

19 June 2017

Agenda Item: 7

## **REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT**

### **FINANCIAL MONITORING REPORT: PERIOD 1 2017/2018**

#### **Purpose of the Report**

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To request approval for contingency schemes submitted to date.
3. To request approval for additional use of the 2016/17 underspend.
4. To inform Members of the Council's Balance Sheet transactions.
5. To provide Members with an update from the Procurement Team.
6. To provide Members with an update from the Accounts Payable and Accounts Receivable teams.

#### **Information and Advice**

##### **Background**

7. The Council approved the 2017/18 budget at its meeting on 23 February 2017. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.
8. This report is based on the old Committee structure. Future financial monitoring reports will be based upon the revised Committee structure that was approved at Full Council on 25 May 2017.

##### **Summary Revenue Position**

9. The table below summarises the revenue budgets for each Committee for the forthcoming financial year. To date no variances have been reported.

**Table 1 – Summary Revenue Position**

Committee	Annual Budget £'000	Actual to Period 1 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
Children & Young People	132,321	2,795	132,321	-
Adult Social Care & Health	217,166	6,584	217,166	-
Transport & Highways	58,406	4,394	58,406	-
Environment & Sustainability	33,153	-	33,153	-
Community Safety	3,048	34	3,048	-
Culture	12,427	778	12,427	-
Policy	20,852	648	20,852	-
Finance & Property	31,030	3,082	31,030	-
Personnel	10,651	828	10,651	-
Economic Development	1,074	228	1,074	-
Public Health*	518	(11,024)	518	-
<b>Net Committee (under)/overspend</b>	<b>520,646</b>	<b>8,347</b>	<b>520,646</b>	<b>-</b>
Central items	(16,452)	(6,554)	(16,452)	-
Schools Expenditure	(40)	(40)	(40)	-
Contribution to/(from) Traders	1	(376)	1	-
<b>Forecast prior to use of reserves</b>	<b>504,155</b>	<b>1,377</b>	<b>504,155</b>	<b>-</b>
Transfer to / (from) Corporate Reserves	(22,683)	-	(22,683)	-
Transfer to / (from) Departmental Reserves	(1,693)	-	(1,693)	-
Transfer to / (from) General Fund	(4,500)	-	(4,500)	-
<b>Net County Council Budget Requirement</b>	<b>475,279</b>	<b>1,377</b>	<b>475,279</b>	<b>-</b>

\* The actual net expenditure for Public Health is skewed depending upon the timing of the receipt of grant.

10. In March 2017, the Government announced that local authorities with responsibility for Adult Social Care will receive additional temporary funding (subject to meeting certain criteria) to help address the current funding crisis. The Authority will receive £15.3m in 2017/18 (with a further £10.0m in 2018/19 and £5.0m in 2019/20). This announcement was made after Full Council approved the 2017/18 budget. A sizeable amount of the 2017/18 budget is supported by temporary money, such as the use of corporate reserves. A significant amount of work will be undertaken to ensure that the Authority meets the criteria associated with the grant, re-aligns budget accordingly and reviews temporary funding arrangements. As such, this additional grant has not been reflected in Table 1 above. On conclusion of this work, an update and request to approve a material budget transfer will be sought at a future meeting of the Finance and Major Contract Management Committee.

### Requests for contingency

11. The Council's budget includes a contingency budget of £5.1m to cover redundancy costs, slippage of savings, the November increase of the Living Wage Foundation rates paid to Authority employees, Business Rates Revaluations, the Apprenticeship Levy and unforeseen events.

12. There is already a call on the 2017/18 contingency budget from requests that have been previously approved by the former Finance and Property Committee. These are as follows :-
- Apprenticeship Levy posts – Personnel Committee £0.1m
  - Historic Abuse Team – Children & Young People Committee £0.4m, with an additional £0.1m allocation requested at November 2016 Children and Young People Committee.
13. In addition, a bid of £62,500 has been submitted by the Economic Development Committee to meet Nottinghamshire's share of D2N2 Local Enterprise Partnership match funding. Each of the four upper tier Local Authorities contribute the same amount to lever in £250,000 from central government in 'core funds'.
14. It is proposed to use £1.0m of the contingency budget to fund the fine levied by the Health and Safety Executive following the recent prosecution into safety failings. This will be paid from Central Items rather than an individual committee.
15. A request for contingency has been submitted by Finance and Property Committee to fund £20,000 per annum for additional costs associated with the public WIFI system.
16. A request for £50,000 from contingency has been submitted by Culture Committee to fund the Authority's share of the staging costs associated with Nottinghamshire hosting the fourth stage of the Tour of Britain cycling race on 6th September 2017.

