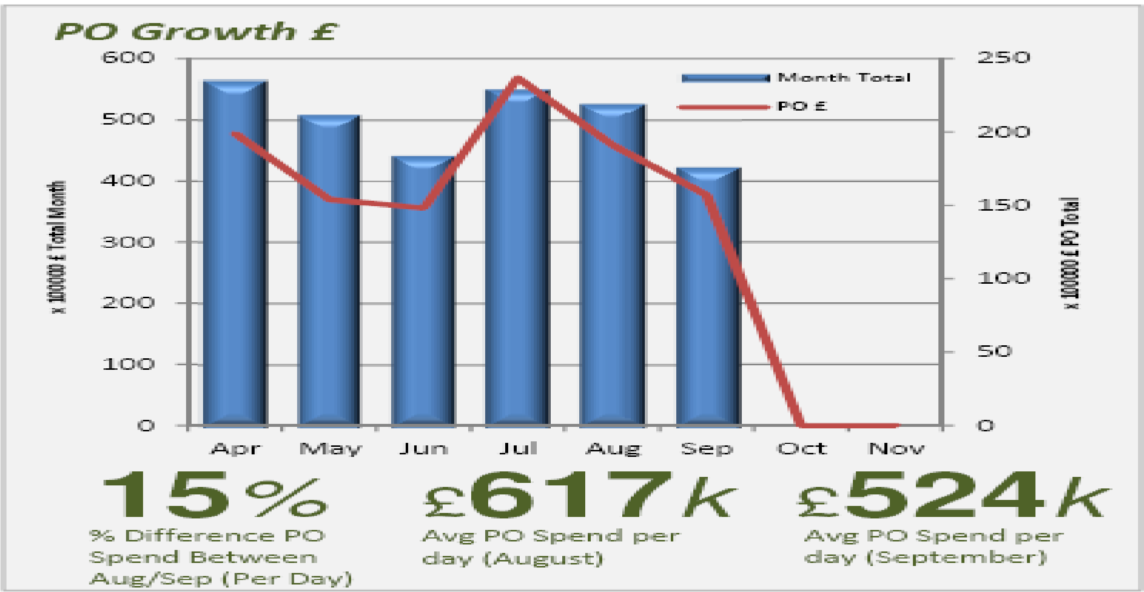
6.1 The progress of the new corporate Procurement Team continues to be monitored. The graph below shows the order routes for spend across each of the Council's departments.



6.2 The graph shows that up to the end of September 2012, the County Council has spent £301m. Of this total, ASCH&PP account for £102m or 34% of the Council's spend, and of this spend over £70m is processed via legacy interface systems. Legacy interface systems transfer sufficient data to BMS to enable payments to be made, however this limits the quality of the data, for example no commitments are recorded in BMS.

6.3 In contrast, CFCS have the highest value of non-purchase order (Non-PO) spend at £40.3m. Without a purchase order the Council risks using non contracted suppliers, price control is difficult and supplier due diligence is unlikely to be have been carried out potentially resulting in contractual disputes.

6.4 The following graph shows the trend in the number and value of Purchase Orders in BMS since the start of the financial year.

