

14 July 2014**Agenda Item: 4****REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT
FINANCIAL MONITORING REPORT: PERIOD 2 2014/2015****Purpose of the Report**

1. To provide a summary of the revenue position of the County Council for the year to date with year-end forecasts.
2. To inform Members of progress against savings.
3. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
4. To request approval of proposed variations to the capital programme.
5. To inform Members of the Council's Balance Sheet transactions

Information and Advice**Background**

6. The Council approved the 2014/15 budget at its meeting on 27 February 2014. As with previous financial years, progress updates will be closely monitored and reported to both management and Committee on a monthly basis.

Summary Revenue Position

7. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. An overspend of £1.3m is currently predicted. In light of the Council's continuing financial challenges, the key message to effectively manage budgets and wherever possible deliver in-year savings is being reinforced, to meet this shortfall. This will avoid the use of contingency and the need to draw down funding from reserves, allowing funds to be available for future years.

Table 1 – Revenue Expenditure and Forecasts as at Period 2

Committee	Annual Budget £'000	Actual to Period 2 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
Children & Young People	154,144	15,054	154,180	36
Adult Social Care & Health	212,888	34,828	213,740	852
Transport & Highways	59,704	4,956	59,982	278
Environment & Sustainability	30,759	644	30,882	123
Community Safety	2,854	(70)	3,029	175
Culture	13,415	1,782	13,501	86
Policy	26,268	3,492	26,001	(267)
Finance & Property	27,857	2,142	27,790	(67)
Personnel	2,071	(346)	2,071	-
Economic Development	1,019	265	1,079	60
Public Health	-	(6,703)	-	-
Net Committee (under)/overspend	530,979	56,044	532,255	1,276
Central items	(10,924)	1,380	(10,924)	-
Schools Expenditure	38	(18,909)	38	-
Contribution to/(from) Traders	(330)	1,068	(330)	-
Forecast prior to use of reserves	519,763	39,583	521,039	1,276
Transfer to / (from) Corporate Reserves	(8,527)	-	(8,527)	-
Transfer to / (from) Departmental Reserves	(1,791)	-	(1,791)	-
Transfer to / (from) General Fund	(5,184)	-	(5,184)	-
Net County Council Budget Requirement	504,261	39,583	505,537	1,276

Committee and Central Items

8. The main variations that have been identified are explained in the following section.

Adult Social Care & Health (forecast £0.9m overspend)

9. The South Nottinghamshire Division is currently reporting a forecast overspend of £1.2m. The major variances across the division are as follows:

- Older Adults across Broxtowe, Gedling and Rushcliffe are reporting an overspend of £0.8m.
- Younger Adults across Broxtowe, Gedling and Rushcliffe are reporting an overspend of £0.4m.

The area primarily forecasting an overspend is Direct Payments. The forecast overspend includes an estimate of £1.7m for Transitions and Predicted Needs arising during the remainder of the year. This is difficult to estimate because of fluctuations in need and the profile of actual spend.

10. The North Nottinghamshire Division is currently reporting an underspend of £0.3m. This is due to the following major variances:

- Younger Adults across the division are reporting a combined underspend of £1.0m.
- Older Adults across the division are reporting an overspend of £0.7m, with significant pressures in Newark and Bassetlaw.

The forecast underspend includes an estimate of £3.3m for Transitions and Predicted Needs arising during the remainder of the year. This is difficult to estimate because of fluctuations in need and the profile of actual spend. Across the North, Direct Payments are currently forecast as £3.1m overspent, this is primarily offset by forecast underspends in Residential and Nursing Long Term Care and Supported Accommodation.

Transfer to / (from) reserves

11. This forecast includes the anticipated net use of £1.2 million of revenue grant reserves, which is £0.1 million higher than budget due to offsetting the overspend on Supporting People.

Environment & Sustainability (forecast £0.1m overspend)

12. The variance included in table 1 relates to Planning Policy and Development Management.

13. Expenditure to date on Waste is ahead of profile, which can be attributed to seasonally increased amounts of waste and uncertainty of savings envisaged from contract negotiations which are yet to be concluded.

Central Items (forecast in line with budget)

14. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and movements on reserves. To date, no variances have been identified against interest or grants although historically, these changes tend to materialise later in the year.

15. The Council's budget includes a contingency of £4.6m to cover redundancy costs, slippage of savings and unforeseen events. To date, one request has been approved, and no new requests have been submitted since the last monitoring report. Table 1 assumes that the remaining £4.5m will be used before year end as new requests are likely to emerge.