### **Progress with savings and risks to the forecast**

17. Council on 23 February 2017 approved savings proposals of £1.6m for delivery over the four year period 2017-21. These proposals are in addition to those approved previously by County Council. 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.
18. Issues associated with the achievement of savings relating to Adult Social Care Transport are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Major Contracts Management Committee.

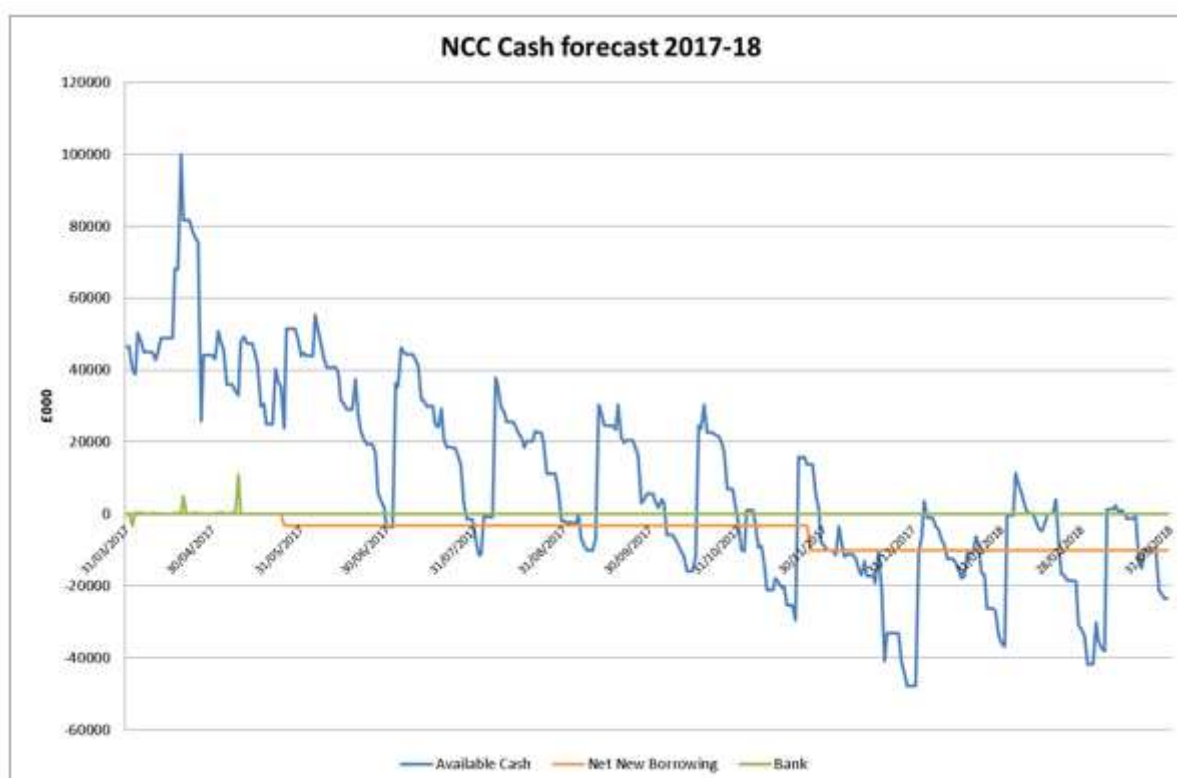
### **Balance Sheet**

#### **General Fund Balance**

19. Members will be asked to approve the 2016/17 closing General Fund Balance of £27.7m at Council on 13 July 2017. The 2017/18 budget approves utilisation of £4.5m of balances which will result in a closing balance of £23.2m at the end of the current financial year. This is 4.9% of the budget requirement.
20. It is proposed to utilise £1.0m of the underspend from 2016/17 to provide additional funding for the repair of pot holes on the Authority's roads, therefore increasing the use of General Fund Balance in 2017/18 to £5.5m. It is anticipated that the additional £1.0m should repair approximately 19,000 potholes in the current financial year.

