Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

17 September 2018

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 4 2018/19

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2018/19.
2. To provide a summary of capital programme expenditure to date, year-end forecasts and approve variations to the capital programme.
3. To inform Members of allocations released from the demand and inflationary pressures account.
4. To inform Members of the Council's Balance Sheet transactions.
5. To provide Members with an update from the Accounts Payable and Accounts Receivable teams.
6. To provide Members with an update from the Procurement Team.

Information

Background

7. The Council approved the 2018/19 budget at its meeting on 28 February 2018. 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 current financial year. A £6.2m net overspend is currently predicted. As a consequence of the in-year overspend and the significant financial challenges facing the Council over the medium term, the key message to effectively manage budgets and, wherever possible, deliver in-year savings is being reinforced.

Table 1 – Summary Revenue Position

Forecast Variance as at Period 03 £'000	Committee	Annual Budget £'000	Actual to Period 04 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
3,935	Children & Young People's	120,140	27,613	124,864	4,724
1,031	Adult Social Care & Public Health	208,786	51,108	209,722	936
1,717	Communities & Place	122,253	36,357	123,623	1,370
(309)	Policy	34,838	13,912	34,462	(376)
(296)	Finance & Major Contracts Management	3,172	1,266	2,869	(303)
(2)	Governance & Ethics	7,285	2,207	7,314	29
(78)	Personnel	15,323	5,745	15,225	(98)
5,998	**Net Committee (under)/overspend**	**511,797**	**138,208**	**518,079**	**6,282**
(725)	Central items	(13,310)	2,096	(14,017)	(707)
-	Schools Expenditure	102	-	102	-
251	Contribution to/(from) Traders	849	1,028	1,100	251
5,524	**Forecast prior to use of reserves**	**499,438**	**141,332**	**505,264**	**5,826**
-	Transfer to / (from) Corporate Reserves	(6,364)	-	(6,364)	-
507	Transfer to / (from) Departmental Reserves	(10,315)	(974)	(9,895)	420
-	Transfer to / (from) General Fund	(1,529)	-	(1,529)	-
6,031	**Net County Council Budget Requirement**	**481,230**	**140,358**	**487,476**	**6,246**

Committee and Central Items

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

Children & Young People's (£4.7m overspend, 3.9% of annual budget)

9. The overspend has been caused primarily by rapidly increased demand for children's care services. Allied with unavoidably high unit costs this has had a dramatic impact on demand led budgets. Child in Need cases have also increased significantly. This increased demand is also being experienced nationally and consequently adds additional market pressures.

10. The major contributing variances are:

- Staffing in Hard to Recruit Teams (including leaving care, LAC, emergency duty etc.) and other Social Work teams is forecast to overspend by £1.7m due to a combination of staffing changes including permanent recruitment to vacancies, temporary staff to respond to workload issues and agency workers. This includes the Assessment and District Child Protection Teams which continue to have high demand and caseloads. The agency challenge panel continues to approve all usage of agency staff.
- External Placements for LAC are forecast to overspend by £3.1m, of which £1.8m is due to the recent and sustained growth in the number of Independent Fostering Agency (IFA) placements which are not expected to significantly reduce over the year, together with £0.4m on semi-independent spot placements. External LAC numbers have increased as noted in paragraph 9, with the sustained growth in IFAs starting in the latter part of 2017/18 having an exacerbated impact on 2018/19.
- A range of other budget heads account for the offsetting net £0.1m underspend.

11. A number of budget control measures are in place across the Children and Young People's Committee as follows:

- Instruction to all Group Managers to scrutinise and restrict all non-essential expenditure. This will be followed up with a further "line by line" budget review over the summer.
- Ongoing challenge and development of existing block contracts for residential care.
- Proposed increased frequency of Agency Worker Challenge Panels.
- Bringing forward proposals to increase the number of internal foster carers.
- Various measures will be implemented through the department's Remodelling Practice programme (fieldwork staffing arrangements).

Adult Social Care & Public Health (forecast £0.9m overspend, 0.5% of annual budget)

12. The major variances on care packages are as follows :

- Older Adults across the County are forecasting an overspend of £1.5m.
- Younger Adults across the County are forecast to overspend by £2.1m, due to increased commitments in direct payments and supported living.

13. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.4m due mainly to lower in-year costs relating to the advocacy contract and an underspend in the Early Intervention and Prevention commissioning team.

14. The Transformation Division is forecasting an underspend of £1.0m mainly on the Improved Better Care Fund, which is experiencing delays in recruitment across divisions.

15. Public Health is currently forecasting an underspend of £0.3m, due mainly to an underspend on the Substance Misuse Programme. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Communities & Place (forecast £1.4m overspend, 1.1% of annual budget)

16. There is currently a forecast overspend of £1.7m against the SEND / home to school transport budget. A review of transport provision is currently taking place with reference to changing demand and the efficiency of routes. A retendering process is also being undertaken which will complete in September 2018.

17. The budget for concessionary fares is forecast to underspend by £0.3m following favourable contract settlement values with transport operators.

Trading Services

18. The anticipated draw-down from Trading Services Reserves to fund Trader deficits/savings is £1.1m, from current Reserve balances of £1.1m. This does not include potential redundancy costs resulting from Trading Services restructure, to be implemented.