Progress with savings and risks to the forecast

16. Since 2010/11 the Council has delivered savings in excess of £110m. Given the continued financial challenge that the Council is facing, further savings proposals of £36m were approved at Council 27 February 2014 for delivery in 2014/15 (£81m in total over the medium term). Officers will continue to monitor the deliverability of individual schemes and targets as part of the budget monitoring process and reflect achievability in the forecast outturn. A full list of savings with current status is provided at Appendix A.

17. As at period 2 slippage amounting to £0.8m in 2014/15 has been identified across 3 of the high governance savings projects. The slippage on the Home Based Services savings has been partly offset by a carry forward to cover the dual running of the monitoring systems. The remaining shortfall on the community care savings for 2014/15 has been included within the year end forecast. An initial assessment has indicated £4m of savings proposals in future years on two high governance projects is also at risk and work is underway at looking at alternative solutions to address this shortfall.

18. In addition to the slippage identified on the high governance projects, there is also a risk to the Intermediate Care savings which were due to be delivered from October 2014, following an overspend in 2013/14. Whether or not these savings are achieved primarily depends on the outcome of ongoing discussions with the CCGs and County Health Partnerships regarding a revised service offer.

Capital Programme

19. Table 2 summarises changes in the gross Capital Programme for 2014/15 since approval of the original programme in the Budget Report (Council 27/02/14):

Table 2 – Revised Capital Programme for 2014/15

	2014/15	
	£000	£000
Approved per Council (Budget Report 2014/15)		112,593
Variations funded from County Council Allocations:		
Net slippage from 2013/14 and financing adjustments	17,761	
		17,761
Variations funded from other sources:		
Net slippage from 2013/14 and financing adjustments	6,800	
Approved variations to February Council Report	-	
		6,800
Revised Gross Capital Programme		137,154

Capital Monitoring

20. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 2.

Table 3 – Capital Expenditure and Forecasts as at Period 2

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	54,440	5,529	53,102	(1,338)
Adult Social Care & Health	6,006	7	6,006	-
Transport & Highways	42,476	5,616	42,476	-
Environment & Sustainability	1,973	50	1,973	-
Community Safety	4	-	4	-
Culture	6,428	177	6,428	-
Policy	4,502	13	4,591	89
Finance & Property	11,770	989	11,770	-
Personnel	1,878	207	1,878	-
Economic Development	5,793	-	5,793	-
Contingency	1,884	-	1,884	-
Total	137,154	12,588	135,905	(1,249)

21. In Children and Young People Committee, a forecast underspend totalling £1.4m has been identified which is a result of £0.6m slippage against the Beardall Street project as the budget is re-aligned to reflect the phased increase in school numbers. Further slippage of £0.8m has been identified against the Edwinstowe Respite Centre project as the works have been re-phased to reflect a later than expected start date.

It is proposed that the Children and Young People's capital programme is varied to reflect the identified slippage.

22. In the Transport and Highways Committee, the Authority has received an additional capital grant, totalling £0.6m, from the Department for Transport to help repair damage to the local road network caused by severe weather conditions.

It is proposed that the Transport and Highways capital programme is varied to reflect the additional DfT capital grant.

23. In the Finance and Property Committee, it is proposed that the Building Works capital budget makes a £1.0m contribution to fund condition costs associated with the Schools Capital Refurbishment Programme.

It is proposed that the Finance and Property capital programme and Children and Young People's capital programme are varied to reflect the identified contribution.

24. In the Policy Committee, a requirement for the acceleration of £0.1m has been identified against the Customer Services Centre programme. This funding is required to fund investment in channel shift technology and other IT initiatives.

It is proposed that the Policy Committee capital programme is varied to reflect the identified acceleration.

Financing the Approved Capital Programme

25. Table 4 summarises the financing of the overall approved Capital Programme for 2014/15.

Table 4 – Financing of the Approved Capital Programme for 2014/15

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	20,134	20,743	-	13,563	54,440
Adult Social Care & Health	5,967	(6)	45	-	6,006
Transport & Highways	14,743	24,986	-	2,747	42,476
Environment & Sustainability	1,020	453	500	-	1,973
Community Safety	4	-	-	-	4
Culture	3,317	530	-	2,581	6,428
Policy	3,002	-	-	1,500	4,502
Finance & Property	10,119	50	-	1,601	11,770
Personnel	-	1,706	-	172	1,878
Economic Development	1,000	4,793	-	-	5,793
Contingency	1,884	-	-	-	1,884
Total	61,190	53,255	545	22,164	137,154

26. It is anticipated that borrowing in 2014/15 will increase by £16.5m from the forecast in the Budget Report 2014/15 (Council 27/02/2014). This increase is primarily a consequence of:

- £17.8m of net slippage from 2013/14 to 2014/15 and financing adjustments funded by capital allocations.
- Net slippage in 2014/15 of £1.3m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

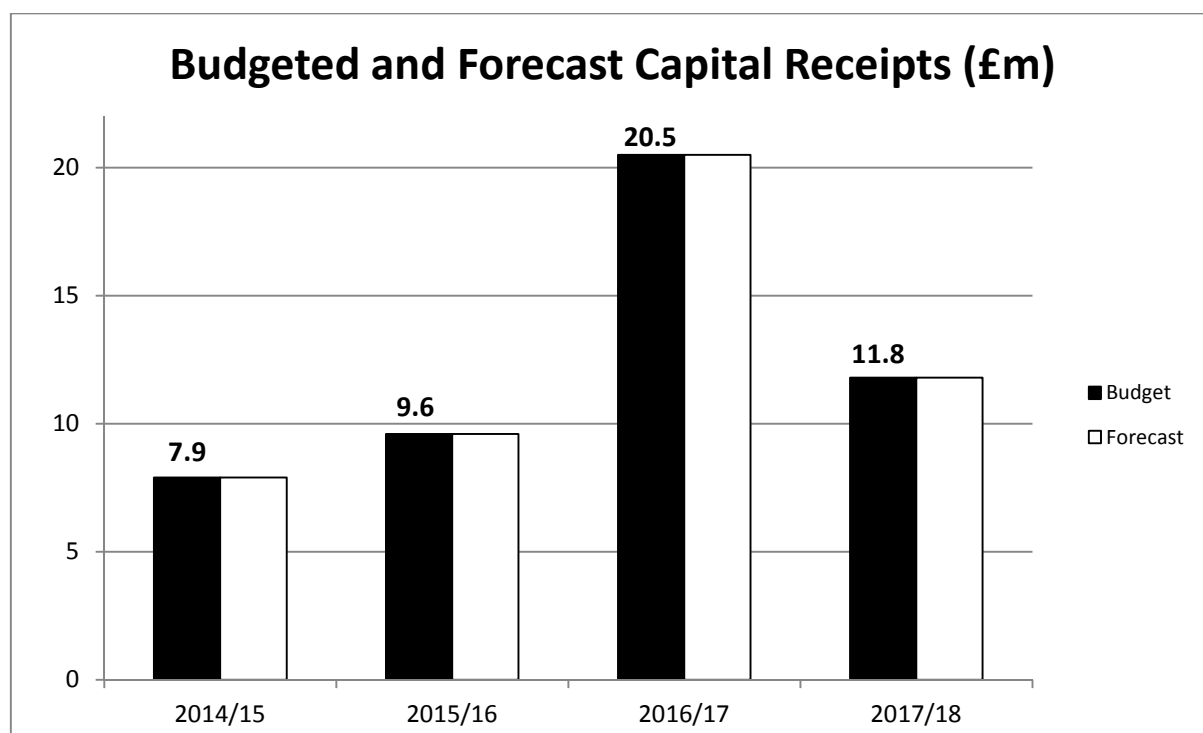
Prudential Indicator Monitoring

27. Performance against the Council's Prudential Indicators is regularly monitored to ensure that external debt remains within both the Operational Boundary and the Authorised Limit.

Capital Receipts Monitoring

28. Anticipated capital receipts are regularly reviewed. Forecasts are currently based on estimated sales values of identified properties and prudently assume a slippage factor based upon a review of risk associated with each property. They also include an estimated £50,000 of vehicle receipts.

29. The chart below shows the budgeted and forecast capital receipts for the four years to 2017/18.



30. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2014/15 (Council 27/02/2014). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.
31. 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 an element of 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 £4m of capital receipts are realised in 2014/15 and £5m of capital receipts are realised in 2015/16 would not be considered unlikely. This would represent a reduction of £8.5m from the budgeted level of capital receipts for 2014/16.
32. Current Council policy (Budget Report 2014/15) 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.
33. As highlighted in the Budget Report 2014/15, the Council’s medium-term forecasts were predicated on an ambitious level of capital receipts. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