## Treasury Management

21. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The Cash forecast chart below shows the actual cash flow position for the financial year 2017/18. 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. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart shows a clear need for the Council to borrow during the course of the year.

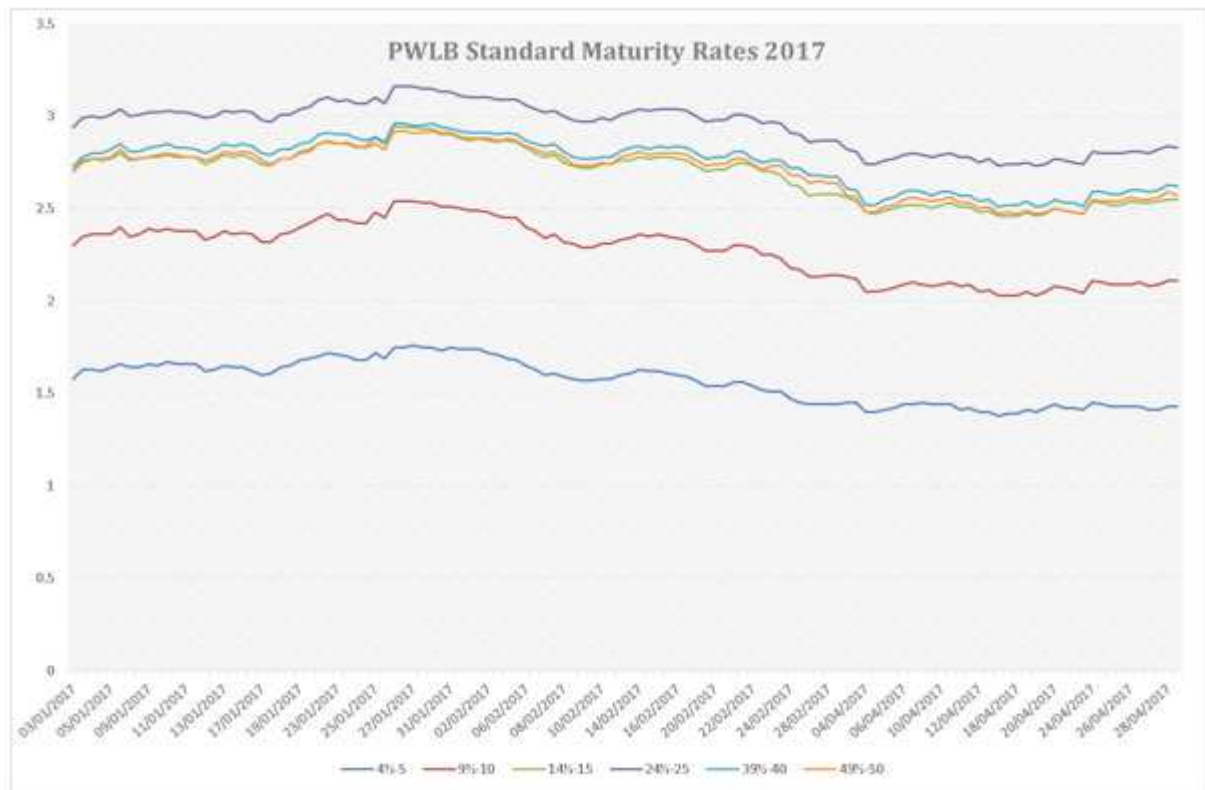


22. The chart above gives the following information:

<b>Available cash</b>	Surplus cash (invested in call accounts or money market funds) or a shortfall of cash indicating a need to borrow.
<b>Net new borrowing</b>	New loans taken during the year net of principal repayments on existing borrowing.
<b>Bank</b>	That element of surplus cash held in the Council's Barclays Bank account.

