Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

19 March 2018

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 10 2017/18

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To request approval for an additional contingency request.
3. To approve the request to transfer money into an earmarked reserve.
4. To provide a summary of capital programme expenditure to date and year-end forecasts.
5. To inform Members of the Council's Balance Sheet transactions.

Information

Background

6. 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.

Summary Revenue Position

7. The table below summarises the revenue budgets for each Committee for the current financial year. An £8.2m net underspend is currently predicted. In light of the Council's continuing financial challenges, 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 9 £'000	Committee	Annual Budget £'000	Actual to Period 10 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
367	Children & Young People	120,053	96,974	120,259	206
(2,856)	Adult Social Care & Public Health	208,945	150,913	204,793	(4,152)
(193)	Community & Place	125,288	102,188	125,823	535
(170)	Policy	34,050	32,930	33,934	(116)
(236)	Finance & Major Contracts Management	3,229	2,946	2,985	(244)
(158)	Governance & Ethics	7,209	6,092	6,983	(226)
(725)	Personnel	16,263	15,494	15,458	(805)
(3,971)	**Net Committee (under)/overspend**	**515,037**	**407,537**	**510,235**	**(4,802)**
(6,538)	Central items	(10,400)	(33,925)	(15,840)	(5,440)
-	Schools Expenditure	149	-	149	-
100	Contribution to/(from) Traders	505	553	685	180
(10,409)	**Forecast prior to use of reserves**	**505,291**	**374,165**	**495,229**	**(10,062)**
313	Transfer to / (from) Corporate Reserves	(15,066)	(794)	(15,641)	(575)
1,664	Transfer to / (from) Departmental Reserves	(9,446)	(818)	(7,052)	2,394
-	Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(8,432)	**Net County Council Budget Requirement**	**475,279**	**372,553**	**467,036**	**(8,243)**

Committee and Central Items

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

Adult Social Care & Public Health (forecast £4.2m underspend, 2.0% of annual budget)

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

- Older Adults across the County are forecasting a reduced overspend of £1.8m (a reduction of £0.3m compared with the last monitoring period). This is primarily due to a reduction in homecare packages and an agreement being reached on the funding of posts recharged to the Health Service.
- Younger Adults across the County are forecast to underspend by £2.2m, due primarily to a sustained over achievement of Continuing Health Care income, and small reduction in Long Term Care and Homecare.

9. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.6m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.

10. Residential Services are forecasting a reduced underspend of £0.3m. All services are now forecasting underspends across staffing plus overachievement of income targets.

11. Day Services are forecasting a reduced underspend of £0.4m. This is due to an underspend of £0.7m on staffing, offset partly by the remaining overspend on Fleet transport.

12. The Transformation Division is forecasting an underspend of £0.2m on the Better Care Fund (BCF) and Care Act, through slippage on various schemes.

13. Public Health is currently forecasting an underspend of £1.3m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes, Obesity and Smoking and Tobacco. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

14. The Adult Social Care and Public Health Committee, at its meeting on 12 March 2018, agreed the new transformation resources required for the Service in 2018/19 at a cost of £0.7m. This forecast, therefore, includes a transfer of £0.7m into the departmental transformation reserve in order to fund these costs (paragraph 23).

Community & Place (forecast £0.5m overspend, 0.4% of annual budget)

15. This overspending is due to the charge for additional bins for the green waste roll-out which will be entirely funded from the Waste PFI Reserve.

Personnel (forecast £0.8m underspend, 5.0% of annual budget)

16. This underspending relates mainly to savings associated with holding vacancies in Business Support and in the Business Support Centre in anticipation of future years' budget reductions, together with additional income from the sale of services to schools.

Central Items (forecast £5.4m underspend)

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

18. At the time of setting the 2017/18 budget, several funding allocations had not been announced, specifically with regard to the impact of business rates revaluations and, therefore, assumptions about certain grants were made based on the best information available at the time. Throughout the year confirmations are received and current forecasts suggest a net additional grant of £0.8m will be received in 2017/18.

19. At the Finance and Major Contracts Management Committee in September 2017, it was approved that the contingency budget would be increased by £3.9m to reflect the in-year savings identified in the Adult Social Care and Public Health Committee. Table 1 assumes that this additional contingency budget will not be spent thereby resulting in a £3.9m underspend.

20. The Council's budget includes a permanent contingency 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. There is currently £4.5m of the permanent contingency budget that remains uncommitted. This is due in part to further transfer of underspends from Adult Social Care and Public Health and a reduced draw down from contingency by departments.

21. There is also a net underspend of £0.7m on pension enhancements, trading organisations, National Non-Domestic Rates and interest charges.

