

20 June 2016

Agenda Item: 5

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

FINANCIAL MONITORING REPORT: PERIOD 1 2016/2017

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2016/17.
2. To request approval for contingency schemes submitted to date.
3. To inform Members of the Council's Balance Sheet transactions.
4. To provide Members with information on a consultation on proposed changes to the governance arrangements relating to the function of central government lending to local authorities.
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 2016/17 budget at its meeting on 25 February 2016. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

Summary Revenue Position

8. 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	134,486	5,890	134,486	-
Adult Social Care & Health	219,794	1,591	219,794	-
Transport & Highways	57,541	2,445	57,541	-
Environment & Sustainability	31,115	(2,548)	31,115	-
Community Safety	2,928	(356)	2,928	-
Culture	12,657	1,058	12,657	-
Policy	23,482	(8)	23,482	-
Finance & Property	30,921	3,343	30,921	-
Personnel	2,612	(195)	2,612	-
Economic Development	987	101	987	-
Public Health*	4,032	(11,210)	4,032	-
Net Committee (under)/overspend	520,555	111	520,555	-
Central items	(18,733)	(6,388)	(18,733)	-
Schools Expenditure	86	86	86	-
Contribution to/(from) Traders	-	-	-	-
Forecast prior to use of reserves	501,908	(6,191)	501,908	-
Transfer to / (from) Corporate Reserves	(15,134)	-	(15,134)	-
Transfer to / (from) Departmental Reserves	(4,137)	-	(4,137)	-
Transfer to / (from) General Fund	(3,741)	-	(3,741)	-
Net County Council Budget Requirement	478,896	(6,191)	478,896	-

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

Requests for contingency

9. The Council's budget includes a contingency budget of £5.5m to cover redundancy costs, slippage of savings and unforeseen events.

10. There is already a call on the 2016/17 contingency budget from requests that have been previously approved by this committee. These are as follows :-

- Leadership Development Training – Personnel Committee £0.2m
- Healthwatch – Policy Committee £0.1m
- Social Work Support Officer – Children & Young People Committee £0.3m
- Historic Abuse Team – Children & Young People Committee up to £0.8m

11. 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'.

12. A request for contingency has been submitted by the Transport and Highways Committee to provide £500,000 funding to support works required to maintain trees along roadsides and the consequences of tree diseases if required.
13. Transport and Highways Committee have also submitted a contingency request of £40,000. As the Highways Joint Venture starts on 1 July 2016, a budget adjustment is required to cover the 1% pay rise, in the first quarter, for those Highways staff that have not yet transferred.
14. A request for contingency has been submitted by Policy Committee to invest £50,000 to continue to fund the work carried out by three sexual abuse support groups.

Progress with savings and risks to the forecast

15. Council on 25 February 2016 approved savings proposals of £17.6m for delivery over the four year period 2016-20. 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.
16. Issues associated with the achievement of savings relating to SEND Home to School Transport and Independent Travel Training are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Property Committee.