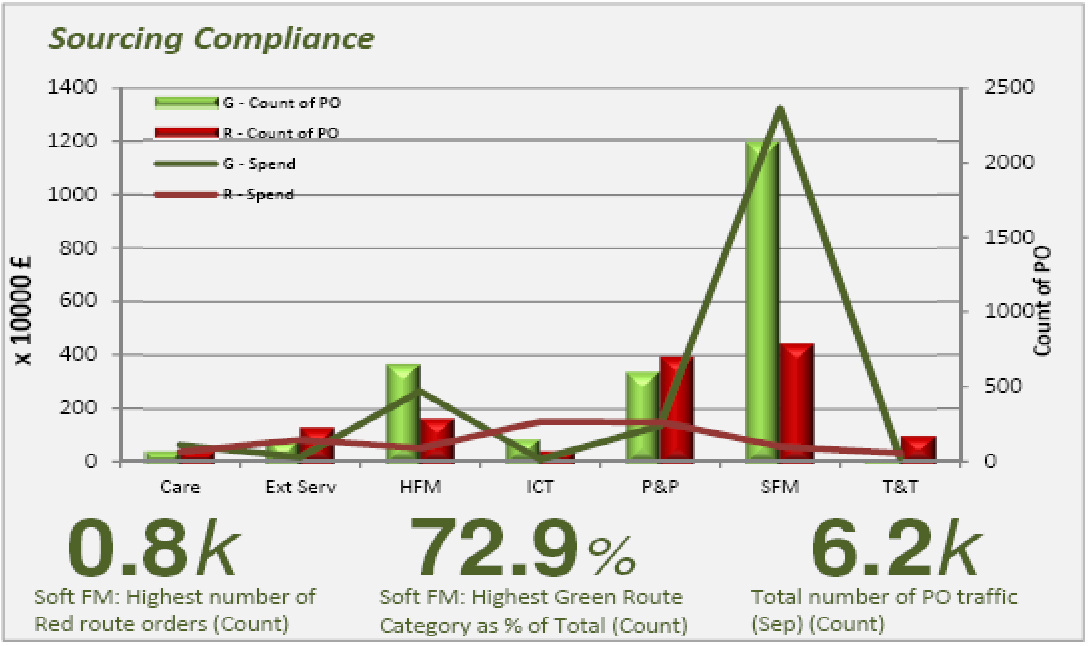


6.5 Over the course of the year the mean average monthly value for Purchase Orders raised is £15.8m. However, seasonal demands result in fluctuations, as can be seen in the graph above. The peak in July is primarily due to the Council's annual insurance premium being paid and higher than average agency costs (in line with backfilling annual leave the following month). Over the summer months the number of Purchase Orders declined by comparison, partly due to fewer working days in these months, but figures are still in line with the overall average expected. The procurement team continue to work with colleagues to migrate from Non-PO to PO transactions.

6.6 Over time the data is also expected to show:

- An increase in value but a decrease in volume, through consolidated billing.
- A decrease in PO value and volume, through planned adoption of P Cards.
- A decrease in volume, through vendor rationalisation.
- A decrease in value and volume, through utilisation of Invoice Plans.

6.7 The following graph differentiates between Green and Red Route Purchase Orders by value, volume and procurement category. The soft facilities management (SFM) category had the highest value of Red Route purchase orders despite having a relative low number of red route purchase orders.



7 Capital Programme

Approved Capital Programme

7.1 Table 2 summarises changes in the gross Capital Programme for 2012/13 since approval of the original programme in the Budget Report (Council 23/02/12):

Table 2 – Revised Capital Programme for 2012/13

	2012/13 £000	£000
Approved per Council (Budget Report 2012/13)		**118,622**
Variations funded from County Council Allocations:		
Net slippage from 2011/12 and financing adjustments	13,568	
Variations noted at Finance & Property Committee (18/06/12)	(1,688)	
Variations approved at Policy Committee (17/10/12)	900	
Other approved variations (Finance & Property Portfolio)	500	
Other approved variations/re-phasing	(583)	
		12,697
Variations funded from other sources:		
Net slippage from 2011/12 and financing adjustments	67	
Variations noted at Finance & Property Committee (18/06/12)	1,239	
Other approved variations (Finance & Property Portfolio)	190	
Other approved variations/re-phasing	832	
		2,328
Revised gross Capital Programme		**133,647**

Capital Monitoring

7.2 Table 3 shows the latest capital expenditure and forecast estimates.

Table 3 – Latest Capital Expenditure and Forecasts

Committee	Revised Capital Programme £'000	Actual Expenditure £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	46,683	14,714	46,372	(311)
Adult Social Care & Health	6,140	2,595	4,140	(2,000)
Transport & Highways	39,855	18,712	42,408	2,553
Environment & Sustainability	5,543	1,740	5,556	13
Community Safety	300	1	300	0
Culture	8,089	1,927	5,954	(2,135)
Policy	8,944	3,548	8,651	(293)
Finance & Property	12,572	4,368	11,900	(672)
Personnel	70	52	70	0
Contingency	5,451	0	5,451	0
TOTAL	**133,647**	**47,656**	**130,802**	**(2,845)**

7.3 In Children & Young People Committee, projects funded by the Department for Education continue to be closely monitored with expenditure on the Schools Capital Refurbishment Programme forecast to be £5.0m higher than budgeted. This will be offset by slippage on the Schools Basic Need Programme (£3.6m), Section 106 projects (£0.6m) and an underspend on the Westfield Folk House grant (£0.5m).

