

Audit & Performance Committee Meeting 21 November 2012

September 2012 – Period 6 Monthly Report

KEY MESSAGES:

Period 6 Financial Overview

Following Cabinet discussions on the appropriate Budget baseline for 12/13, we are reporting expenditure against the Westminster Budget baselines of £215.5M. In previous financial reports we have adjusted these to reflect the expected improvement from Tri-Borough activity that is, £213.5M. We will be reporting an integrated position from 13/14. We are currently projecting a £1.2M overspend against the Budget baseline of £215.5M.

Corporate Finance “Best Estimate” and Closing Reserves

The Corporate Finance “Best Estimate” is projecting a break-even position against Westminster Budget Baselines for 12/13. This based on the view that Service Area budget pressures can be contained within the small corporate provision set aside as part of the 12/13 Budget. In addition we may achieve a small upside from Tri-Borough costs and savings of c£1M. This will result in Closing General Fund Reserves position of c£25M, an increase of c£3M from the previous period.

Balance Sheet

The Balance Sheet, at Period 6 has moved by £10.1M (3.7%) from £267.6M in Period 5 to £277.7M largely due to movements in short-term debtors and creditors.

Capital Expenditure is projecting an outturn of £30.8M, an underspend of £5.5M against the Budget of £36.3M (excluding HRA). This is a £2.1M reduction on Period 5 mainly due to externally funded schemes being removed from the projection for Children’s Services.

The recommendations of the **Debt Review** conducted at year-end are now being implemented. An external debt specialist has recently commenced and is tasked with reviewing the current practice and steps needed to establish consistent and robust debt management arrangements. We will provide a further update of the work for the next meeting.

INTRODUCTION

This report provides an overview of the Council’s position for Period 6 and covers:

- **SECTION 1** – Revenue expenditure including; Tri-Borough Net Savings and Costs, Service Area expenditure and Financial risks and opportunities;
- **SECTION 2** – Corporate Finance “Best Estimate;”
- **SECTION 3** – Projected General Fund Closing Reserves;
- **SECTION 4** – Consolidated Balance Sheet including; Capital Expenditure and Debt; and
- **SECTION 5** – Finance Strategic Projects.

SECTION 1: REVENUE EXPENDITURE AND TRI-BOROUGH SAVINGS & COSTS

1. 2012/13 Budgets

Following discussions with Cabinet Members on the appropriate Budget baseline for 12/13, we are reporting expenditure against the Westminster Budget baselines of £215.5M. We will be reporting an integrated Budget baseline position from 13/14 onwards.

Service Areas are projecting a £1.2M overspend against the Westminster only Budget baseline of £215.5M (as set in the Council Tax Report). This is a reduction of £0.7M against the £1.9M overspend in Period 5, on the same basis.

2. Tri-Borough Net Savings & Costs

Tri-Borough Service Areas (Adults, Children's and Libraries) are projecting a net savings position of £2.2M, £0.2M over Budget, a small improvement over Period 5. Potential for savings in Corporate Services were identified in the June Cabinet Report albeit not expected until around 14/15, with no cost projections. However, significant change/investment costs are being incurred as a result of Tri-Borough activity. At Period 6, these costs are projected to be £2.1M for 12/13 this is a reduction of £0.5M since Period 5 due to the emergence of a more accurate cost profile for Athena Managed Services Project. We are closely monitoring these costs.

3. Service Area Revenue Expenditure

Service Areas are projecting a £1.2M overspend against the Westminster only Budget baseline. The £1.2M deficit at Period 6 is comprised of the following.

- **Favourable variances (underspends)** – Adults Social Care (£0.6M), Children's (£0.2M), Finance & Operations (£0.3M)
- **Unfavourable variances (overspends/income shortfalls)** – SEB & Strategic Support (£0.1M), Corporate Property (£0.9M), Libraries & Culture (£0.1M), Built Environment (£0.8M), City Management (£0.4M) and
- **Break-even** – Housing, Sports & Leisure and Parking.

4. Westminster Funding for Change Costs

In February when the 12/13 Budget was set, £1.5M was included to fund change related activity. With a working assumption in place that around £1M would fund Tri-Borough change/investment costs, the remaining £0.5M would relate to Westminster change programmes.

Major procurements such as Facilities Management and IT Re-procurement and the Corporate Services Programme costs are £1.3M against a Budget of £1M and therefore £0.3M overspend. This position has remained unchanged from Period 5. Having this level of spend against Tri-Borough related activity restricts the level of funding that can be allocated to Westminster specific change such the Customer Programme or Strategic Planning.