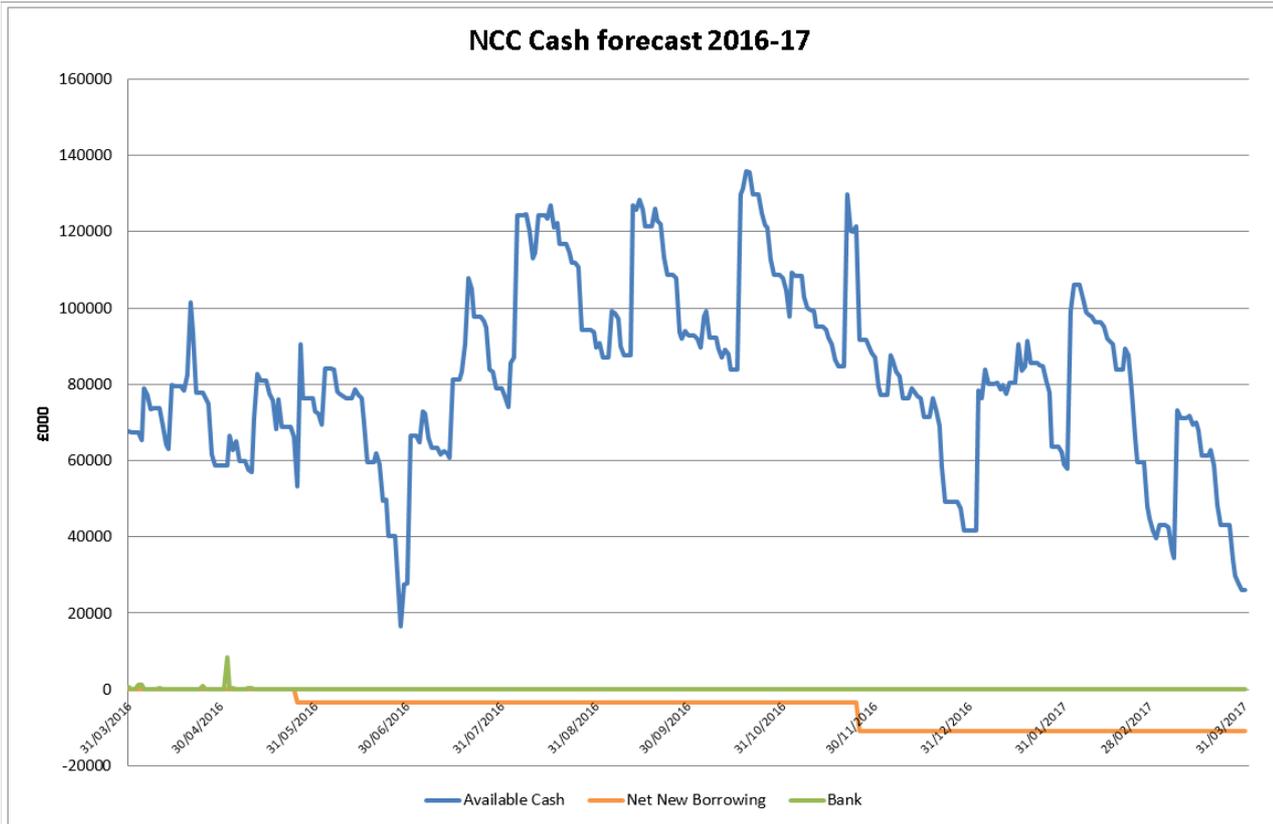
Balance Sheet

General Fund Balance

17. Members will be asked to approve the 2015/16 closing General Fund Balance of £24.0m at Council on 4 July 2016. The 2016/17 budget approves utilisation of £3.7m of balances which will result in a closing balance of £20.3m at the end of the current financial year. This is 4.2% of the budget requirement.

Treasury Management

18. 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 to date and forecasts for the 2016/17. 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.