7.4 As a result of the revised timing of the tendering process for the Aiming for Excellence (Mixed Care) Programme in Adult Social Care & Health Committee, it is likely that the anticipated 2012/13 capital expenditure of £2.0m will slip to 2013/14.

7.5 In Transport & Highways Committee, there is planned over-programming on Roads Maintenance and Renewals schemes. Although a corresponding overspend is currently forecast, the programme will be monitored closely throughout 2012/13 and it is anticipated that the expenditure forecast will reduce during the course of the year.

7.6 In Culture Committee, £0.7m slippage is anticipated against the Archives Building as the project has been revised to enable the new British Standards for Archives to be met. Also, minimal expenditure is expected against the National Water Sports Centre whilst the procurement process continues resulting in slippage of £1.4m.

7.7 In Policy Committee, slippage of £0.3m is anticipated on the Ways of Working Programme.

7.8 In Finance & Property Committee, an underspend of up to £0.2m is anticipated on sites previously identified in the Sun Volt programme, although options to use the remaining funding for further PV installations, subject to sufficiently high returns, are currently being explored. Although Property Acquisition and Disposal costs are expected to be incurred at the budgeted level of £0.5m, these are expected to be of a revenue nature and will therefore not be reported as Capital Programme expenditure.

7.9 Overall, actual capital expenditure to date is £47.7m, which amounts to 35.7% of the gross programme. This is below profiled spend (based on an average for the last five years) and suggests that slippage in the approved 2012/13 Capital Programme is likely.

7.10 Net acceleration of £1.3m of expenditure funded by capital allocations has been identified in departmental capital monitoring returns, offset by slippage/reduction in the Capital Programme of £0.9m of expenditure funded from other sources.

7.11 Based on profiles and previous years' figures, it is forecast that a further £24m of slippage/reductions will be identified before year end. The mix of funding sources in the revised 2012/13 Capital Programme, together with historic slippage patterns, suggests that around 45% of the forecast further scheme slippage/reductions will relate to borrowing, corresponding to a reduction in borrowing of £10.8m in 2012/13. These figures are best estimates based on latest information and will be subject to revision over the remaining periods of the year.

Financing the Approved Capital Programme

7.12 Table 4 summarises the financing of the overall approved Capital Programme for 2012/13.

Table 4 – Financing of the Approved Capital Programme for 2012/13

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	24,753	21,714	50	166	**46,683**
Adult Social Care & Health	3,994	1,973	0	173	**6,140**
Transport & Highways	13,095	26,016	0	744	**39,855**
Environment & Sustainability	3,943	550	1050	0	**5,543**
Community Safety	300	0	0	0	**300**
Culture	5,417	1,465	7	1,200	**8,089**
Policy	8,944	0	0	0	**8,944**
Finance & Property	10,949	0	0	1,623	**12,572**
Personnel	0	0	0	70	**70**
Contingency	5,451	0	0	0	**5,451**
TOTAL	**76,846**	**51,718**	**1,107**	**3,976**	**133,647**

7.13 It is anticipated that borrowing in 2012/13 will increase by £3.2m from the forecast in the Budget Report 2012/13 (Council 23/02/12). This increase is a consequence of:

- £13.6m of net slippage of expenditure from 2011/12 to 2012/13 and financing adjustments funded by capital allocations; and
- net acceleration in 2012/13 of £2.2m of expenditure funded by capital allocations, identified in departmental capital monitoring returns;

offset by:

- variations, including re-phasing of schemes, resulting in a net reduction of £1.8m of capital expenditure funded by capital allocations; and
- approximately £10.8m of forecast further slippage/reductions funded by capital allocations.