23. The Treasury Management Strategy for 2017/18 identified a need to borrow approximately £30m over the course of the year to fund the capital programme, replenish internal balances and to replace maturing debt. It is likely that the first tranche of this will be taken prior to the

end of June (at which point the forecast shown in the chart above dips below zero). PWLB interest rates continue to be monitored closely to allow dips in rates to feed into decisions on new borrowing. The Council remains able to take advantage of the PWLB “certainty rate” which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates over the course of 2017 so far.



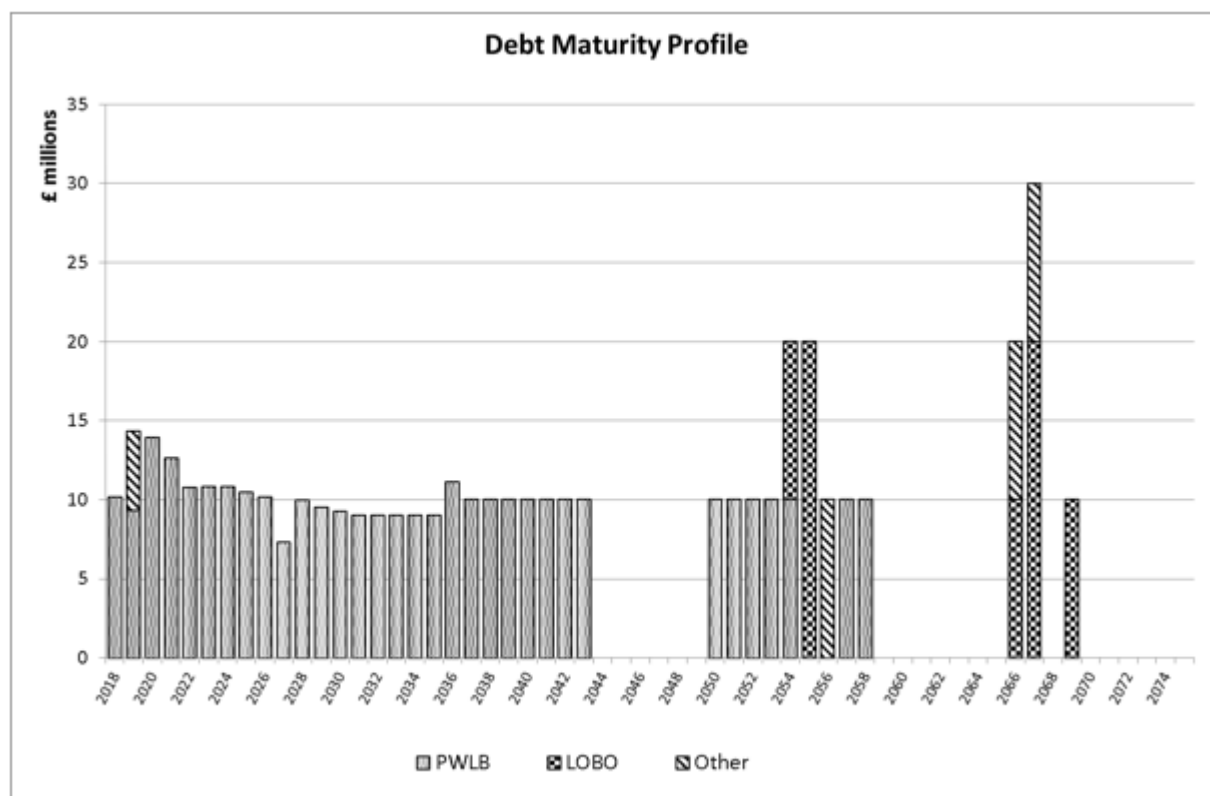
24. Borrowing decisions will take account of a number of factors including:

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

25. 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 41 years. When deciding on the lengths of future loans the Council will factor in any gaps in its maturity profile, with a view to minimising interest rate risk, but will consider this alongside other financial factors.