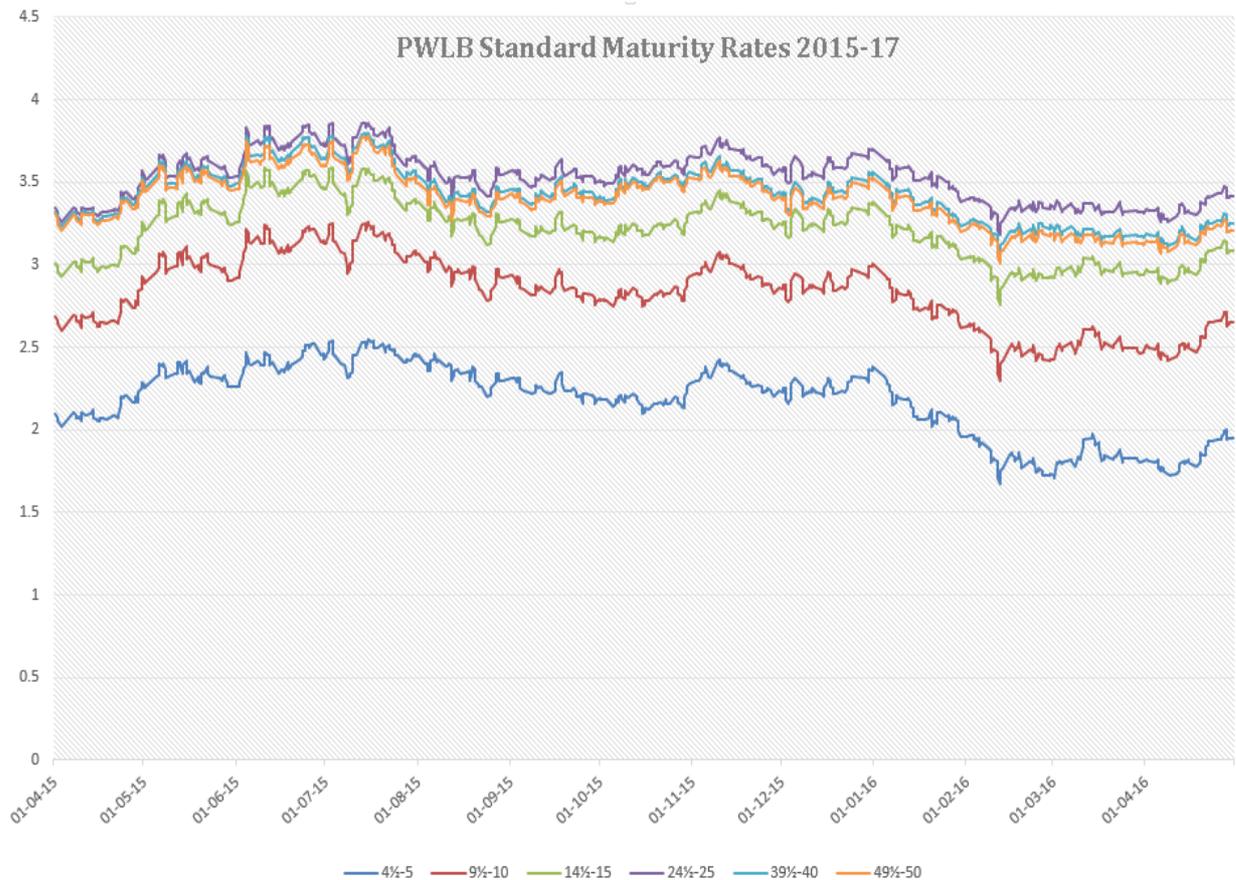


19. The chart above gives the following information:

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 taken during the year net of principal repayments on existing borrowing.
Bank	That element of surplus cash held in the Council's Barclays Bank account.

20. The Treasury Management Strategy for 2016/17 identified a need for additional borrowing of £52m to fund the capital programme, replenish internal balances and to replace maturing debt. However, given slippage in the 2015/16 capital programme and a less severe than forecast use of reserves, the forecast borrowing requirement for 2016/17 is currently £4m. This figure continues to be monitored, it could decrease further with continuing slippage, or on the other hand it could increase if, for instance, any of the Council's LOBO loans were suddenly to be called. Furthermore, if PWLB rates appear attractive it may still be in the Council's financial interest to borrow more than this minimum amount.

21. PWLB rates are monitored closely in order to feed into decisions on new borrowing. Longer term rates remain fairly low. The Council is 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 during 2015/16 and the first period of 2016/17.