Central Items (forecast £0.7m underspend)

19. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.

20. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net underspend on interest of £0.5m. There is a net £0.2m underspend across the other central items.

21. The Council's budget includes a main contingency budget of £5.5m to cover redundancy costs, slippage of savings, additional requirement for the 2018/19 pay award and unforeseen events.

22. Also, in 2018/19 a number of demand and inflationary pressures have been identified that have a high degree of uncertainty with regard to likelihood, value and profiling. As such, an additional provision of £4.1m has been made within contingency to fund these pressures should they arise. Finance and Major Contracts Management Committee or the Section 151 Officer are required to approve the release of contingency funds.

23. Requests have been made to release some of the funds from the demand and inflationary pressures account. Following a review by the Section 151 Officer, £0.6m has been transferred to fund the pressures that have now materialised, leaving £3.5m left in the additional contingency budget. This will continue to be assessed throughout the year.

Progress with savings and risks to the forecast

24. Council on 28 February 2018 approved savings proposals of £15.6m for delivery over the four year period 2018-22. 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. The progress of the Council's current savings programme is reported to the Improvement and Change Sub-Committee on a regular basis. This report highlights all projects that are either experiencing obstacles or are at risk, the latest being 4 September 2018.

25. Issues associated with the achievement of savings (£0.686m) relating to Statutory School Transport are being reviewed. The outcome of the review will be reported to the Corporate Leadership Team and subsequently to the Improvement and Change Sub-Committee.

26. The approved 2018/19 budget was set against a background of assumptions and on-going risks, specifically with regard to the demand for Council services in the areas of Children and Adult Social Care where safeguarding takes priority. These high risk areas will continue to be monitored closely during the year through the robust monthly budget management process and reported back to Committee.

Balance Sheet
General Fund Balance

27. Members approved the 2017/18 closing General Fund Balance of £30.9m at Council on 12 July 2018. The 2018/19 budget approves utilisation of £1.6m of balances which will result in a closing balance of £29.3m at the end of the current financial year. This is 6.1% of the budget requirement.

Capital Programme

28. Table 2 summarises changes in the gross Capital Programme for 2018/19 since approval of the original Programme in the Budget Report (Council 28/02/18):

Table 2 – Revised Capital Programme for 2018/19

	2018/19 £'000	£'000
Approved per Council (Budget Report 2018/19)		112,771
Variations funded from County Council Allocations :		
Net slippage from 2017/18 and financing adjustments	16,380	
		16,380
Variations funded from other sources :		
Net variation from 2017/18 and financing adjustments	(4,625)	
		(4,625)
Revised Gross Capital Programme		**124,526**

29. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 4.

Table 3 – Capital Expenditure and Forecasts as at Period 4

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 4 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	41,397	5,440	26,483	(14,914)
Adult Social Care & Public Health	4,592	603	4,592	-
Communities & Place	56,738	10,822	55,738	(1,000)
Policy	19,863	2,412	20,208	345
Finance & Major Contracts Mngt	180	23	180	-
Personnel	256	-	256	-
Contingency	1,500	-	1,500	-
Total	**124,526**	**19,300**	**108,957**	**(15,569)**

Children & Young People's

30. In the Children and Young People's Committee capital programme, a forecast underspend of £14.9m has been identified. This is mainly due to £10.7m forecast slippage against the School Places Programme. The majority of existing commitment is for primary education places. Re-profiling of the budget is required as the remaining provision is to be allocated, in the main, to Secondary School pressures in 2019/20. These are currently being assessed as to where the allocation is most required.

31. Also in the Children and Young People's Committee, a forecast underspend of £2.7m has been identified against the Bestwood Hawthorne Replacement School project as the forecast spend is re-profiled to reflect the proposed delivery of the scheme.

Communities & Place

32. In the Communities and Place Committee, a forecast underspend of £1.0m has been identified. This is as a result of £0.7m slippage against the Sherwood Forest Visitor Centre project as demolition and remediation of the existing visitor centre is now scheduled for 2019. In addition, £0.4m slippage has been identified against the Flood Alleviation and Drainage programme and £0.3m against the Libraries Improvement programme as projects are re-profiled into the next financial year.

    It is proposed that the Communities and Place Committee capital programme is varied to reflect slippage identified against the Sherwood Forest Visitor Centre project, the Flood Alleviation and Drainage programme and the Libraries Improvement Programme as described above.

33. Also in the Communities and Place Committee, the forecast underspends above have been partially offset by a forecast overspend of £0.4m against the Waste Management programme, to be funded from existing revenue budgets.

    It is proposed that the Communities and Place capital programme is varied to reflect the overspend identified against the Waste Management programme, funded from revenue.

34. Also in the Communities and Place capital programme, a report to Communities and Place Committee in May 2018 requested that £0.5m of revenue funding be used to fund capital expenditure associated with the Local Improvement Scheme.

    It is proposed that the Communities and Place capital programme is varied to reflect the additional £0.5m of capital expenditure on the Local Improvement Scheme, funded from revenue.