7.14 Taking into account the adjustments set out above, the revised projection of borrowing for 2012/13 is £67.3m, which is £3.2m higher than the Budget Report 2012/13 figure of £64.1m.

Prudential Indicator Monitoring

7.15 Performance against the Council's Prudential Indicators is regularly monitored and, to date during 2012/13, external debt has remained within both the Operational Boundary and the Authorised Limit.

Capital Receipts Monitoring

7.16 Anticipated capital receipts are regularly reviewed. Forecasts are based on estimated sales values of identified properties and prudently assume 30% slippage of future receipts to the following year. They also include an estimated £50k of vehicle receipts.

7.17 The forecasts for 2012/13 and 2013/14 are significantly below the budgeted figures incorporated in the Budget Report 2012/13. This is due mainly to slippage and reduced estimates of some particularly large receipts for development sites. Expert advice is taken on such sites and decisions to delay sales take into account the Council's objective of maximising the value of receipts.

7.18 The number and size of large anticipated receipts increase the risk that income from property sales will be even lower than the revised forecasts over the next three years. Although the revised forecasts incorporate 30% year-to-year slippage, a delay in receiving just two or three large receipts could result in sales being lower than these forecasts. For example, a scenario in which £7m of capital receipts are realised in 2012/13 and £12m of capital receipts are realised in 2013/14 would not be considered unlikely. This would represent a reduction of £30m from the budgeted level of capital receipts for 2012-14.

7.19 Council policy (Budget Report 2012/13) is to set capital receipts against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. The lower than anticipated level of 2012/13 capital receipts is expected to result in a £0.3m increase in the amount of MRP to be set aside from revenue in 2012/13. It will also tend to increase interest payable, although the actual level of this will also depend on a range of other factors. The revenue impact of capital receipts slippage will be offset by any slippage in capital expenditure funded by borrowing.

7.20 As highlighted in the Budget Report 2012/13, the Council's medium-term forecasts were predicated on an ambitious level of capital receipts. Given current concerns about further revenue reductions, it is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme. The implication of the significantly reduced capital receipt forecasts for 2012/13 and 2013/14 reiterate the importance of the Council keeping tight control of capital expenditure.