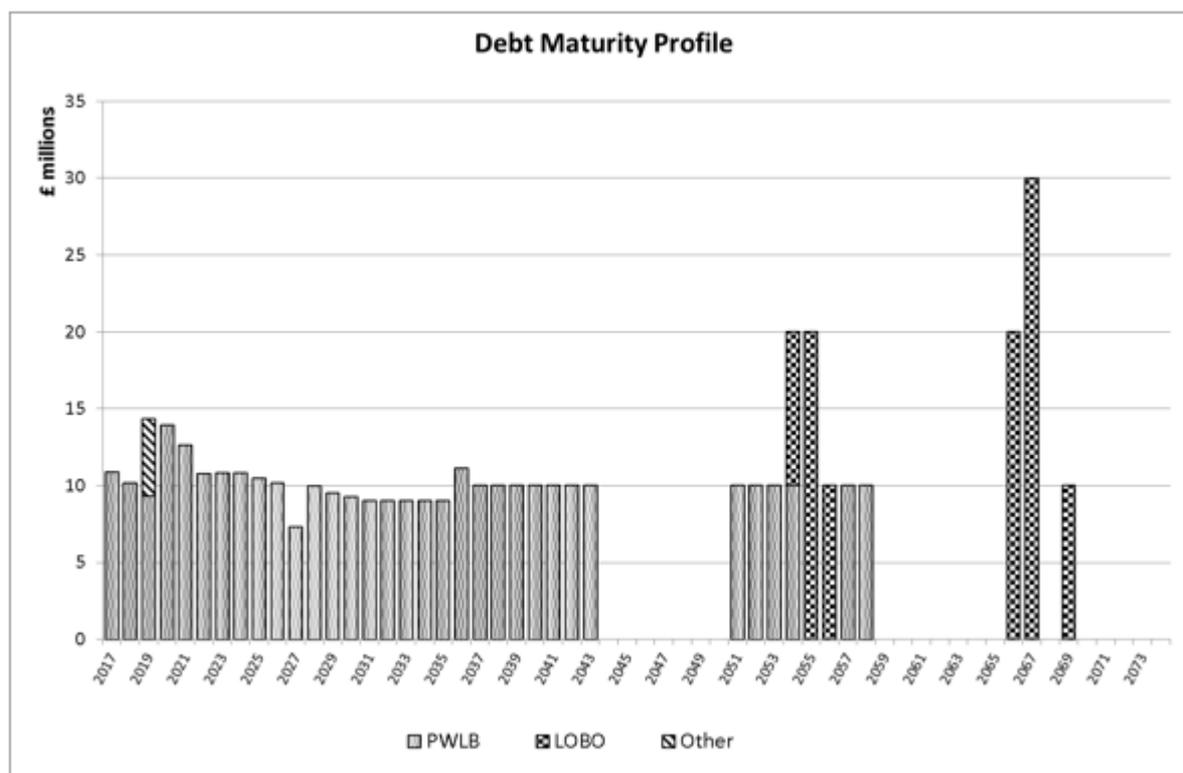
22. Borrowing decisions will take account of a number of factors including:

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

23. 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 42 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.

24. Longer-term borrowing (maturities up to 53 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 increases the rate at an option point, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. They are shown in the chart below at their furthest maturity points, but could actually mature at various points before then, constituting a risk that the Council will have to then borrow at the prevailing interest rate.

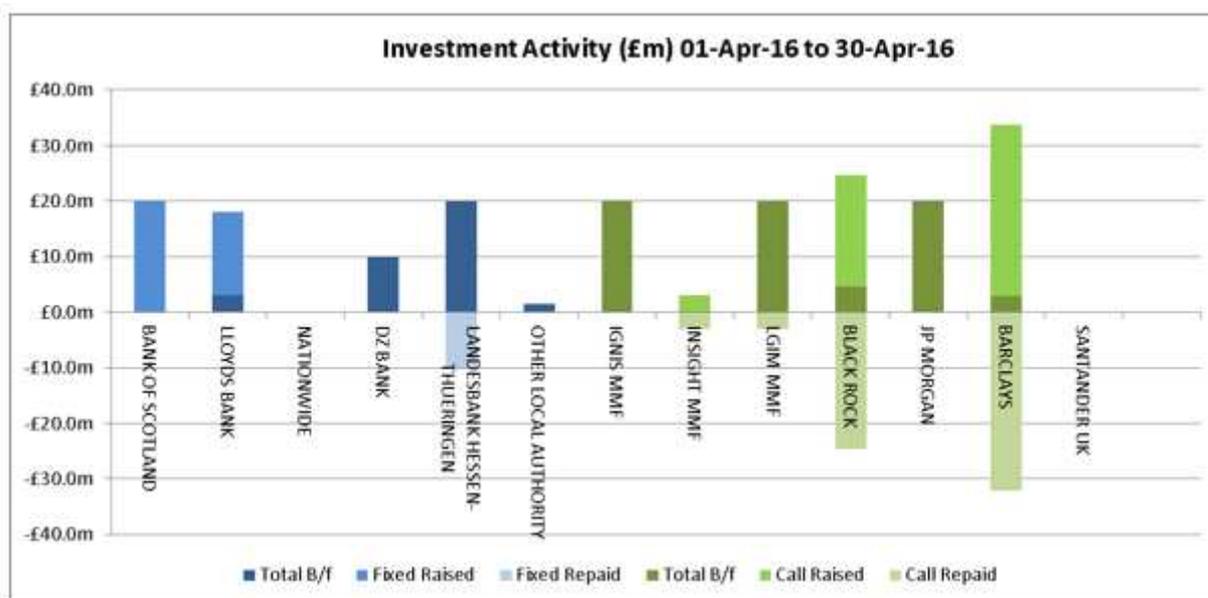
25. The 'other' loan denotes more recent borrowing from the money markets where the main objective was to minimise interest costs. Refinancing of these loans has been factored into the Treasury Management Strategy.