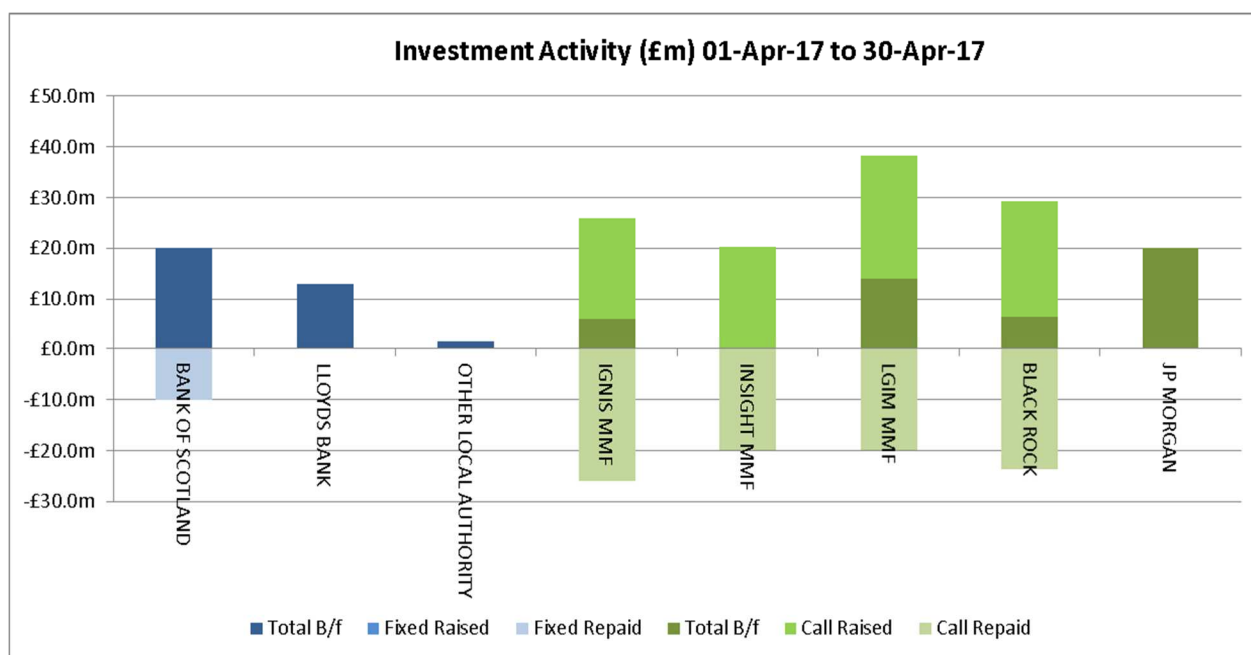
26. Longer-term borrowing (maturities up to 52 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. However, LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

27. The 'other' loans denote borrowing from the money markets where the main objective was to minimise interest costs, and also includes loans from Barclays Bank that were converted from LOBOs to fixed-term loans.



28. The investment activity for 2017/18 to the end of April 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and approximately £69m at the end of the period. This reduction includes the effect of making a £39m contribution to the Nottinghamshire Pension Fund in order to reduce the deficit.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	20,000	-	(10,000)	10,000
Lloyds Bank	13,000	-	-	13,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	6,000	20,000	(26,000)	-
Insight MMF	-	20,200	(19,900)	300
LGIM MMF	13,950	24,300	(20,000)	18,250
Black Rock	6,500	22,750	(23,700)	5,550
JP Morgan	20,000	-	-	20,000
<b>Total</b>	<b>80,950</b>	<b>87,250</b>	<b>(99,600)</b>	<b>68,600</b>



29. As part of the Council's risk management processes all counterparty ratings are regularly monitored and lending restrictions changed accordingly.

### Debt Recovery Performance

30. The overall debt at the end of 2016/17 is showing expected increases as cyclical and year-end income is raised prior to 31<sup>st</sup> March. In comparison, these levels are lower than in 2015/16, some of the decrease can be attributed to the introduction of Alternative Service Delivery Models.

31. Statutory debt over 6 months continues to be influenced by full cost invoices to services users that have not yet joined the deferred payments scheme. These users charged full costs for their care which they have no funds to make payments. The levels of debt for both Statutory and Non Statutory debts are, however, lower than Quarter 3.

