Nottinghamshire County Council

Report to Cabinet

14 March 2012

Agenda Item: 14

REPORT OF THE CABINET MEMBER FOR FINANCE AND PROPERTY

FINANCIAL MONITORING REPORT – PERIOD 9 2011/12

Purpose of the Report

1.0 To provide Cabinet with a summary of the financial position of the County Council for the first nine months of the 2011/12 financial year, including year end forecasts.

1.1 To seek Cabinet approval for use of contingency and Grant Aid funding.

Information and Advice

2. Background

2.1 The figures in this report are the third quarter forecast and follow the figures reported in November. This is the first budget monitoring exercise under the Council's new Business Management System (BMS).

3. Summary Financial Position

3.1 Table one below sets out the summary revenue position of the County Council. Section 4 of this report shows the analysis of the variances by Portfolio:

Table 1 – Summary Financial Position

Period 6 Variance £'000	Portfolio	Annual Budget £'000	Forecast Actual £'000	Period 9 Variance £'000
4,724	Children & Young People	168,323	164,302	(4,021)
(1,948)	Adult Social Care & Health	216,099	212,177	(3,922)
756	Transport & Highways	56,805	58,069	1,264
(191)	Environment & Sustainability	27,802	27,069	(733)
(264)	Community Safety	4,485	4,161	(324)
191	Culture & Community	15,131	15,262	131
0	Leader	7,183	7,074	(109)
2,000	Deputy Leader	15,506	14,087	(1,419)
(735)	Finance & Property	30,493	29,936	(557)
0	Personnel & Performance	5,828	5,759	(69)
4,533	**Net Portfolio (under)/overspend**	547,655	537,896	(9,759)
(7,883)	Corporate Budgeting	(35,661)	(29,504)	6,157
(3,350)	**Forecast prior to use of reserves**	**511,994**	**508,392**	**(3,602)**
	Transfer to / (from) reserves	(269)	2,130	2,399
	Transfer to / (from) General Fund	(5,100)	(3,897)	1,203

(3,350)	**Net County Council**	**506,625**	**506,625**	**0**

3.2 The Portfolios are currently forecasting a total underspend of £9.76m. However, the full impact of redundancies has been reviewed and it is expected that the cost will exceed £20m in comparison to the £10m budget. The £20m includes the net costs incurred this financial year and £7.2m in respect of 2012/13 which must be included in the accounts for this financial year. The impact of this has been included against Corporate Budgeting in the table above and is the reason for the overspend on this line.

3.3 The Improvement Programme are forecasting an underspend of £3.4m and it is proposed to transfer this to the Improvement Programme Reserve to ensure funding is available to allow these schemes to complete in 2012/13. This is the primary reason for the increase in the Transfer to Reserves.

3.4 The latest forecasts indicate that £3.897m of General Fund balances will be required this year. Any increase in the level of underspends will result in a further reduction in the transfer from General Fund balances against the £5.1m that has been budgeted for.

4. Portfolios & Corporate Items

The major Year End Forecast variations are explained below:

Children and Young People's Services (forecast £4,021k net underspend)

4.1 The primary variance is within the Youth Families and Culture Division and is due to vacancy savings within the Early Years and Early Intervention Service, together with savings associated with the move from Mansfield Business Centre. In addition, a reduced number of trainees are resulting in an anticipated underspend against the budget for early years training and savings on commissioning services relating to the children's centres have also been identified.

4.2 The remaining underspend relates to reduced expenditure for home to school transport and vacancy savings across the portfolio.

Adult Social Care & Health (forecast £3,922k net underspend)

4.3 The variance is made up of underspends within Learning Disability Community Care and increased income generated from the Fairer Contribution Policy.

Transport & Highways (forecast £1,264k net overspend)

4.4 As previously reported, street lighting energy costs are higher than anticipated as the savings on rates that had been envisaged, have not been achieved. One off costs relating to previous year adjustments and a slight delay in the switch off programme are also contributing factors.