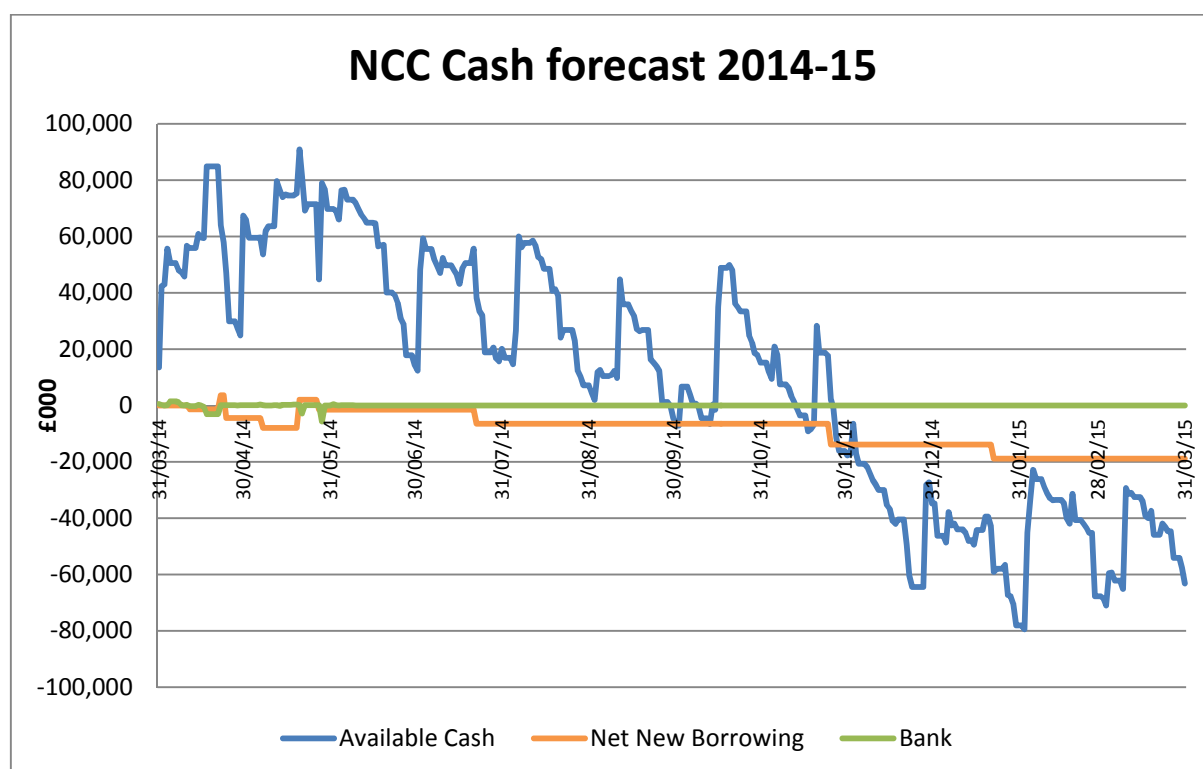
Balance Sheet

General Fund Balance

34. Members approved the 2013/14 closing General Fund Balance of £29.1m at Council 26 June 2014. The 2014/15 budget approves utilisation of £5.2m of balances which will result in a closing balance of £23.9m at the end of the current financial year. This is 4.7% of the budget requirement.

Treasury Management

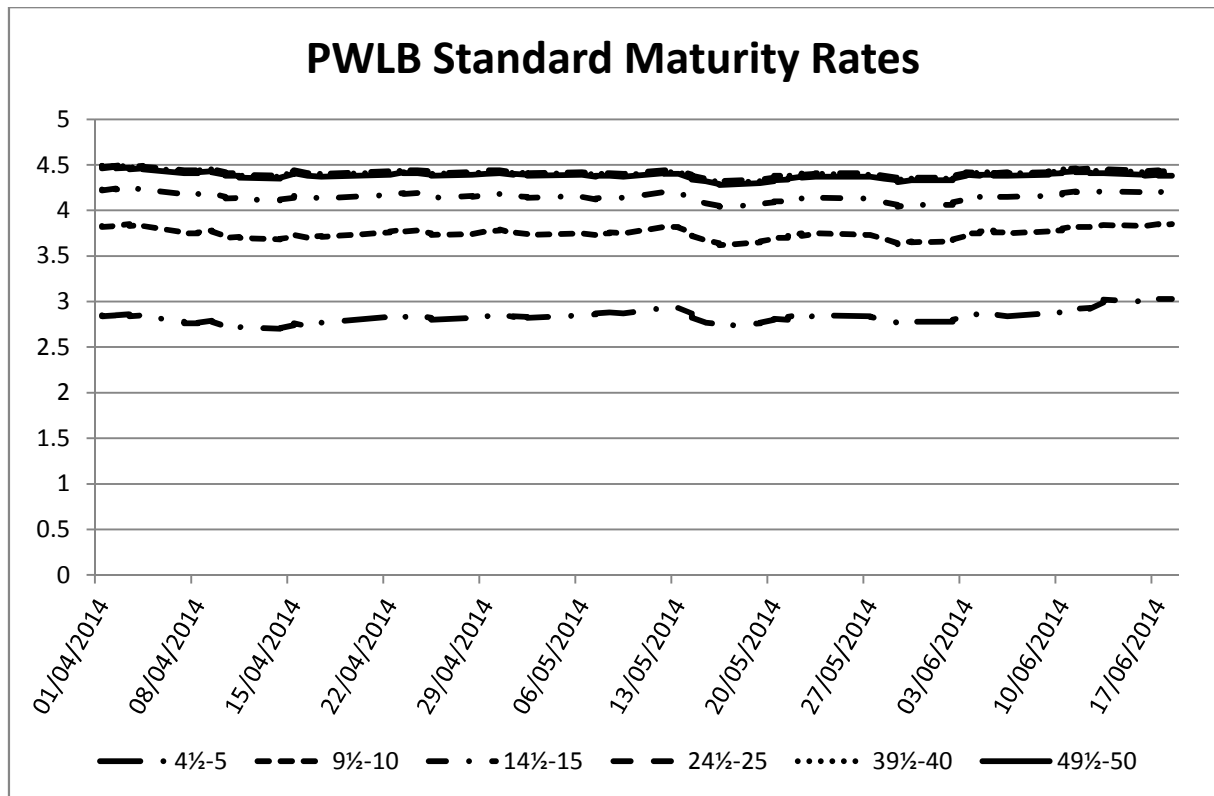
35. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The following chart shows the actual cash flow position to date and forecasts for the remainder of the year. Cash inflows are typically higher 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 increase later in the year.