26. The investment activity for 2016/17 to the end of April 2016 is summarised in the chart and table below. Outstanding investment balances totalled £102m at the start of the year and £118m at the end of the period. This is slightly higher than balances at the same time last year, and reflects the reduction in the need to borrow (mentioned above).

27. The Council's lending list has been reviewed for 2016/17, and additional banks meeting the Council's lending criteria have been added. All counterparty ratings are regularly monitored and lending restrictions placed accordingly.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	-	20,000	-	20,000
Lloyds Bank	3,000	15,000	-	18,000
Nationwide	-	-	-	-
DZ Bank	10,000	-	-	10,000
Landesbank Hessen-Thuringen	20,000	-	(10,000)	10,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	-	-	20,000
Insight MMF	-	3,050	(3,050)	-
LGIM MMF	20,000	-	(3,100)	16,900
Black Rock	4,700	20,000	(24,700)	-
JP Morgan	20,000	-	-	20,000
Barclays	2,950	30,800	(32,100)	1,650
Santander UK	-	-	-	-
Total	102,150	88,850	(72,950)	118,050



28. The County Council, as with most Local Authorities, borrows the majority of its requirements from the PWLB. The Government have recently issued a consultation on proposals to abolish the PWLB, using the powers in the Public Bodies Act 2011, and to transfer its functions to the Commissioners of the Treasury. It is proposed that the Service Director – Finance, Procurement & Improvement, in consultation with the Chair of F&P Committee, respond to the PWLB consultation on behalf of the Council. The consultation explicitly states:-

“The proposals only affect the governance arrangements and do not change any of the policy or operational aspects of lending to local authorities. As a governance change, central government will continue to lend to local authorities as now in accordance with the prudential regime and the policy on rates and repayment terms will remain the responsibility of the Treasury.”

Based on the above it is not anticipated that the proposals will result in any changes to the way NCC operates its Treasury Management functions.

Debt Recovery Performance

29. The overall debt at the end of 2015/16 increased from Period 11 by over £7.3m to £27.4m. This represents a slightly lower overall debt increase and total compared to year end 2014/15. The value of invoices raised during period 12 was £25m. The over six month debt has decreased by £1.0m on Period 11.