8 Balance Sheet

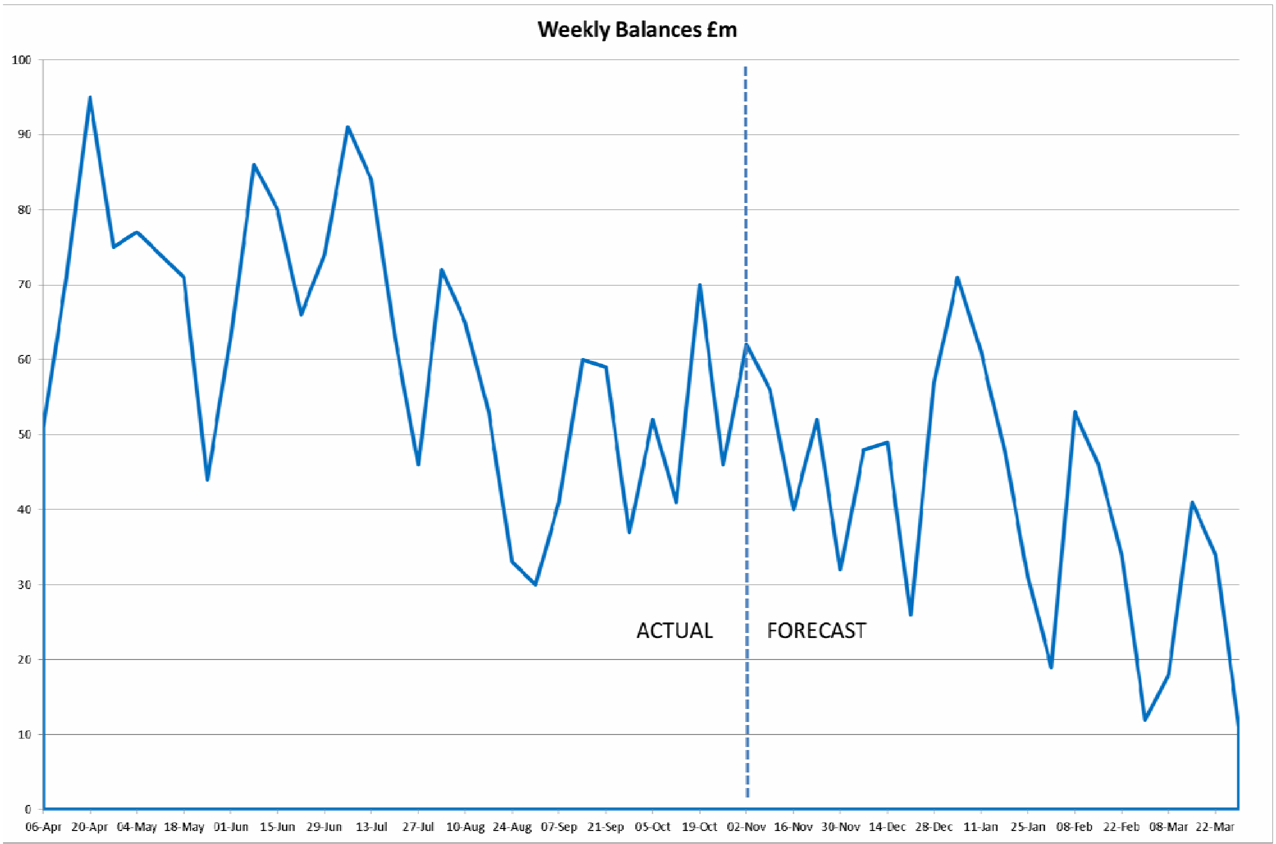
Impact on County Fund Balances

8.1 The Final Accounts Report for 2011/12 showed that County Fund Balances stood at £29.7m at 31/3/12. The 2012/13 budget planned to contribute £4.9m to balances which would increase County Fund Balances to £34.6m, around 7% of the Budget Requirement.

8.2 Latest forecasts include the planned contribution of £4.9m, which could be increased further depending on the predicted in-year savings. This may be used in the short term to balance the Council's budget from 2013/14 onwards, as the Council faces further financial challenges.