32. The write off total as at the end of Quarter 4 was £436,000

### Invoices Raised

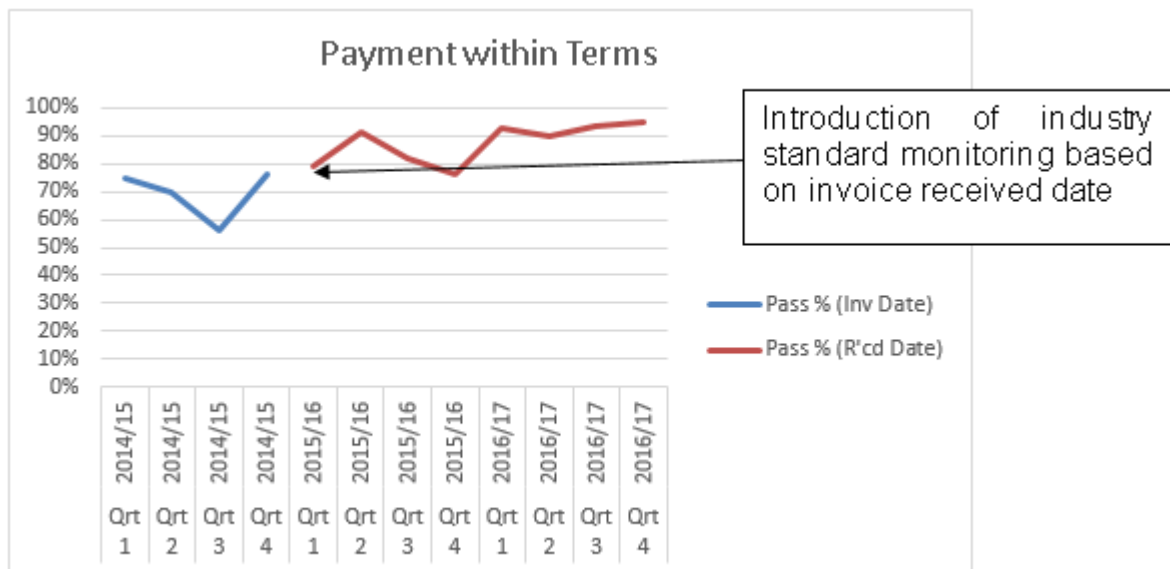
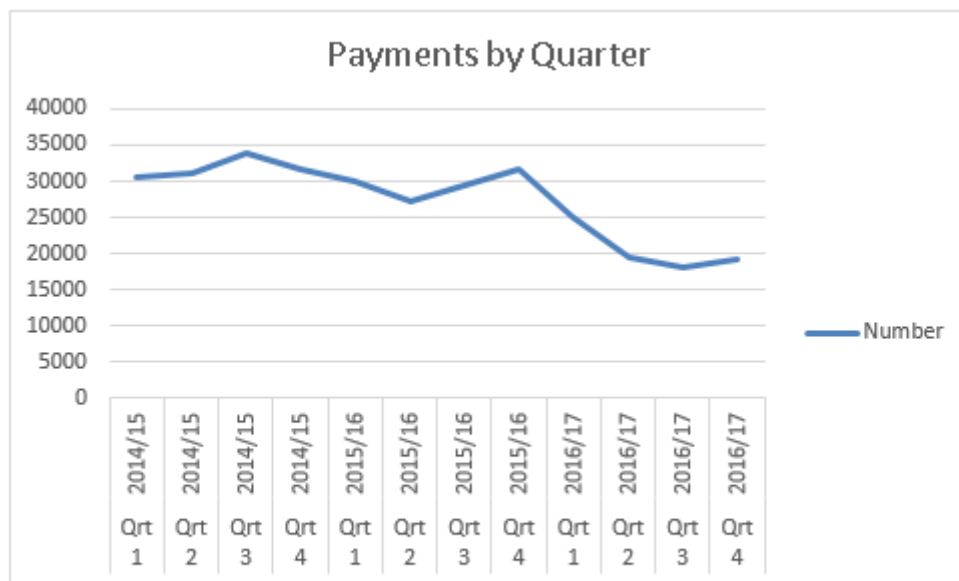
	Quarter 4	Year to date
Number	45,941	177,410
Value	£48,522,321	£182,769,514