Invoices Raised

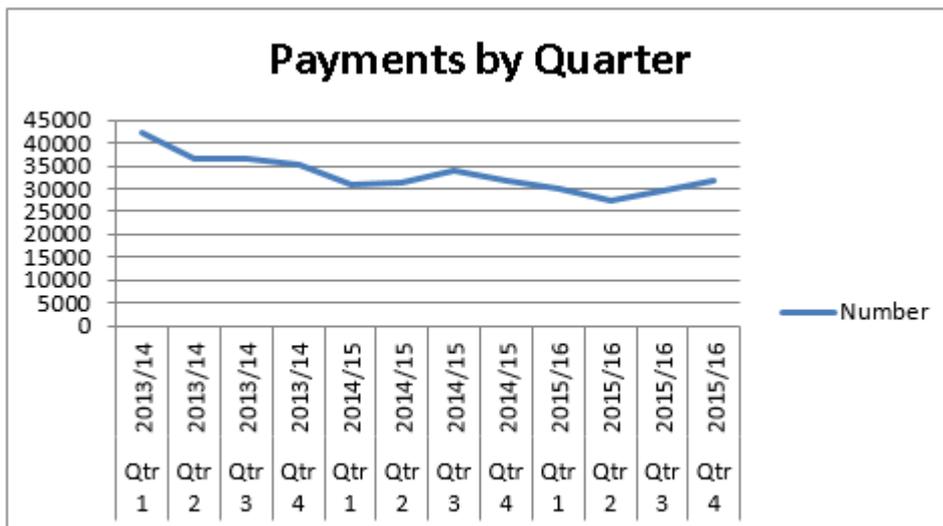
	Quarter 4	Year to date
Number	40,016	183,085
Value	£58,926,666	£193,660,394

Debt Position

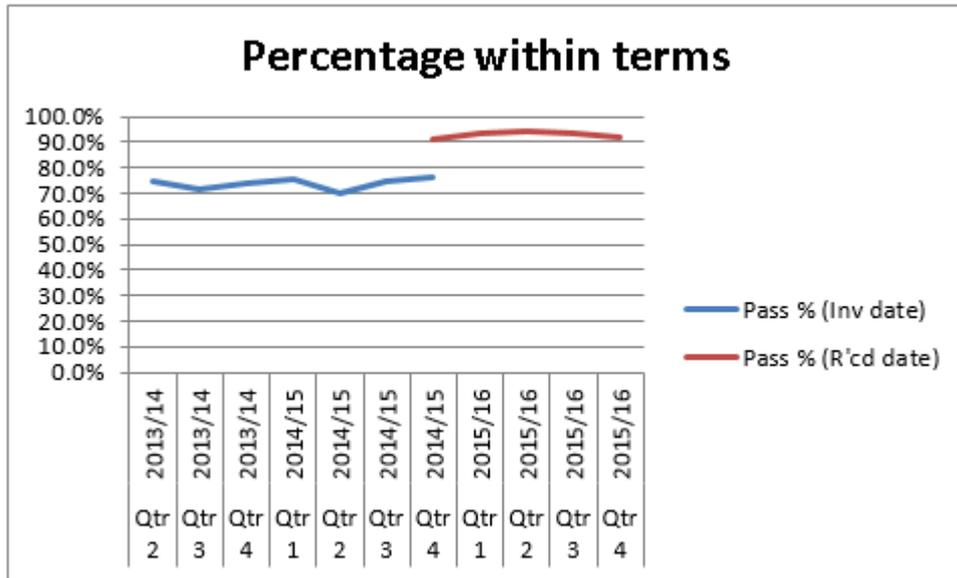
	Statutory	Non-Statutory	Total
Total	£9,027,501	£18,410,947	£27,438,448
Over 6 months	£4,242,927	£825,155	£5,068,082
% over 6 months	47%	4.5%	18.5%

Accounts Payable (AP) Performance

30. The chart below shows that the number of invoices processed by Accounts Payable has fallen gradually over the last two years. Much of the recent fall is due to the introduction of the Managed Service Provider (MSP) for agency staff. Further reduction can be expected with the loss of Highways and Property invoice processing. The AP team will continue to process invoices on behalf of Inspire.



31. The percentage within terms figure for the quarter ended 31 March 2016 was 93.33% of 28,221 invoices paid. The chart now shows some consistent performance over 90% during 2015/16. Reporting of payment within terms (annually) and interest liability for late payments is now a requirement under procurement Policy Note 03/16 (Regulation 113).