SECTION 2: CORPORATE FINANCE "BEST ESTIMATE"

The Corporate Finance "Best Estimate" is for a projected break-even position against Westminster Budget Baselines, with a small upside projected from Tri-Borough related activity.

Opportunities for mitigating overspends are regularly discussed between Service Areas and Corporate Finance through "Solve-It" sessions and have contributed to a continually improving financial position over the last few months. Some issues such as capitalisation are still creating pressures in 12/13. We are in ongoing dialogue with Service Areas about how to mitigate this.

SECTION 3: PROJECTED CLOSING GENERAL FUND RESERVES

At its meeting on 12 December 2007, the Committee approved a new Reserves Policy as follows:

“The Reserves policy assumes that the medium term financial plan generates a broadly balanced budget on a sustainable basis by the end of the three year business planning period. Reserves should reflect the agreed financial strategy and should represent the quantified impact of risks and opportunities over the current three year business planning period, weighted to allow probability.”

At Period 6, we expect the 12/13 Closing Reserves Fund Reserves to increase from c£22M to c£25M. This is due to a reduction in the deficit position and a projected c£1M upside from Tri-Borough activity net of costs.

SECTION 4: BALANCE SHEET

1. Balance Sheet – Summary

At Period 6, the Balance Sheet has moved by £10.1M (3.7%) from £267.6M in Period 5 to £277.7M. The summary position is shown in **Table 1** below. The Finance Business Partners and Corporate Finance are working together to drive improved managed focussing on working capital. The major movements are as follows:

- Short-term Debtors increased by £5.9M – This balance has moved from £113.6M in Period 5 to £119.5M. Short-term Debtors consist mostly of Service Specific Account Receivable (AR) and accrued income balances within Service Areas.
- Short-term Creditors increased by £10.7M – This balance has moved from £92.4M in Period 5 to £103.1M. Short-term Creditors largely consist of a number of accrued expenditure balances within Service Areas.

Table 1 – Summary Consolidated Balance Sheet

	Total 31 August 2012 (P5)	Total 30 September 2012 (P6)	Vs P5 Movement
	£'000	£'000	£'000
<i>CURRENT ASSETS</i>			
SHORT TERM DEBTORS	113,613	119,544	5,931
SUNDRY DEBTORS	10,498	9,979	(519)
BAD DEBT PROVISION	(66,969)	(66,558)	411
PREPAYMENTS	5,158	3,833	(1,325)
INVENTORIES	192	192	0
CASH	995	995	0
<i>CURRENT LIABILITIES</i>			
SHORT TERM CREDITORS	(92,363)	(103,080)	(10,717)
RECEIPTS IN ADVANCE	(51,527)	(51,013)	513
<i>LONG TERM ASSETS</i>			
LONG TERM DEBTORS	6,299	5,027	(1,272)
<i>LONG TERM LIABILITIES</i>			
CAPITAL RECEIPTS IN ADVANCE	(96,857)	(97,874)	(1,017)
PROVISIONS	(30,919)	(30,787)	132
<i>USABLE RESERVES</i>			
earmarked reserves	(36,276)	(36,059)	217
CAPITAL RECEIPTS UNAPPLIED	(1,611)	(1,893)	(282)
CAPITAL GRANTS UNAPPLIED	(1,840)	(1,840)	0
OTHER RESERVES	(23,078)	(23,074)	5
<i>HOLDING ACCOUNTS</i>			
	(2,909)	(5,103)	(2,194)
Grand Total	(267,594)	(277,711)	(10,117)

2. Capital Expenditure

(a) Service Area Capital Expenditure

Service Areas are projecting a net capital outturn of £30.8M, an underspend of £5.5M against the Budget of £36.3M (excluding HRA). This is a £2.1M increase in the underspend on Period 5 mainly due to externally funded schemes being removed from the forecast for Children's Services.

In October, the latest forecast was presented to the Capital Review Group (CRG). This showed a £24M overspend over the 5 year rolling programme. The main reasons for this were £12.5M for Marylebone Library, £5.6M for City Hall refurbishment works and £3.4M for the implementation for the forward IT Strategy. CRG agreed that all Service Areas would review their projects with the aim to bring the overspend back to c£12M and update CRG in January 2013. CRG also requested improved visibility on those programmes that were self-financing or received external funding.

The Period 6 favourable variance of £5.5M is comprised of the following:

- **Favourable variances (underspends)** – Children's (£6.8M), Corporate Property (£0.7M), Sports & Leisure (£0.1M), Built Environment (£0.1M), City Management (£0.1M), Housing (£0.1M)
- **Unfavourable variances (overspends)** – Finance & Operations (£1.7M), Adults (£0.3M), Libraries & Culture (£0.5M),
- **Break-even** – Parking.