4.5 Overspends within Travel and Transport Services have also been identified, namely on Concessionary Fares due to increased use of the service. A budget pressure has been submitted for 2012/13 onwards.

Environment and Sustainability (forecast £733k net underspend)

4.6 Small underspends across the portfolio have been identified to offset overspends elsewhere within the department, namely those reported in Transport & Highways above.

Deputy Leader (forecast £1,419k net underspend)

4.7 As previously reported, a shortfall of £2m against the procurement savings target is expected due to efforts being focussed in delivering savings across the portfolios.

4.8 However, the Improvement Programme is anticipating an underspend due to slippage in the Ways of Working programme of £1.5m, and a further £1.9m between Procurement, Trading Services Review and Organisational Design. A transfer to the Improvement Programme Reserve is proposed to ensure funding is available to allow these schemes to complete in 2012/13. This entry is included in table 1 against 'Transfer to reserves'.

4.9 Cabinet are asked to approve a Grant Aid payment of £94,500. On 4 March 2011 a cross-party member Grant Aid Members Group met and considered a Grant Aid application from the Nottingham Playhouse. The Group advised the Deputy Leader that they considered the Grant Aid should be awarded and the Deputy Leader supported this. Due to the reorganisation and a transfer of responsibilities between Portfolios, the funding to the Playhouse was not included in the 9 March 2011 Grant Aid Cabinet Report. As a result, Cabinet approval is now sought for £94,500 from the 2011/12 Grant Aid Budget within the Deputy Leader's Portfolio.

Finance and Property (forecast £557k net underspend)

4.10 The variance is mainly due to staffing savings in Strategic Services and Finance. In addition there are savings within the Property Division due to lower facilities management and cleaning costs.

4.11 Within IT, an opportunity has arisen to purchase replacement equipment via e-procurement which will generate significant savings for the authority. However, the timing of the transaction will now fall in the next financial year. It is therefore intended to make a contribution to the IT Replacement Reserve of £600,000 which will be drawn upon in 2013/14 when the equipment is received. Cabinet are asked to note this decision.

Corporate Budgeting (forecast £6,157k net overspend)

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

4.13 As previously reported, there is a net reduction in interest payable due to the phasing of the capital programme delaying the need to undertake additional borrowing.

4.14 The 2011/12 contingency was set at £25.6m, of which £5m was earmarked for Children's Social Care and this has now been transferred to the Portfolio. A further £4.1m was earmarked for Adults Social Care & Health expenditure and this will be transferred shortly as it relates to Department of Health grant income which already sits within the portfolio.

4.15 It is expected that the total costs associated with terminating employments will exceed £20m and the total cost of redundancies are included within Corporate Budgeting. The £20m includes the net costs incurred this financial year and £7.2m in respect of 2012/13 which must be included in the accounts for this financial year. The redundancy costs will be funded from underspends in the Portfolios and the redundancy contingency.

4.16 Of the general contingency, requests totalling £367,000 have been approved to date, and a further request has been submitted for which Cabinet approval is sought. This relates to a one-off payment of £75,000 for the Nottinghamshire Citizens Advice Bureau in recognition of the service acquiring a key role in the delivery of consumer advice from the Office of Fair Trading.

4.17 The level of Government Grant received centrally is greater than budget, due to the receipt of Local Services Support Grant (LSSG) of £0.7m greater than anticipated.

5. Progress with savings & risks to the forecast

5.1 Monitoring of savings projects indicates that Portfolios are achieving spending reductions during the current year, with 93% of the savings projects either complete or on target.