36. The chart above gives the following information:

Bank balance	Daily cleared balance across the pooled bank accounts.
Available cash	Surplus cash (invested in call accounts or money market funds) or a shortfall of cash indicating a need to borrow.
Net new borrowing	New loans raised during the year net of principal repayments on existing borrowing.

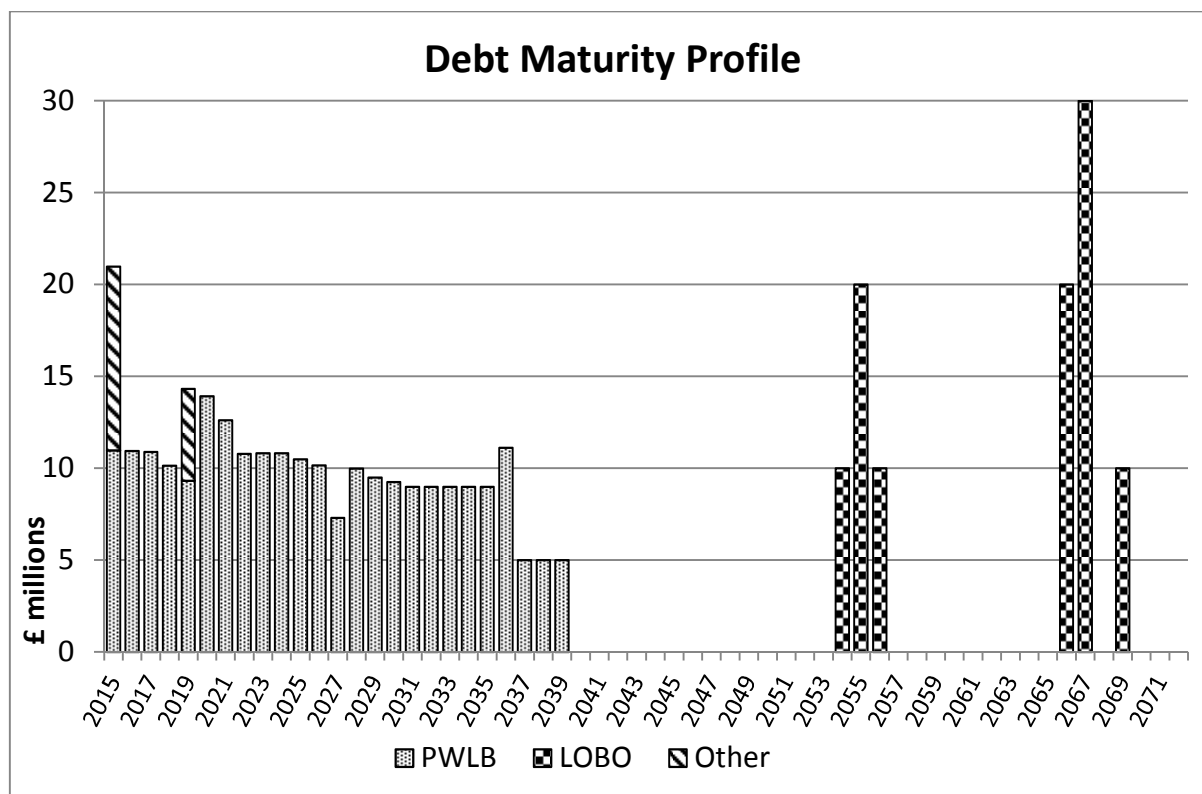
37. Daily cash management aims for a nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. The bank balance shows two periods with noticeable overdrawn balances resulting from non-receipt of precept. The available cash shows that sufficient cash balances will be maintained for much of the year but that external borrowing will be required towards the end of the year. Two new loans of £5m each were taken from PWLB in May and these are reflected in the net new borrowing shown above. These loans were taken as longer term PWLB rates dipped towards 4%. The chart below shows the movement in standard PWLB maturity rates during 2014/15.