3. Debt Position

(a) Debt Management Project – Progress Update

The recommendations of the Debt Review conducted at year-end are now being implemented. The Debt Management Project commenced on the 2nd October 2012. The major focus of attention has been those Service Areas with the highest level of debt (such as Parking, Corporate Property and Commercial Waste).

During October discovery meetings were held with these Service Areas to understand how the various businesses operate and their related billing and debt management process flows. In conducting this exercise a number of actions and proposed improvements have been already identified relating to how we treat and report on debt with respect to companies in liquidation, and the treatment of unallocated cash receipts.

Next steps include ascertaining the collectability of all debt greater than 365 days, completing the analysis of unpaid parking charge notices and identifying where payment plans (relating to Adults and Housing Benefit overpayment) are in place.

We will update the Committee further on progress at the next meeting.

(b) Period 6 Debt Position

At Period 6, the Council's outstanding Debt position has decreased by £0.4M from £76.6M at Period 5 to £76.2M at Period 6. The Period 6 figure comprises of £10M Sundry Debt (a decrease of £0.5M on Period 5) and £66.2M Service Specific Debt (an increase of £0.1M on Period 5).

The decrease in Sundry Debt of £0.5M relates largely to favourable movements on Built Environment (£0.5M), SEB & Strategic Support (£0.3M) and Property (£0.1M) partly offset by adverse movements on Adults (£0.3M) and City Management (£0.1M). The increase in Service Specific Debt by £0.1M relates largely adverse movements to Housing Temporary Accommodation Arrears (£0.3M) and Parking (£0.3M) partly offset by favourable movements to Property (£0.3M) and Housing Benefit Overpayments (£0.2M). The total aged Debt profile is shown in the **Table 2** below.

Table 2 – Total Aged Debt Profile

Service Area - Sundry Debt (SSC - Order to Cash Team)	Days	Days	Days	Days	Days	Days	Total	Provision
	0-30	31-60	61-90	91-180	181-365	>365		
	£000	£000	£000	£000	£000	£000	£000	£000
Adults Services	838	760	135	289	543	831	3,396	1,433
Childrens Services	157	65	93	174	18	109	615	246
Libraries & Culture	21	1	2	3	3	7	37	17
Built Environment	1,679	116	98	182	13	99	2,187	390
City Management	734	447	226	128	205	384	2,123	763
Parking	5	0	947	0	0	6	958	0
Housing (incl CWH)	209	16	16	9	(3)	48	296	5
Property	0	0	0	0	0	2	3	4
Sports & Leisure	39	(0)	40	7	3	7	96	17
SEB & Strategic Support	13	2	41	28	15	15	114	104
Finance & Operations	28	5	1	3	14	102	154	134
Total	3,723	1,411	1,599	823	811	1,610	9,979	3,112
% of Debt	37%	14%	16%	8%	8%	16%		
Service Specific Debt								
Property	100	24	12	295	1,675	2,688	4,794	1,544
Housing Benefit Overpayment	633	750	1,786	1,333	1,393	11,202	17,097	16,312
Housing TA Arrears	996	0	0	0	0	4,971	5,967	4,945
Commercial Waste	226	97	60	80	24	(49)	438	201
Parking	1,437	1,028	1,109	3,080	5,555	25,701	37,910	36,113
Total	3,392	1,899	2,967	4,789	8,647	44,512	66,206	59,115
% of Debt	5%	3%	4%	7%	13%	67%		
Grand Total	7,115	3,310	4,567	5,613	9,458	46,122	76,185	62,227

SECTION 5: FINANCE STRATEGIC PROJECTS

The projects below are ongoing throughout 12/13. The status of these at Period 6 is as follows:

- **“Forging Finance”**: Good progress continues to be made on the key workstreams. Building Finance staff and the Business capability through an extensive and rolling programme of briefings and CPD events.
- **Programme Athena/Managed Services**: Business change and transition planning will continue throughout 2012 in parallel with the remaining stages of procurement for implementation in April 2014. The final two bidders for each lot are in preparation to submit their final bids for evaluation in November/December.
- **Strategic Planning/Future Funding**: Each SEB member has identified key deliverables and milestones associated with cross-cutting workstreams. More work remains to identify and quantify options. Detailed modelling is also being carried out on local government funding changes. This work will continue to be refined until the Local Government Finance Settlement in mid/late December.