Cash Flow

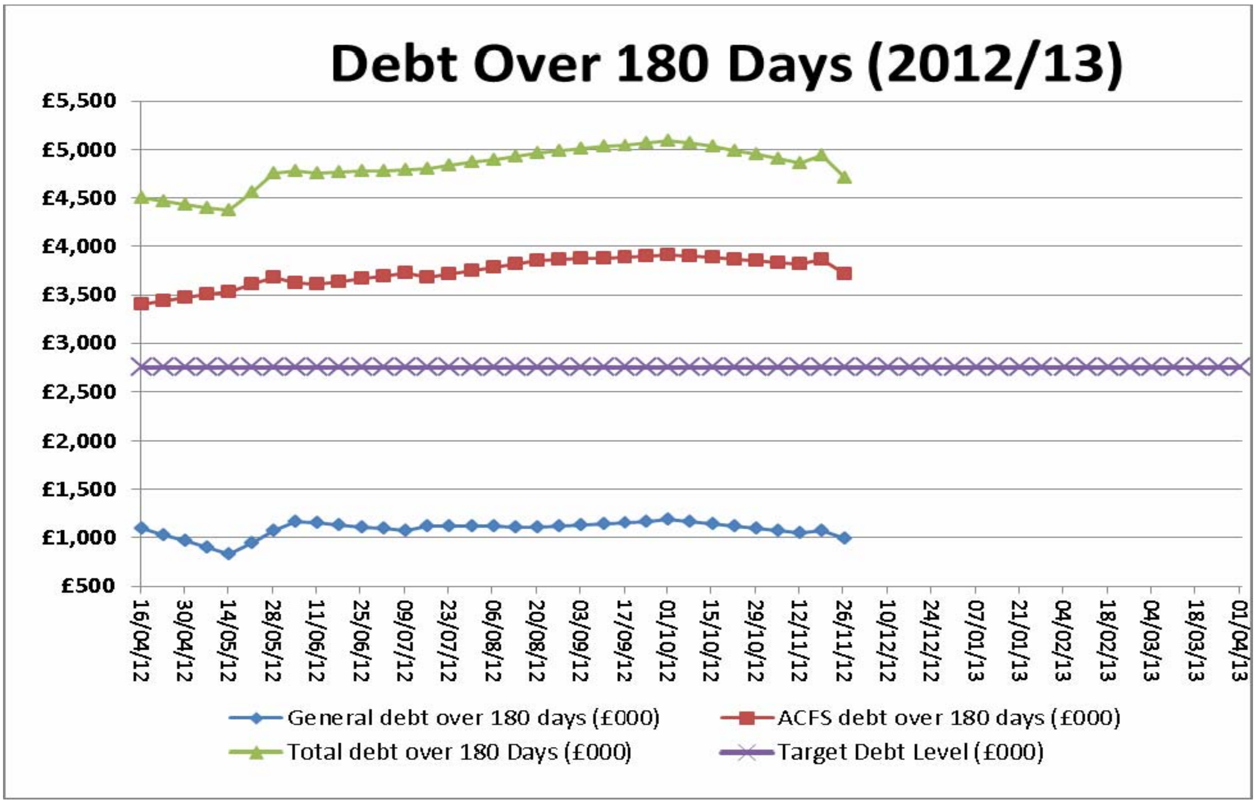
8.3 Cash flow is kept under constant monitoring by the Investment Manager with the overall position reviewed quarterly by the Treasury Management Group. The following graph shows the actual cash balances to date and the forecasts for the remainder of the year. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. However, cash outflows, in particular capital expenditure, tend to occur later in the year. The peaks and troughs in the graph reflect the temporary investment and repayment of surplus cash balances.