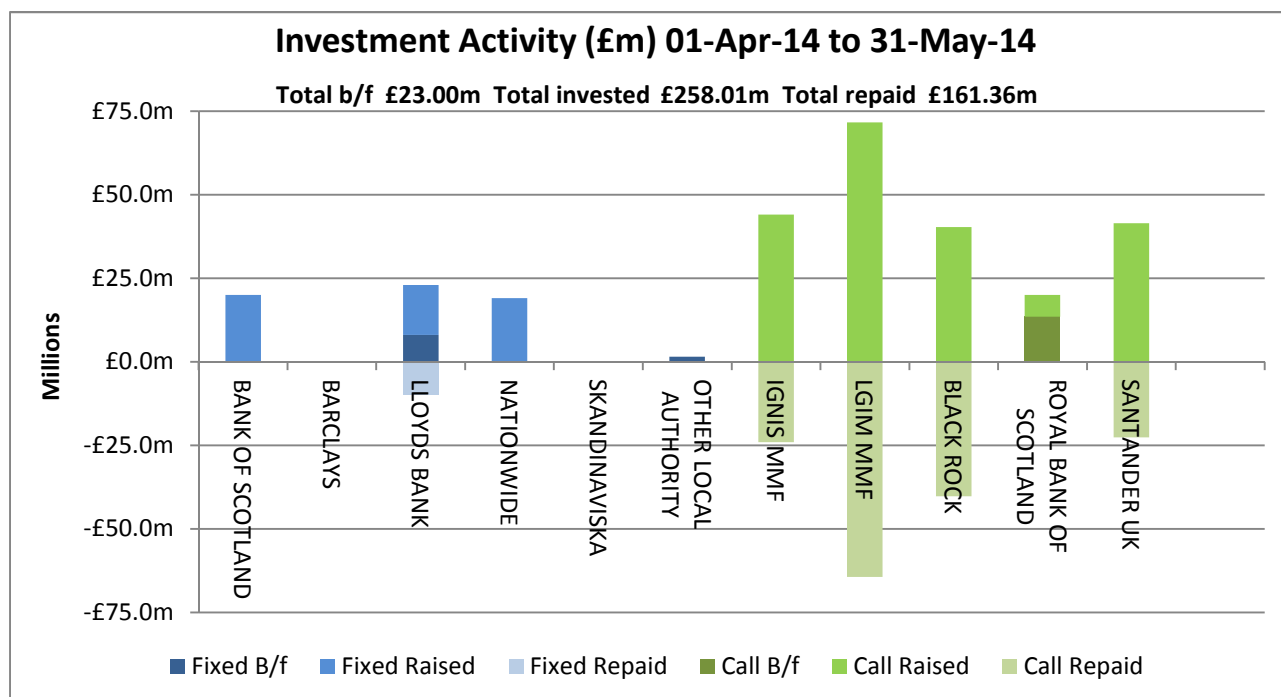
38. The Treasury Management Strategy for 2014/15 identified a need for additional borrowing of £67m to fund the capital programme, replenish internal balances and to replace maturing debt. Borrowing decisions will take account of a number of factors including:

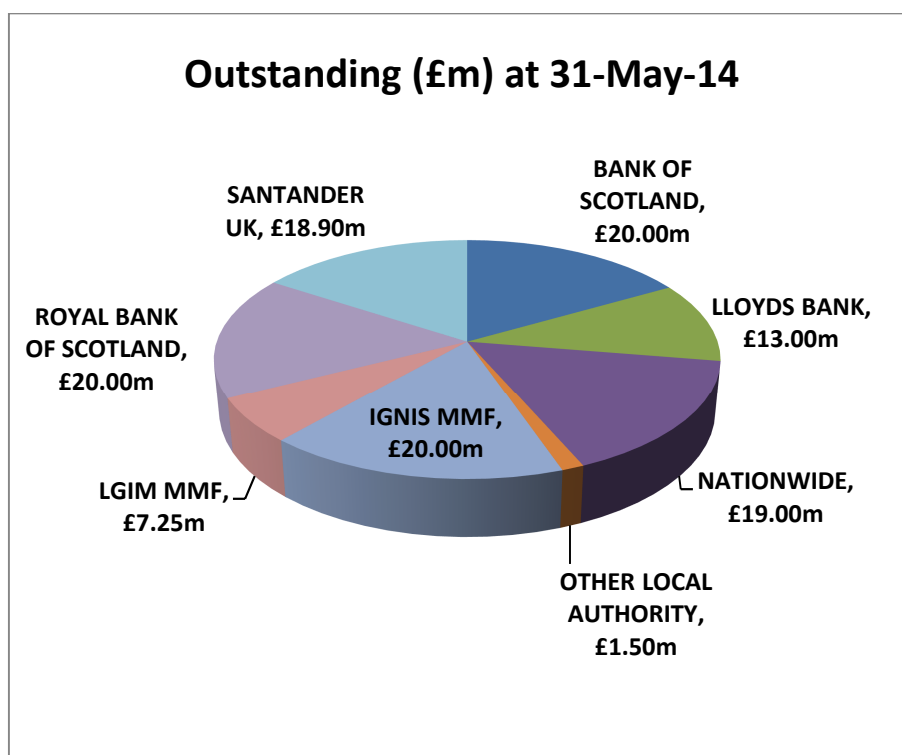
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators

39. The maturity profile of the Council's debt portfolio is shown in the chart below. The PWLB loans are reasonably well distributed and have a maximum duration of 24 years. Longer-term borrowing (maturities up to 55 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). The 'other' loans denote more recent borrowing from the money markets where the main objective was to minimise interest costs. Refinancing of these loans has been factored into the Treasury Management Strategy.



40. The investment activity for 2014/15 to the end of May 2014 is summarised in the charts below. Outstanding investment balances totalled £23.0m at the start of the year and £119.7m at the end of the period. This increase reflects the forecast cash flow profile for the year. In light of this forecast profile, a number of fixed term deals have been placed for periods up to 190 days to take advantage of the higher rates available.





Debt Recovery Performance

41. The overall debt has decreased by £4.4m during May as a result of some high value Non Statutory invoices being cleared. This has been achieved alongside an increase in the value of invoices raised in May of £10.4m. The Council has received £528 from High Court Cases, £275 from Third Party Debt Collection Agencies, and £268 as a result of Small Claims Court action.
42. There is the possibility of the Non Statutory debt over 6 months being reduced by £107,000 due to Payments received from the Liquidators of the Kirkby Trust, and HR Pay crediting the 3rd party claim invoices, and payment for an IT project by a School. Of the £21,181 written off, £17,294 was for ACFS.
43. There is a risk that £145,025 worth of Property debt will fall into the over 6 months debt by the next reporting period.