Financing the Approved Capital Programme

35. Table 4 summarises the financing of the overall approved Capital Programme for 2018/19.

Table 4 – Financing of the Approved Capital Programme for 2018/19

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	24,521	16,612	125	139	41,397
Adult Social Care & Public Health	3,268	1,324	-	-	4,592
Communities & Place	17,864	37,462	600	812	56,738
Policy	18,613	1,214	-	36	19,863
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	1,500	-	-	-	1,500
Total	**66,022**	**56,612**	**725**	**1,167**	**124,526**

36. It is anticipated that borrowing in 2018/19 will increase by £1.3m from the forecast in the Budget Report 2018/19 (Council 28/02/2018). This increase is primarily a consequence of:

- £16.4m of net slippage from 2017/18 to 2018/19 and financing adjustments funded by capital allocations.
- Net slippage in 2018/19 of £15.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

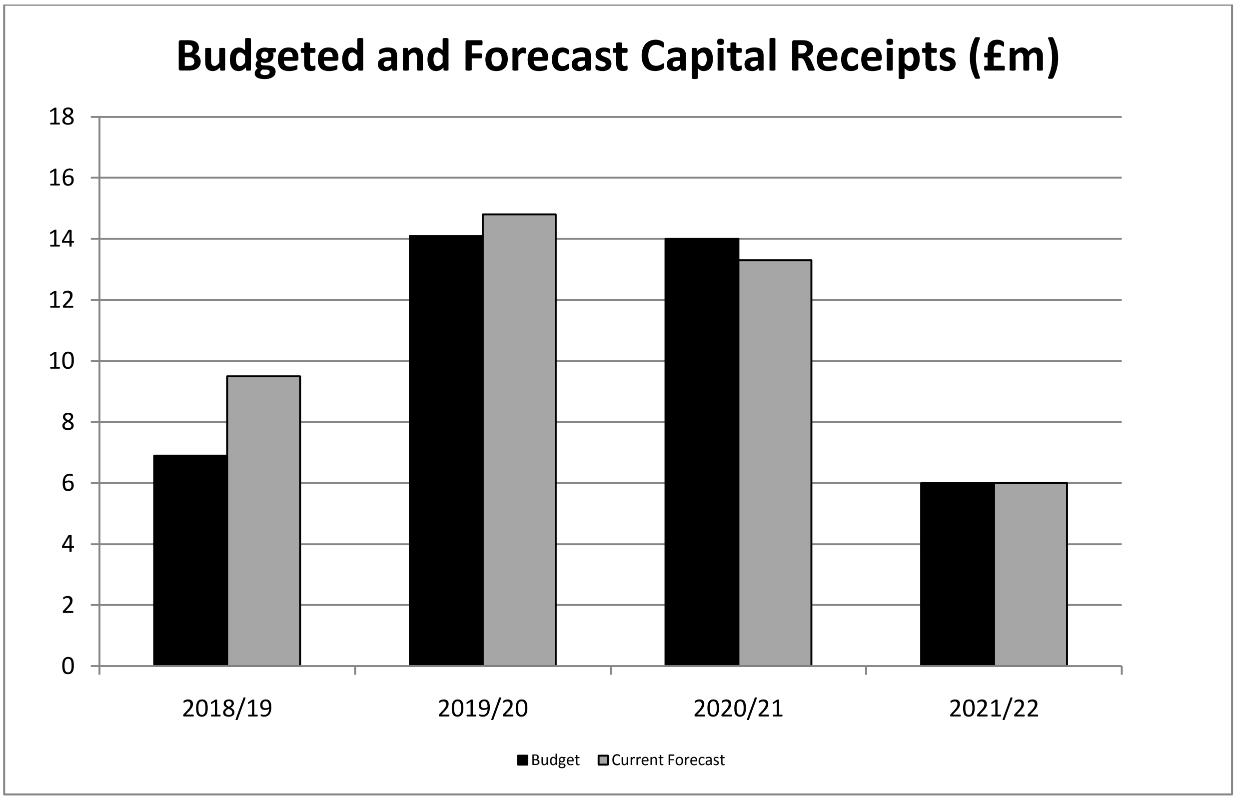
Prudential Indicator Monitoring

37. 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

38. 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.

39. The chart below shows the budgeted and forecast capital receipts for the four years to 2021/22.



40. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2018/19 (Council 28/02/2018). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

41. The capital receipt forecast for 2018/19 is £9.5m. To date in 2018/19, capital receipts totalling £0.5m have been received.