Request for Contingency

22. As reported to Policy Committee in February 2018, a request for contingency for up to £245,990 in 2018/19 has been submitted to create a team to support the delivery of the HS2 East Midland Station. This investment will ensure that the Council has sufficient capacity to help drive the delivery of growth at Toton in a way that meets residents and business needs and aspirations. These costs and the funding thereof will be reviewed on an annual basis.

Request for transfer to an Earmarked Reserve

23. As per Paragraph 14 and reported to Adult Social Care and Public Health Committee in March 2018, a request for transfer to earmarked reserve for £0.7m for new transformation resources.

Progress with savings and risks to the forecast

24. 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. 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 12 March 2018.

25. At the Improvement and Change Sub-Committee on 12 March 2018 there were change requests for Care and Support Centres and Targeted Reviews. These were approved and the changes are reflected in the MTFS reported to Full Council on 28th February 2018.

26. The report also highlighted further savings targets that were at risk, including, Integrated Community Equipment Loans scheme (ICELS), Contracts Review and Statutory School Transport.

Balance Sheet
General Fund Balance

27. Members were 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.

28. Following approval at Finance and Major Contracts Management Committee in June 2017, a further £1.0m of General Fund balance is now earmarked for use to repair potholes across the County.

Capital Programme

29. Table 2 summarises changes in the gross Capital Programme for 2017/18 since approval of the original Programme in the Budget Report (Council 23/02/17):

Table 2 – Revised Capital Programme for 2017/18

	2017/18 £'000	2017/18 £'000
Approved per Council (Budget Report 2017/18)		102,520
Variations funded from County Council Allocations :		
Net slippage from 2016/17 and financing adjustments	(4,251)	
		(4,251)
Variations funded from other sources :		
Net variation from 2016/17 and financing adjustments	(399)	
		(399)
Revised Gross Capital Programme		**97,870**

30. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 10.

Table 3 – Capital Expenditure and Forecasts as at Period 10

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 10 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	28,115	19,779	27,385	(730)
Adult Social Care & Public Health	4,958	805	4,658	(300)
Community & Place	43,737	18,996	43,652	(85)
Policy	20,661	12,480	18,453	(2,208)
Finance & Major Contracts Mngt	180	85	180	-
Personnel	219	7	219	-
Contingency	-	-	-	-
Total	**97,870**	**52,152**	**94,547**	**(3,323)**

Children & Young People

31. In the Children and Young People capital programme, a forecast underspend of £0.7m has been identified. This is due to a £0.7m forecast underspend against the replacement Bestwood Hawthorne School project as work continues to conclude the final project solution.

    It is proposed that the Children and Young People capital programme is varied to reflect the slippage identified against the replacement Bestwood Hawthorne School project.

Policy

32. In the Policy Committee capital programme an underspend of £2.2m has been identified. This is mainly as a result of £1.5m slippage against the Journey to the Cloud project as there have been delays in signing the contract with the approved provider.

Financing the Approved Capital Programme

33. Table 4 summarises the financing of the overall approved Capital Programme for 2017/18.

Table 4 – Financing of the Approved Capital Programme for 2017/18

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	19,292	8,684	-	139	28,115
Adult Social Care & Public Health	4,221	674	-	63	4,958
Community & Place	10,739	32,375	188	435	43,737
Policy	18,129	2,300	-	232	20,661
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	219	-	-	-	219
Contingency	-	-	-	-	-
Total	**52,600**	**44,033**	**188**	**1,049**	**97,870**

34. It is anticipated that borrowing in 2017/18 will decrease by £4.3m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

    - £14.6m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
    - Net slippage in 2017/18 of £18.9m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