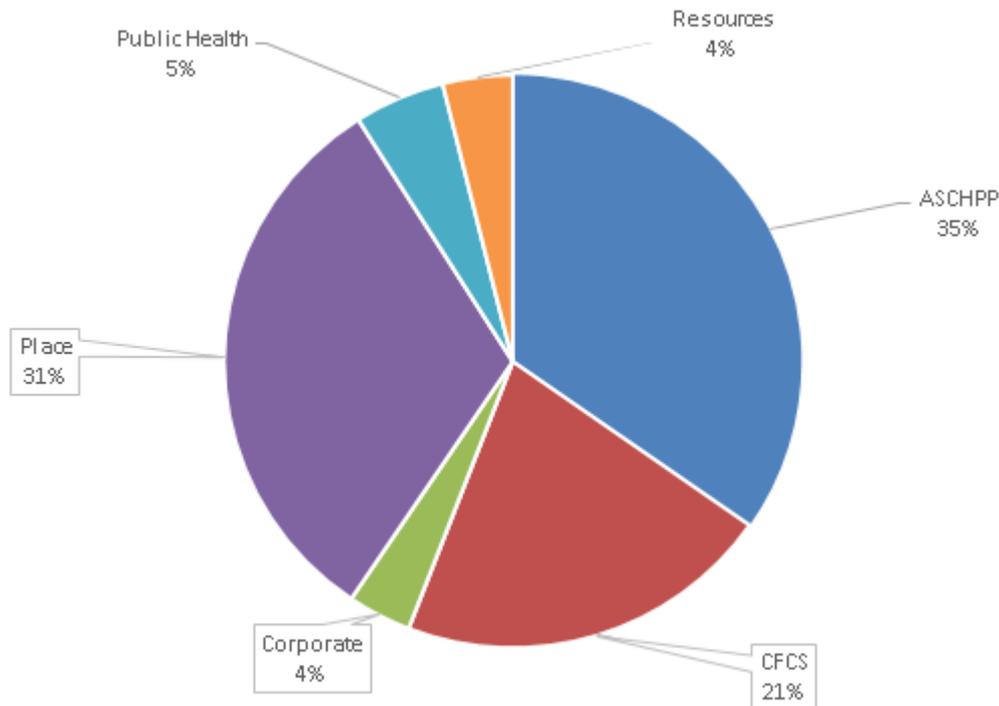


32. The debt recovery and accounts payable performance information will continue to be reviewed at an operational level on a fortnightly basis. The strategic performance information will be compiled for this report to Committee on a quarterly basis.

Procurement Performance

33. As an organisation, NCC has spent £648m in financial year 2015/16 with external suppliers which is an increase of £13m from the previous financial year. The top 6% (410) of suppliers account for 80% (£518m) of the total supplier spend. The remaining 94% (6,635 suppliers) have a total expenditure of £130m with an average spend of £19,000.

34. The chart below shows how the total amount spent, in period, is divided across portfolios, just over 60% of all expenditure going through Care (ASCHPP, CFCS & PH) and almost 40% through Place, Resources and Corporate.



35. The Council's preferred ordering route is through the Business Management System (BMS). The team have been working with stakeholders to improve the way that we procure to ensure compliance. Orders that are processed through BMS are classified as Compliant Purchase Orders (Compliant). Non Purchase Orders (or Non-Compliant) are those purchases that are made outside of any system.

Retrospective Orders are non-compliant in that they have been raised following the delivery of the goods/services. Interface Orders are those that are out of scope and are paid through another system e.g. Framework. Purchase Orders are beneficial to the organisation as they provide visibility of what we spend. Currently:

- Compliant ordering (PO) has increased by 8% in the last 12 months from 30% to 38% of the total spent
- Non-compliant (non PO) ordering has decreased by 17% in the last 12 months from 38% to 21% of the total
- Interface orders has increased by 10% in the last 12 months from 31% to 41% of the total spent