5.2 The focus on delivery of the targets must be maintained to ensure the savings plans are delivered in full.

6. Capital Programme

Approved Capital Programme

6.1 The following table summarises changes in the gross Capital Programme for 2011/12 since approval of the original programme in the budget report (24/02/11):

	2011/12 £000	£000
Approved per Council (Budget Book 2011/12)		**113,360**
Variations funded from County Council Allocations:		
Net slippage from 2010/11 and financing adjustments	23,131	
Variations noted at Cabinet 09/11/11	(4,607)	
Ways of Working Re-phasing (Council 03/11/11)	(1,935)	
Sun Volt Programme (Cabinet 07/12/12)	800	
Day Services Modernisation Re-phasing (Cabinet 11/01/12)	(1,629)	
Business Management System (Council 23/02/12)	1,409	
Hucknall Town Centre Re-phasing (Council 23/02/12)	(75)	
Mansfield Young People's Centre Underspend	(155)	
Worksop Library Underspend	(400)	
Contingency (previously known as Anticipated Future Schemes)	(5,923)	
Other approved variations (Finance & Property Portfolio)	(246)	
Funding Adjustments (to defer borrowing)	(14,207)	
Re-phasing/Slippage from 2011/12 to future years	(7,613)	
		(11,450)
Variations funded from other sources:		
Net slippage from 2010/11 and financing adjustments	6,269	
Variations noted at Cabinet 09/11/11	2,043	
Day Services Modernisation Re-phasing (Cabinet 11/01/12)	(175)	
Hucknall Town Centre Re-phasing (Council 23/02/12)	(435)	
Other approved variations (Finance & Property Portfolio)	(41)	
Funding Adjustments (to defer borrowing)	14,207	
Re-phasing/Slippage from 2011/12 to future years	(17,221)	
		4,647
Revised gross Capital Programme		**106,557**

Capital Monitoring

6.2 The table below shows actual capital expenditure to date against the forecast outturn at period 9.

Portfolio	Revised Capital Programme £'000	Actual Expenditure to Period 9 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	32,504	15,948	32,504	0
Adult Social Care & Health	2,089	872	2,089	0
Transport & Highways	42,179	19,447	42,460	281
Environment & Sustainability	5,747	2,147	5,362	(385)
Culture & Community	4,675	2,635	4,675	0
Deputy Leader	5,272	911	4,685	(587)
Finance & Property	13,204	6,592	12,550	(654)
Personnel & Performance	840	340	840	0
Contingency	47	0	0	(47)
TOTAL	**106,557**	**48,892**	**105,165**	**(1,392)**

6.2.1 In the Transport & Highways Portfolio, acceleration of £2m on Highway Maintenance is planned to offset the likely in-year underspend on the Integrated Transport Measures (ITM) programme. Whilst slippage of £0.4m has been identified on the ITM programme, this may yet increase. Delays in the part night lighting project are largely responsible for the forecast slippage of £0.3m on Street Lighting. Slippage of £0.2m in the Flood Alleviation and Drainage budget is envisaged: although all funding for specific projects has been allocated and are expected to be delivered, a sum retained for emergencies has not, as yet, been required. There is anticipated slippage of £0.8m in Transport & Travel Services due to delays in vehicle procurement.

6.2.2 In the Environment & Sustainability Portfolio, slippage of £0.4m is anticipated on Local Improvement Schemes.

6.2.3 In the Deputy Leader Portfolio, there is anticipated slippage of £0.45m on the Ways of Working Programme and of £0.14m on Strategic Communications Initiatives.

6.2.4 In the Finance & Property Portfolio, the Building Works programme is reasonably well advanced, and fully committed, but slippage of about £0.2m is expected. Slippage of £0.25m in the Property Acquisition and Disposal programme is anticipated. Slippage to 2012/13 of £0.2m is expected on the Sun Volt programme due to planning and legal delays, but given the Government's recent statement on tariffs, the projects will still result in savings, despite the delays.

6.3 Overall, actual capital expenditure to the end of period 9 was £48.9m, which amounts to 45.9% of the gross programme. This is significantly below profiled spend up to period 9 (based on an average for the last five years) of 62.4% and suggests that there will again be significant slippage in the Capital Programme.

6.4 Net slippage/reduction of £2.8m of expenditure funded by capital allocations has been identified, in addition to slippage/reduction of £1.4m of expenditure funded from other sources.