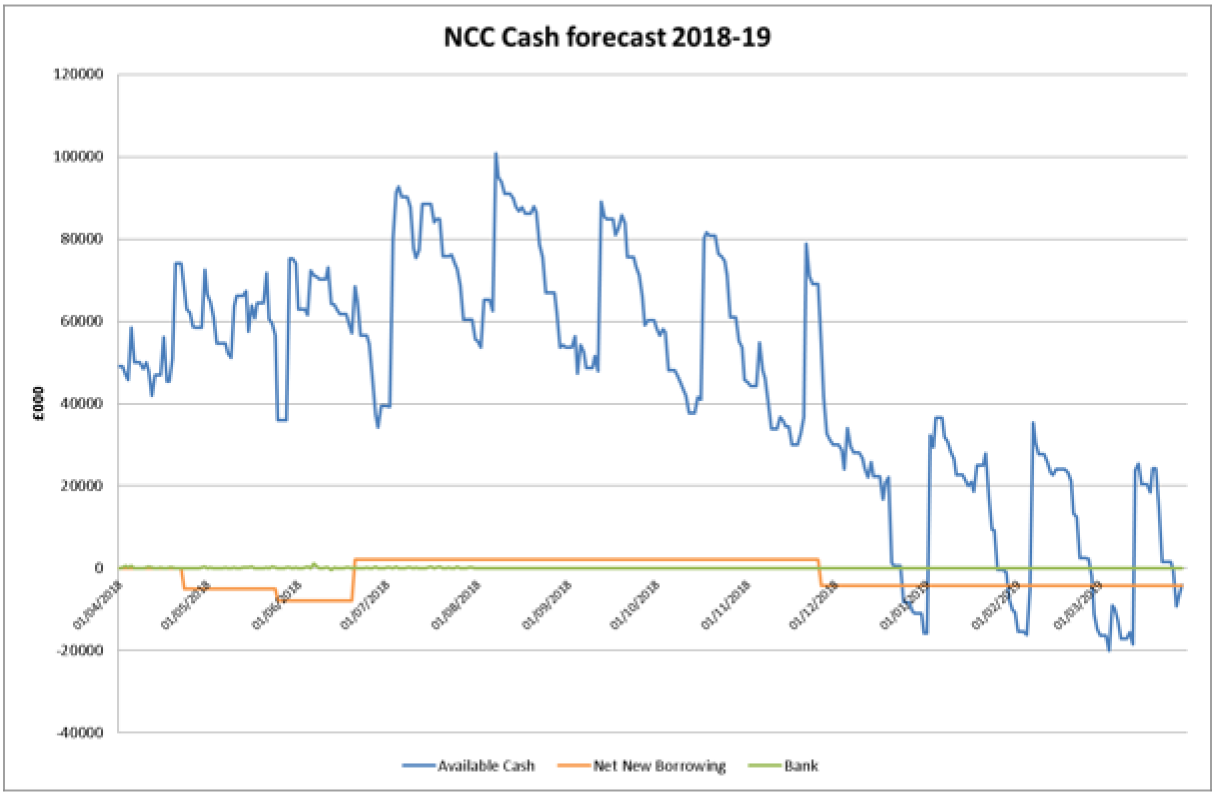
42. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales being lower than the forecast.

43. Current Council policy (Budget Report 2018/19) is to use the first £5.4m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be set against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

44. 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.

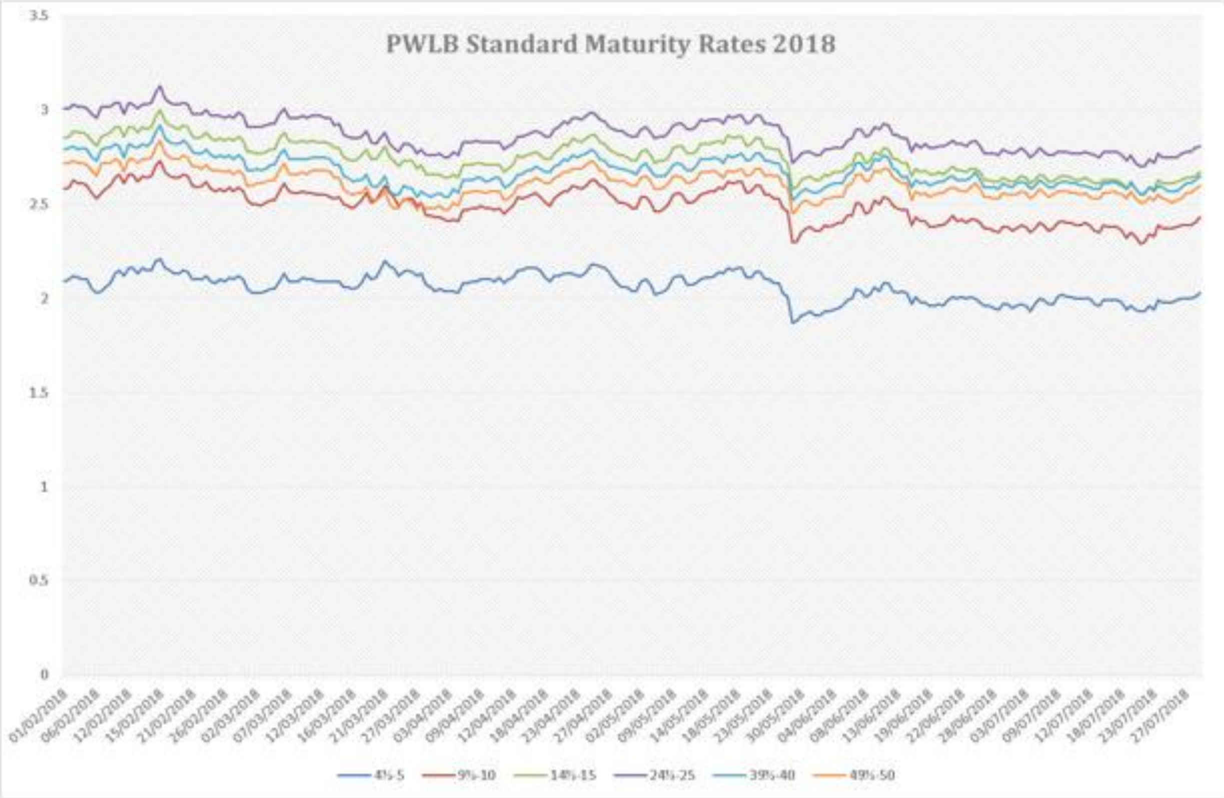
45. The Cash forecast chart below shows the forecast cash flow position for the financial year 2018/19. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, 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.