Table 5 - Invoices raised Period 2 2014/15

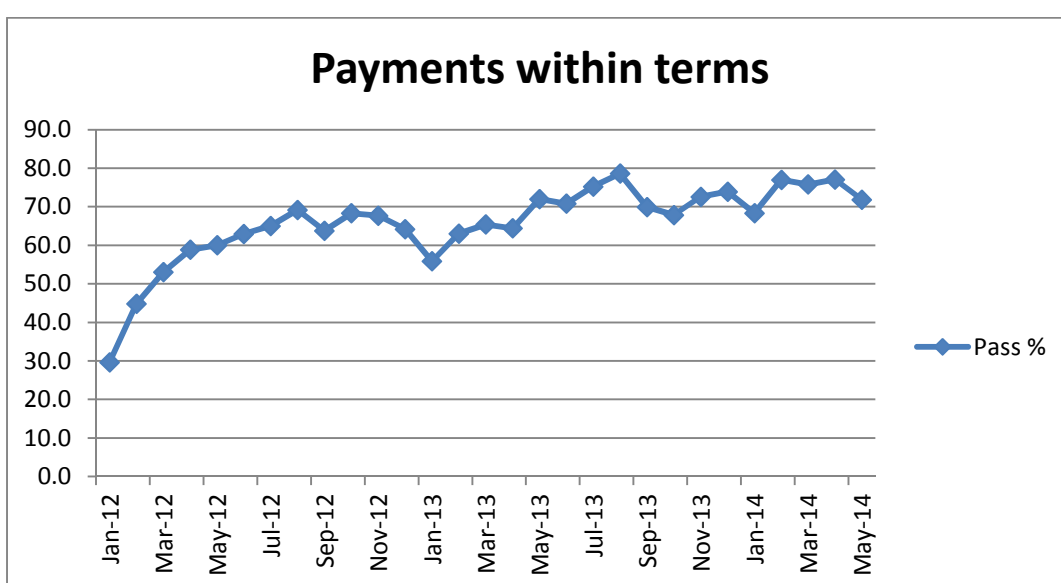
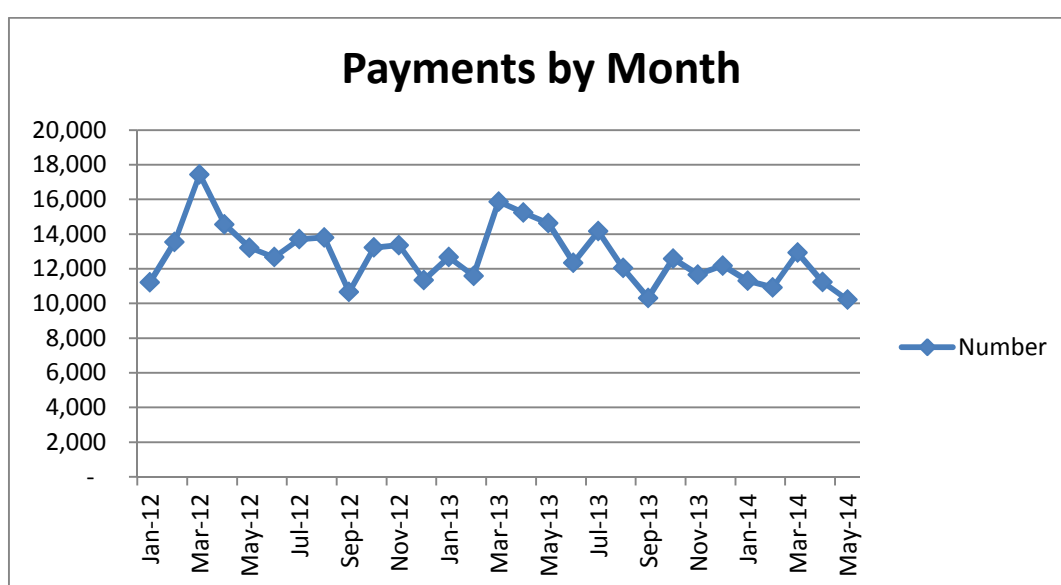
	Period 2	Year to date
Number	11,847	31,812
Value	£26,025,540	£41,585,852

Table 6- Debt Position

	Residential & Domiciliary Care	All other	Total
Total	£9,683,801	£11,627,705	£21,311,506
Over 6 months	£4,873,999	£655,875	£5,529,874
% over 6 months	50.3%	5.6%	25.9%

Accounts Payable (AP) Performance

44. The payment within terms figure for May is 71.9% of 10,213 invoices paid. This shows a small drop on April figures but remains above 70%.



45. A number of tasks are underway to sustain improved performance:-

- Corporate Procurement have let the Managed Service Provider (MSP) contract for Agency staff. Agency staff invoices represent around 10% of the total invoices processed by AP staff and include suppliers with the largest number of failures. AP staff are working with the project team to develop the new process for ordering and paying for Agency staff.
- AP / Corporate Procurement have finalised arrangement for issuing short term exemption numbers. AP have communicated numbers to business areas and suppliers. This will improve the time taken to pay invoices whilst a review is undertaken to determine the best procurement route for these suppliers.
- AP are continuing to work with specific business areas / suppliers who submit late invoices to attempt to identify the reasons and improve the processes for future invoices.
- A Lean+ review is being undertaken for the Council's Procure to Pay (P2P) process. This will enable best practice to be shared across Departments, standardise the P2P process and reduce the scope for errors and delays.

Statutory and Policy Implications

46. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) To note the revenue budget expenditure to date and year end forecasts
- 2) To note the progress with savings
- 3) To note the Capital Programme expenditure to date and year end forecasts
- 4) To approve the recommended variations to the Capital Programme
- 5) To note the Council's Balance Sheet transactions

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For any enquiries about this report please contact:

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Constitutional Comments

47. The proposals in this report are within the remit of Finance and Property Committee.

Financial Comments (PM 20/06/2014)

48. The financial implications are stated within the report itself.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None'

Electoral Division(s) and Member(s) Affected

- 'All'