### Debt Position

	Statutory	Non-Statutory	Total
Total	£9,953,652	£12,730,782	£22,684,435
Over 6 months	£4,633,575	£887,126	£5,520,877
% over 6 months	46.7%	7.0%	24.3%

## Accounts Payable (AP) Performance

33. Payment within terms are being maintained above 90% with Quarter 4 being recorded as 95%. The main reason for the increase is the resolution of legacy invoices from Arc. As reported previously, the annual volume of invoice transactions in respect of commercial spend has reduced from 120,000 to 82,000. This is attributed to the use of consolidated invoices and ASDM's going live during this financial year.
34. The two Procure to Pay (P2P) pilot hubs now has the approval to increase to three. They are still working well and a great deal of positive feedback has been received. Each P2P hub is expanding the scope of services that they can include within their processes and continue to refine these at each locality.



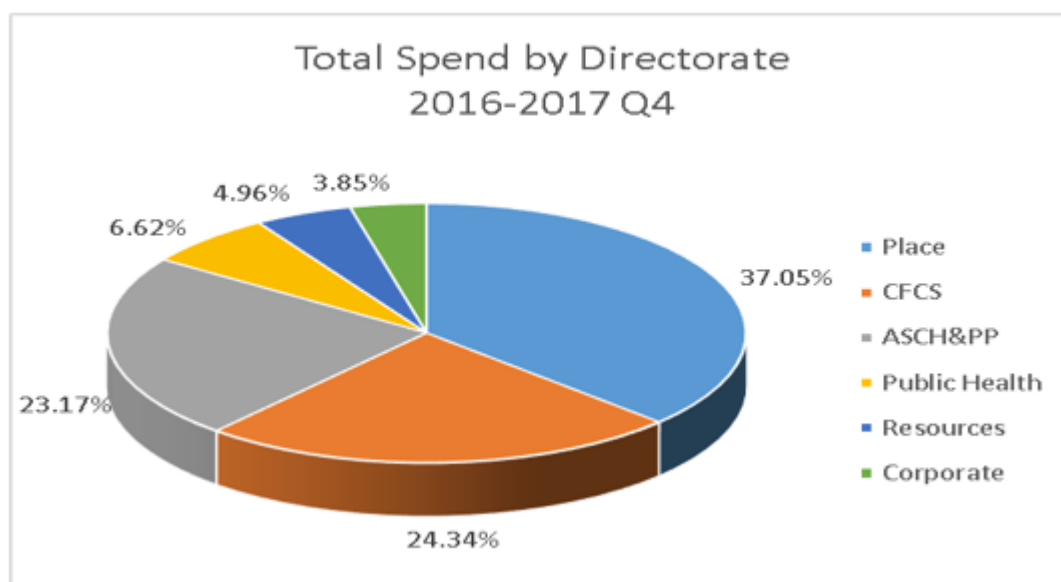


35. The debt recovery and accounts payable performance information will continue to be reviewed at an operational level on a fortnightly basis. The strategic performance information will be compiled for this report to Committee on a quarterly basis.

## Procurement Performance

36. As an organisation, NCC has spent £139m in the fourth quarter of the financial year 2016/17 with external suppliers. This represents a decrease of £17m when compared with the same period of the previous financial year. The top 7% (237) of suppliers account for 80% (£111m) of the total supplier spend. The remaining 93% (3299 suppliers) have a total expenditure of £28m with an average spend of £8,500.

37. The chart below shows the total amount spent in the period, by Directorate. Place has the highest level of expenditure at 37%, whilst collectively the care related Directorates (ASCH&PP, CFCS, & Public Health) account for 54% of all spend..



38. The Council's primary ordering route is through BMS. Orders that are processed through BMS are classified as 'Compliant', whilst purchases made outside of the Council's systems are deemed to be 'Non-Compliant'.