6.5 Based on profiles and previous years' figures, it is forecast that a further £11m of slippage/reductions will be identified before year end. The mix of schemes and funding sources in the revised 2011/12 Capital Programme suggests that around 45% of the forecast further scheme slippage/reductions will relate to borrowing, yielding an additional reduction in borrowing of £5m in 2011/12. These figures are best estimates as at period 9 and will be subject to revision over the remaining periods of the year.

Financing the Approved Capital Programme

6.6 The following table summarises the financing of the overall approved Capital Programme for 2011/12.

Portfolio	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	2,815	29,119	182	388	**32,504**
Adult Social Care & Health	346	1,650	0	93	**2,089**
Transport & Highways	19,158	22,292	443	286	**42,179**
Environment & Sustainability	4,480	717	550	0	**5,747**
Culture & Community	4,202	246	3	224	**4,675**
Deputy Leader	5,272	0	0	0	**5,272**
Finance & Property	12,083	0	0	1,121	**13,204**
Personnel & Performance	0			840	**840**
Contingency	0	47	0	0	**47**
TOTAL	**48,356**	**54,071**	**1,178**	**2,952**	**106,557**

6.7 It is anticipated that borrowing in 2011/12 will decrease by £18.7m from the forecast in the Budget Book 2011/12. This decrease is a consequence of:

- variations, including re-phasing of schemes, resulting in a net reduction of £34.0m of capital expenditure funded by capital allocations
- net slippage/reduction in 2011/12 of £2.8m of expenditure funded by capital allocations, identified in departmental capital monitoring returns
- approximately £5.0m of forecast further slippage/reductions funded by capital allocations

offset by:

- £23.1m of net slippage of expenditure from 2010/11 to 2011/12 and financing adjustments funded by capital allocations.

6.8 Taking into account the adjustments set out above, the revised projection of borrowing for 2011/12 is £40.6m, which is £18.7m lower than the Budget Book 2011/12 figure of £59.3m.