46. 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.

47. The Treasury Management Strategy for 2018/19 identified a need to borrow approximately £45m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. After 2017/18 closure this forecast has been revised to £52m, and £10m of this was taken in June. PWLB interest rates continue to be monitored closely to allow changes - or potential changes - 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 2018 to date.

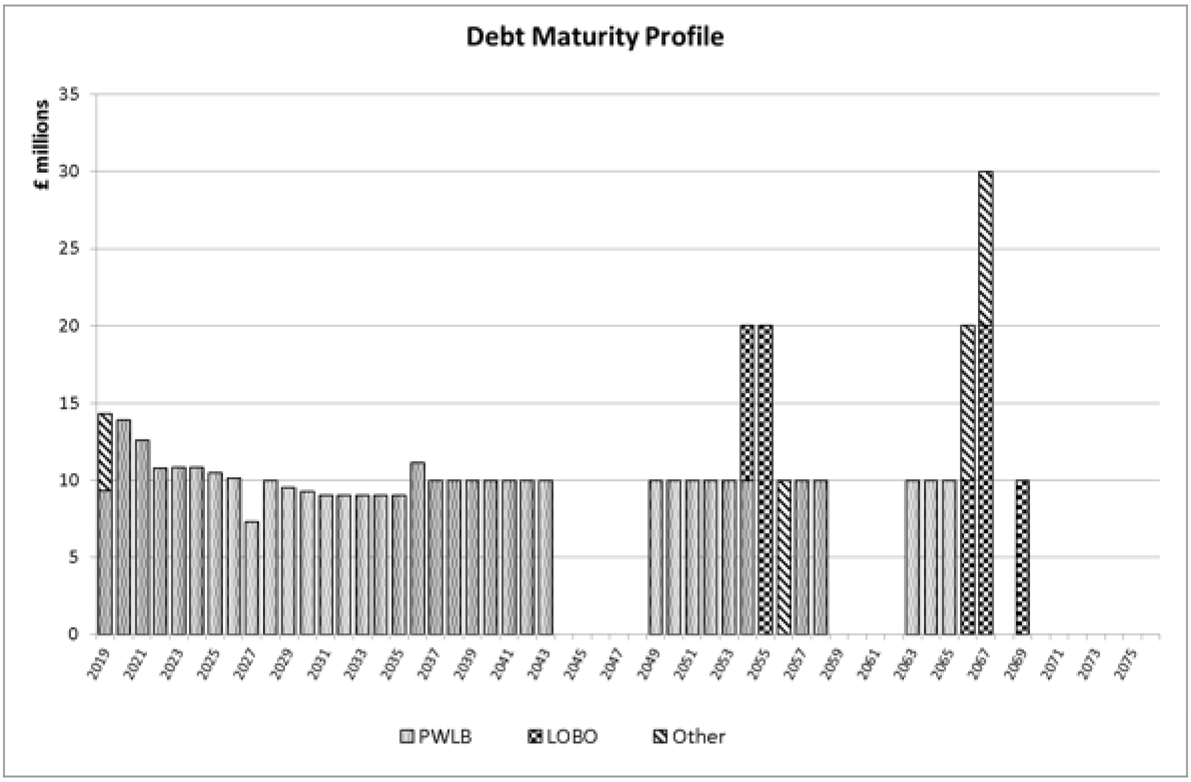


48. Borrowing decisions will take account of a number of factors including:
    - expected movements in interest rates
    - current maturity profile
    - the impact on revenue budgets and the medium term financial strategy
    - the treasury management prudential indicators.

49. 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 47 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.