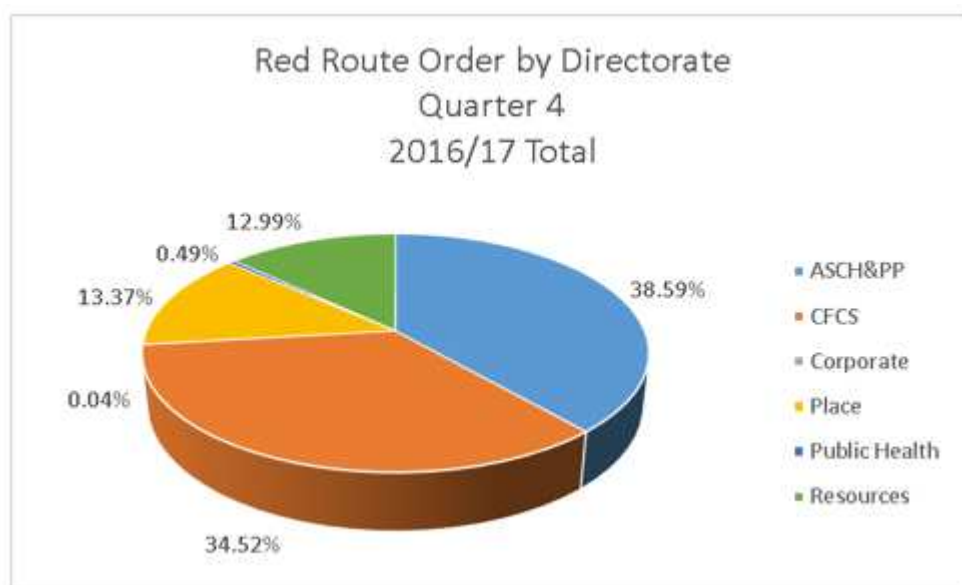
Retrospective orders are also classified as non-complaint, as they are typically raised after delivery of goods/services. Services commissioned and managed through other Corporate Systems, for example Frameworki, are out of scope. Purchase Orders are beneficial to the organisation as they provide visibility of what we spend. When compared with the same period of the previous financial year:

- Compliant ordering has increased by 3% from 62% to 65% of the total spend
- Non-compliant (non PO) ordering has decreased by 3% from 38% to 35% of the total spend
- Interface spend has also decreased from 23% to 19.5% of the total spend

39. The table below shows the number of retrospective orders on a monthly basis by department.

Directorate	PO Volume Jan 2017	PO Volume Feb 2017	PO Volume Mar 2017	Total Q4 2016/17	Total Q4 2015/16
ASCHPP	214	157	220	591	778
CFCS	394	287	393	1,074	1,502
Place	366	330	334	1,030	1,547
Corporate	-	-	1	1	5
Public Health	5	3	4	12	7
Resources	114	96	117	327	355
<b>Total</b>	<b>1,093</b>	<b>873</b>	<b>1,069</b>	<b>3,035</b>	<b>4,194</b>

40. Purchase orders themselves are split into Green and Red orders. Green orders are those which are raised with the Procurement Centre's pre-arranged agreements or contracted suppliers. Red orders are those that do not have approved suppliers or contracts set up on BMS, and require additional work. When compared with the same period in the previous financial year the volume of 'Red' orders have reduced from 9,467 to 7,445. The chart below identifies the percentage of Red Route orders by Directorate in the 2016/17 financial year. The Procurement Team are working with stakeholders to improve these figures.



41. A full list of ongoing developments within the Procurement Team is included in Appendix A.

## Statutory and Policy Implications

42. 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 individual Committee revenue budgets for 2017/18.
- 2) To approve the contingency requests received to date.
- 3) To approve the additional use of the 2016/17 underspend.
- 4) To note the Council's Balance Sheet transactions.
- 5) To note the performance of the Procurement Team.
- 6) To note the performance of the Accounts Payable and Accounts Receivable teams.

### **Nigel Stevenson Service Director – Finance, Procurement and Improvement**

For any enquiries about this report please contact:

Keith Palframan, Group Manager, Financial Strategy and Compliance

Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

### **Constitutional Comments (KK 05/06/2017)**

43. The proposals in this report are within the remit of the Finance and Major Contracts Management Committee.

### **Financial Comments (GB 26/05/2017)**

44. The financial implications are stated within the report.

### **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