7 Balance Sheet

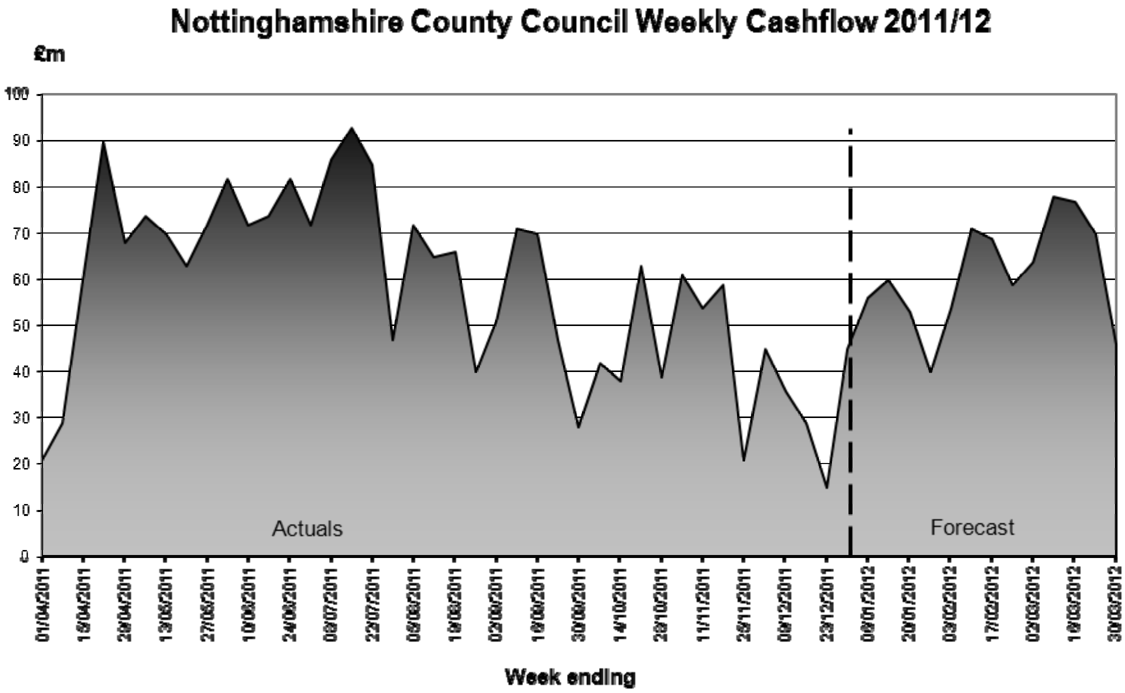
Impact on County Fund Balances

7.1 The Final Accounts Report for 2010/11 showed that County Fund Balances stood at £28.1m at 31/3/11. The 2011/12 budget planned to use £5.1m balances which would reduce County Fund Balances to £23.0m, around 4.5% of the Budget Requirement.

7.2 It is anticipated that should there be any year end underspendings after accounting for redundancy costs, they will first be used to avoid the use of balances. Latest forecasts suggest that only £3.897m will be required to balance expenditure in year, leaving £24.2m of County Fund Balances remaining. This equates to 4.8% of the Budget Requirement.

Cash Flow

7.3 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:



7.4 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, the 2012 Strategy was approved at full Council 23 February 2012.

Debtors

7.5 The Council monitors outstanding debt with particular attention to longer term debt, defined as debts overdue by 181 days or more. As at January 2012 long term debt totalled £4.519 million. This is an increase of £0.66 million since period 6 monitoring.

7.6 The target for longer term debt has been set at £2.8m. The figure is comprised of Adult Care Financial Services (ACFS) debt and general debt. Both general debt and ACFS Debt have suffered increases, however, it is believed that this is partly due to a time delay of income being posted in BMS.

7.7 In the medium to long term, the Council's debt collection process will continue to pursue recovery of these balances and the implementation of BMS will facilitate an increased capability in debtor reporting which in turn should assist in the overall recovery process.

Creditors

7.8 Since the implementation of BMS, payments to suppliers have been closely monitored and performance information has been analysed in several new ways. Of the total invoices currently in the system, 71% are under 30 days old. Further analysis of the volume of transactions in the system is being undertaken to understand the number of new invoices entering the system aswell as the number being cleared to give a clearer perspective of the net movement.

8 Future Developments & Strategic Issues

8.1 The implementation of the Business Management System has presented challenges to financial operations within the Council. In particular, efforts have been concentrated in resolving the backlog within Accounts Payable. Whilst issues with the Budgeting and Forecasting process have also been raised, and will be addressed, the key priority is ensuring adequate preparations are made to ensure year end procedures run smoothly, and the Council's statutory duty to produce a Statement of Accounts is met.

8.2 The 2012/13 budget proposals were approved at full Council on 23 February 2012. The budget report highlighted significant risks in future funding as the financial impact of Non Domestic Rate retention and localisation of Council Tax Benefits is uncertain. The finance team are planning a financial strategy away day to begin to look at a range of financial planning scenarios for 2013/14 and beyond.

Statutory and Policy Implications

9. 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

10.1 To note the current position regarding monitoring of revenue expenditure

10.2 To note the transfer to reserves of £600,000 for IT replacement equipment, to be used in 2012/13

10.3 To approve the use of £75,000 of contingency for a one-off payment to the Nottinghamshire Citizens Advice Bureau

10.4 To approve the sum of £94,500 from the Grant Aid budget to the Nottingham Playhouse

10.5 To note the current position regarding monitoring of capital expenditure

10.6 To note the previously reported variations to the Capital Programme

10.7 To note that the level of borrowing and its impact on the revenue budget are regularly reviewed

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For any enquiries about this report please contact:
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Constitutional Comments (KK 24/02/12)

It is a function reserved for Council to set the budget and policy framework. This includes setting the annual contingency amounts. Cabinet has the authority to allocate funds from contingency in line with the budget set by Council in February 2011 and subject to the limitations within the budget report.

Financial Comments (PM 23/02/12)

The financial implications are set out in the report.

Background Papers

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.

Detailed Monitoring Statements
Internal Management Reports

Electoral Division(s) and Member(s) Affected