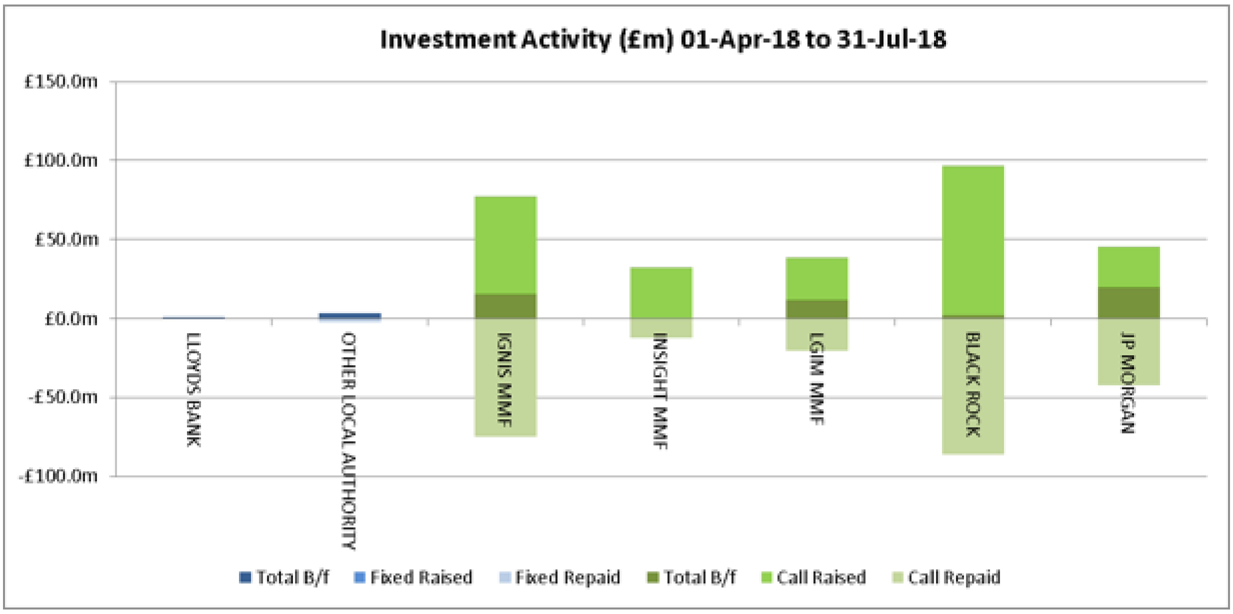
50. Longer-term borrowing (maturities up to 51 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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.

51. 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 in 2016.



52. The investment activity for 2018/19 is summarised in the chart and table below. Outstanding investment balances totalled £54m at the start of the year and £58m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Lloyds Bank	1,000	-	-	1,000
Other Local Authority	3,500	-	(2,000)	1,500
IGNIS MMF	15,500	61,950	(74,650)	2,800
INSIGHT MMF	-	32,200	(12,200)	20,000
LGIM MMF	11,400	27,350	(20,250)	18,500
Black Rock	2,150	95,000	(86,250)	10,900
JP Morgan	20,000	25,600	(42,300)	3,300
Total	**53,550**	**242,100**	**(237,650)**	**58,000**



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

Debt Recovery Performance

54. The debt position at the end of quarter 1 is comparable with annual and quarterly trends. The backdated VAT claims are also moving along the debtor profiling with £1m outstanding at the 5 month ageing.

55. The Residential and domiciliary debts debt figures continue to be influenced by full cost invoices to service users that have not yet joined the deferred payments scheme. This is a direct effect of the changes brought about by the Care Act. These users are charged full costs for their care which they have no funds to make payments. This accounts for £1.82m over 373 individual accounts.