8.4 Current forecasts therefore suggest that resources are being managed effectively and cash flow shortfalls will be avoided. This is in line with the Treasury Management Strategy approved at full Council on 23rd February 2012.

Debtors

8.5 The Council monitors outstanding debt with particular attention to longer term debt, defined as debts overdue by 180 days or more. As can be seen in the graph blow, long term debt had reduced to £4.7m at 26th November 2012, a reduction of over 7% since the previous monitoring report.



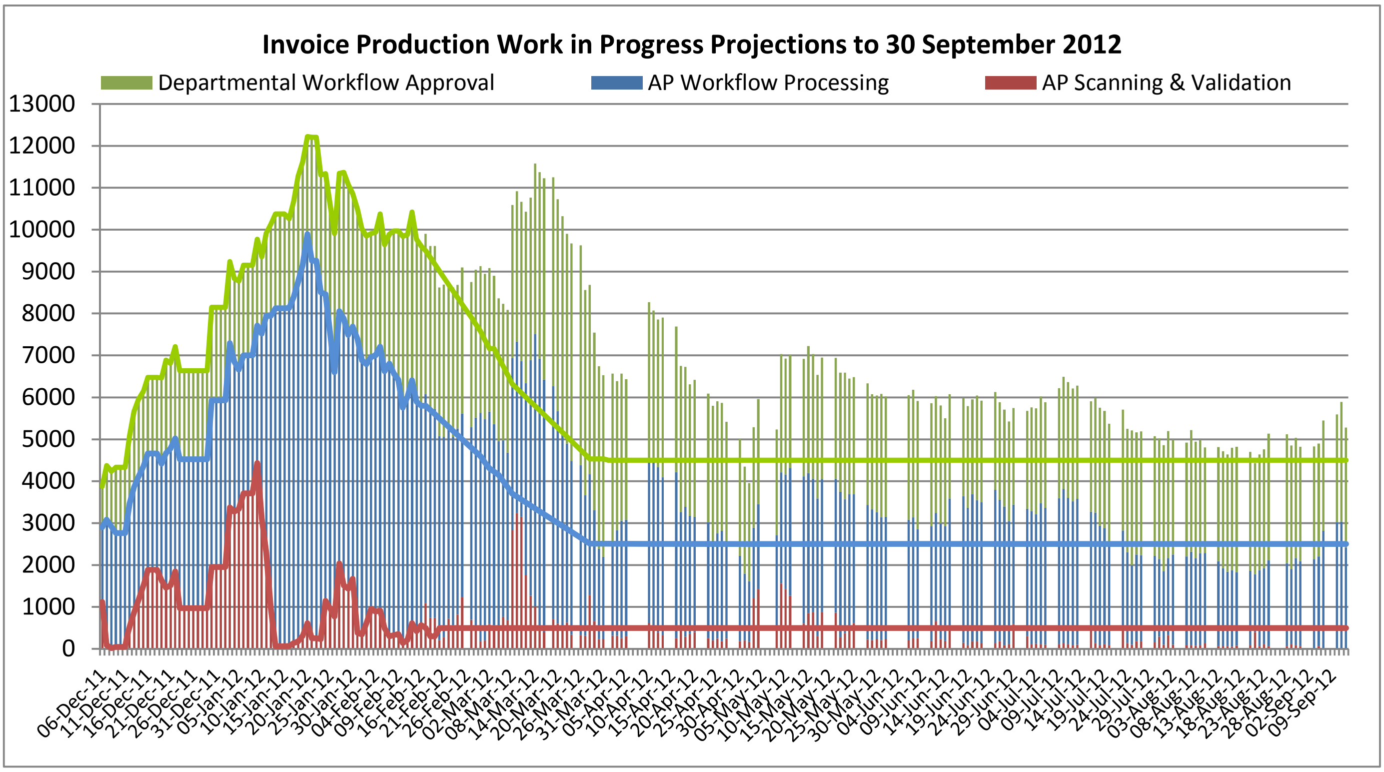
8.6 The improvements are due to several factors. When BMS first went live, manual dunning was undertaken by the Income and Credit Control Section for ACFS debt. This was due to a system issue with the BMS disputes module not functioning correctly. This issue has now been resolved and the normal cycle of monthly dunning is now in place and actively being monitored.

8.7 The write off process was unavailable until July 2012 as this is linked to the BMS disputes module. Write offs of more than £200,000 have now been processed.

8.8 A project to review the end to end business processes for the recovery of non statutory debt has commenced. The objectives of the project are to develop and implement a common end to end process, improve the invoicing process and develop and implement a debt recovery policy including corporate invoicing standards and payment channel strategy. The lessons learned from this project will be used to support the review of other debt types.

Creditors

8.9 The Accounts Payable function has recently transferred to the Business Support Centre. As such, activity is being reviewed and performance data is being developed to improve the management information that is available. Existing analysis of the volume of transactions in the system, illustrating the net movement, is presented in the graph below.



9 Future developments & strategic issues

9.1 The implementation of the Business Management System has presented challenges to financial operations within the Council. Issues with the Budgeting and Forecasting process are currently being addressed through both system improvements and training. The system will be re-launched for December 2012 and allow managers to input forecasts directly into the system for period 8 budget monitoring.

9.2 A number of major initiatives to improve financial awareness and accountability across the Authority are also progressing. The first phase of the restructure of the finance function has now completed with all Group and Team Managers now in post. In addition, financial training to managers and the Base Budget Review are also taking place.

9.3 The 2013/14 initial budget proposals are currently subject to public consultation and officers will update Members on funding pressures as central government announcements are made over the coming weeks.

Statutory and Policy Implications

10 This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

11.1 To note the current position regarding monitoring of revenue expenditure.

11.2 To note and approve, the use of contingency as reported in sections 4.16 and 4.17 respectively.

11.3 To note the recent performance of the Procurement team.

11.4 To note the current position regarding monitoring of capital expenditure.

11.5 To note that the level of borrowing is expected to remain within the Council's prudential limits.

Paul Simpson
Service Director – Finance & Procurement

For any enquiries about this report please contact:
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Senior Accountant – Accounting and Budgeting

Constitutional Comments (KK 05/12/12)
The proposals in this report are within the remit of the Finance & Property Committee
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Financial Comments (PM 05/12/12)
The financial implications are stated in the report.

Background Papers

Nil

Electoral Division(s) and Member(s) Affected

Not applicable