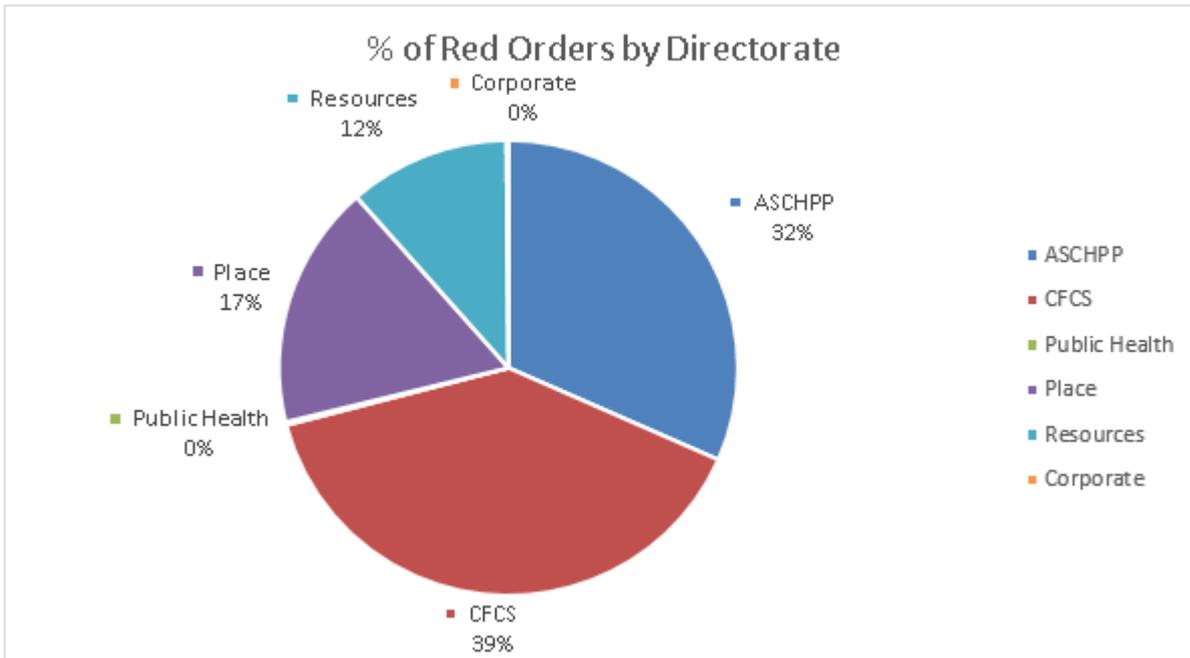
36. The table below shows the number of retrospective orders on a monthly basis by department.

Department	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
ASCHPP	466	361	388	415	350	296	347	281	243	226	246	225
CFCS	687	536	538	601	481	486	500	495	412	408	450	562
Corporate	3	9		2		2	3			4	1	
Place	504	444	512	503	414	395	537	470	414	370	465	623
Resources	104	115	107	116	81	108	90	105	91	60	146	126
Public Health	2	1		5	1	1	6	3	3	1	2	3
Total	1,766	1,466	1,545	1,642	1,327	1,288	1,483	1,354	1,163	1,069	1,310	1,539
Quarterly Total	4,777			4,257			4,000			3,918		

37. The table below shows the percentage of retrospective spend as a percentage of total spend by Department for the 2015/16 financial year.

Department	Total Spend (£m)	Retrospective Spend (£m)	Percentage
ASCHPP	225.0	19.5	8.7%
Children, Families and Cultural Services	137.5	28.5	20.7%
Corporate	23.2	1.7	7.3%
Place	204.7	44.2	21.6%
Public Health	32.9	0	0.0%
Resources	25.3	2.6	10.3%
Total	648.7	96.5	14.9%

38. 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. The chart below identifies the percentage of Red Route orders by Directorate in the 2015/16 financial year.



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

Statutory and Policy Implications

40. 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 2016/17.
- 2) To approve the contingency requests received to date.
- 3) To note the Council's Balance Sheet transactions.
- 4) To approve the delegation to the Service Director – Finance, Procurement & Improvement, in consultation with the Chair of F&P Committee, of authority to respond to the PWLB consultation on behalf of NCC.
- 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:

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Constitutional Comments (HD 08/06/2016)

41. Committee has the authority to determine recommendations within the report.

Financial Comments (GB 26/05/2016)

42. 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'