56. The write off total as at the end of Quarter 1 was £147,000.

Invoices raised in quarter

	Quarter 1	Year to date
Number	35,451	35,451
Value	£40,207,448	£40,207,448

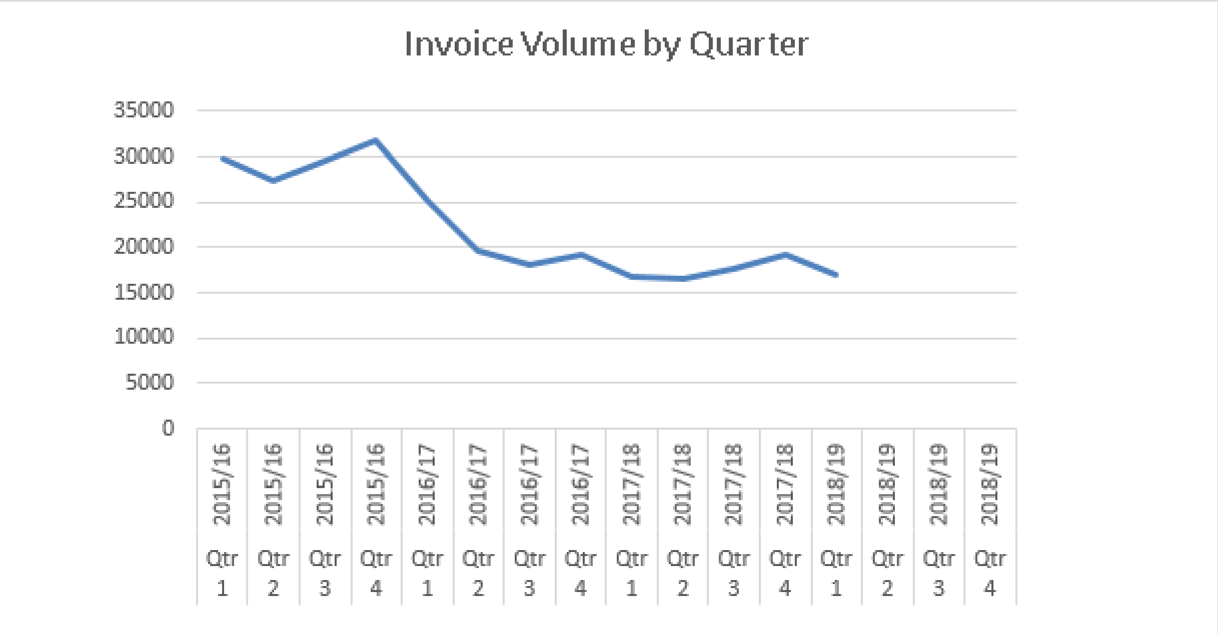
Debt position at 30/06/18

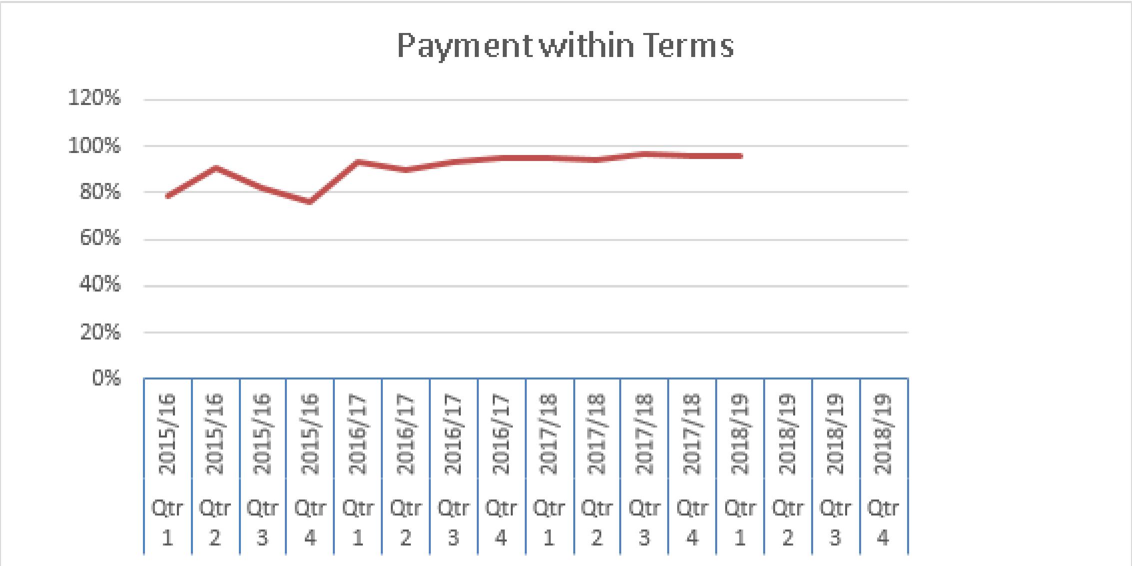
	Residential & Domiciliary Care	All Other	Total
Total	£9,952,490	£19,604,015	£29,556,505
Over 6 months	£5,353,601	£634,374	£5,987,975
% over 6 months	53.8%	3.2%	20.3%

Accounts Payable (AP) Performance

57. During Quarter 1, 96% of commercial invoices were paid within terms and a further 2% are then paid within 7 days of vendor terms. This trend has continued to meet the performance targets. The department also monitors where invoices were paid late and subjected to a dispute and fall outside the late payment compensations legislation. This is done retrospectively and collated for annual reporting requirements. This publically reported performance statistic for 2017/18 was 95.59%, an increase of 1.81% over 2016/17.

58. The volume of commercial invoices processed continues in the same trend with an expectation that we will receive in the region of 70,000 invoices during 2018/19.



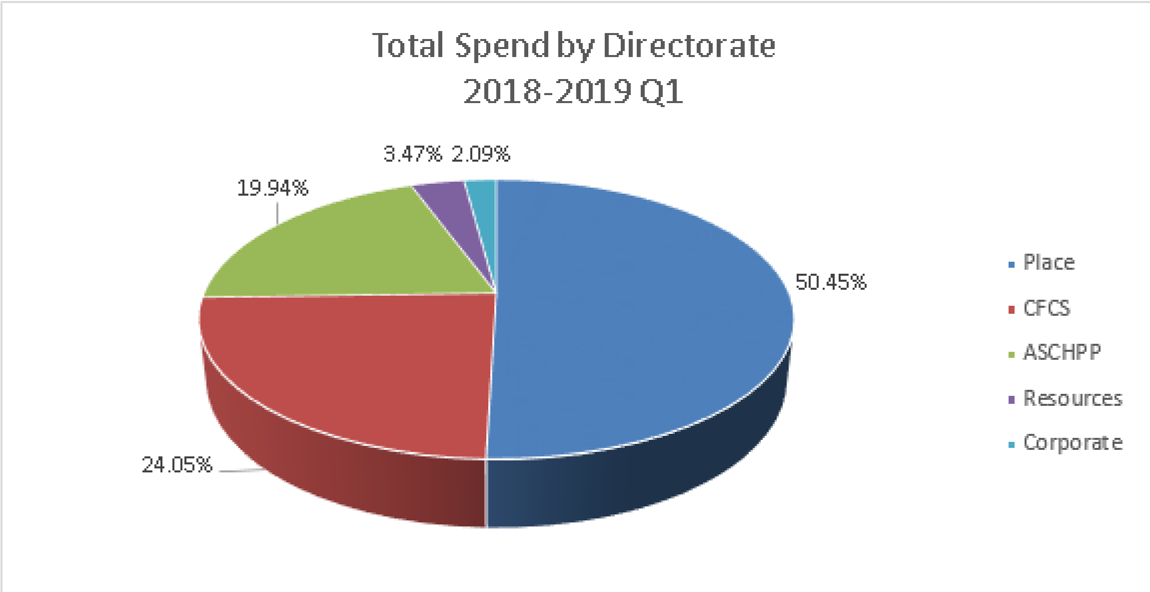


Procurement Performance

59. As an organisation, NCC has spent £134m in the first quarter of the financial year 2018/19 with external suppliers. This represents an increase of £12m when compared with the same

period of the previous financial year. The top 4% (104) of suppliers account for 80% (107m) of the total supplier spend. The remaining 96% (2,695 suppliers) have a total expenditure of £27m with an average spend of £9,900.

60. The table and chart below shows the total amount spent in the period, by Directorate. Place has the highest level of expenditure at 50%, whilst collectively the care related Directorates (ASCH&PP, CFCS) account for about 44% of all spend.



61. 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'.

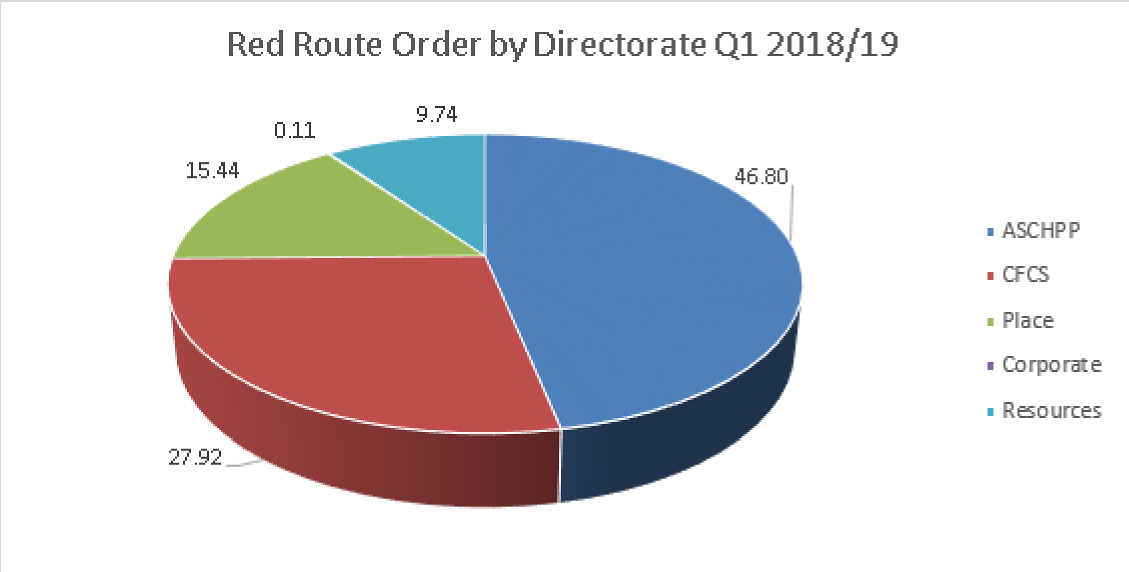
Retrospective orders are also classified as non-compliant, as they are typically raised after delivery of goods/services. Services commissioned and managed through other Corporate Systems, for example Frameworki/Mosaic, are out of scope. Purchase Orders are beneficial to the organisation as they provide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

- Compliant ordering has increased by 4%
- Non-compliant (non PO) ordering has decreased by 4% from 36% to 32% of the total spend

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

Directorate	PO Volume Apr 2018	PO Volume May 2018	PO Volume Jun 2018	Total Q1 2018/19	Total Q1 2017/18
ASCHPP	177	103	77	**357**	**537**
CFCS	265	256	242	**763**	**1,261**
Place	244	356	226	**826**	**1,408**
Corporate	1	5	5	**11**	**21**
Resources	68	113	54	**235**	**402**
Total	**755**	**833**	**604**	**2,192**	**3,629**

63. 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 increased slightly from 9,005 to 9,120. The chart below identifies the percentage of Red Route orders by Directorate in the 2018/19 financial year. The Procurement Team continue to work with stakeholders to improve these figures.



Statutory and Policy Implications

64. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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 comment on the revenue budget expenditure to date and year-end forecasts.

2) To comment on the capital programme expenditure to date, year-end forecasts and approve the variations to the capital programme.

3) To comment on allocations released from the demand and inflationary pressures account.

4) To comment on the Council's Balance Sheet transactions.

5) To comment on the performance of the Accounts Payable and Accounts Receivable teams.

6) To comment on the Procurement Team.

Nigel Stevenson Service Director – Finance, Infrastructure 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 07/09/2018)

65. Pursuant to Part 4 section 21 of the Nottinghamshire County Council's Constitution the Finance and Major Contracts Management Committee has the delegated authority for all decisions within the control of the Council including but not limited to responsibility for the financial management of the Authority. The recommendations contained within this report fall within the delegated authority to this Committee

Financial Comments (GB 23/08/2018)

66. 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