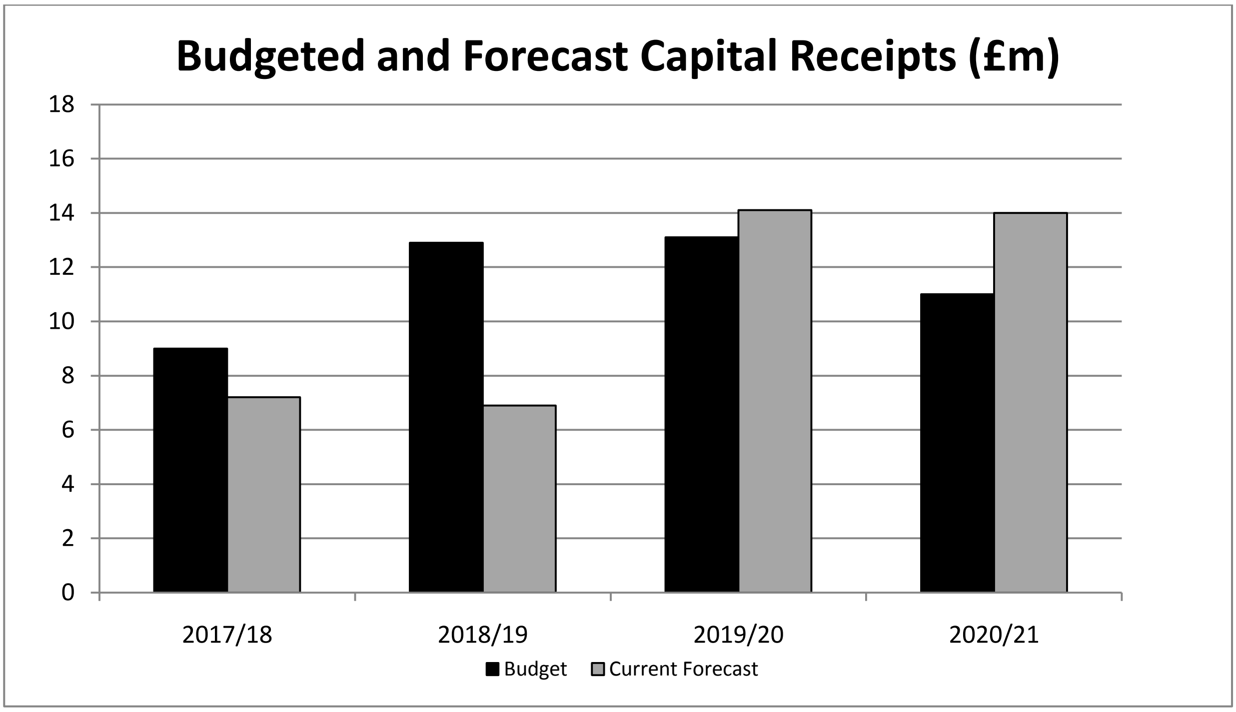
Prudential Indicator Monitoring

35. 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

36. 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.

37. The chart below shows the budgeted and forecast capital receipts for the four years to 2020/21.



38. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2017/18 (Council 23/02/2017). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

39. The capital receipt forecast for 2017/18 is £7.2m. To date in 2017/18, capital receipts totalling £3.1m have been received.

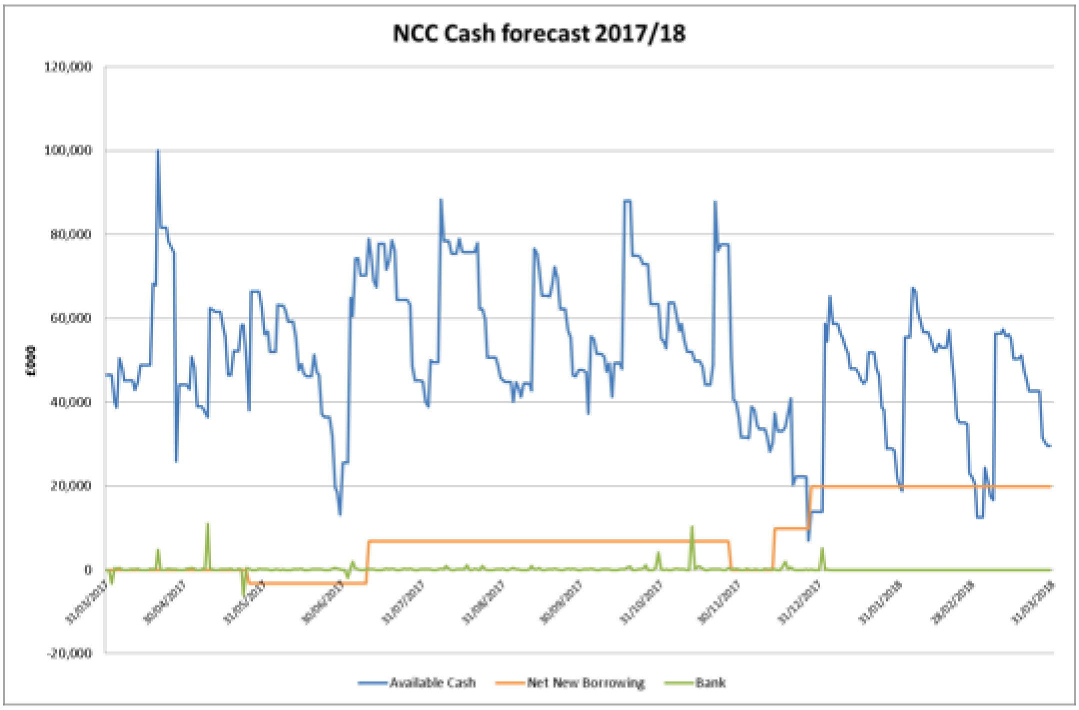
40. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

41. Current Council policy (Budget Report 2017/18) is to use the first £2.6m 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

42. 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.

43. 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.

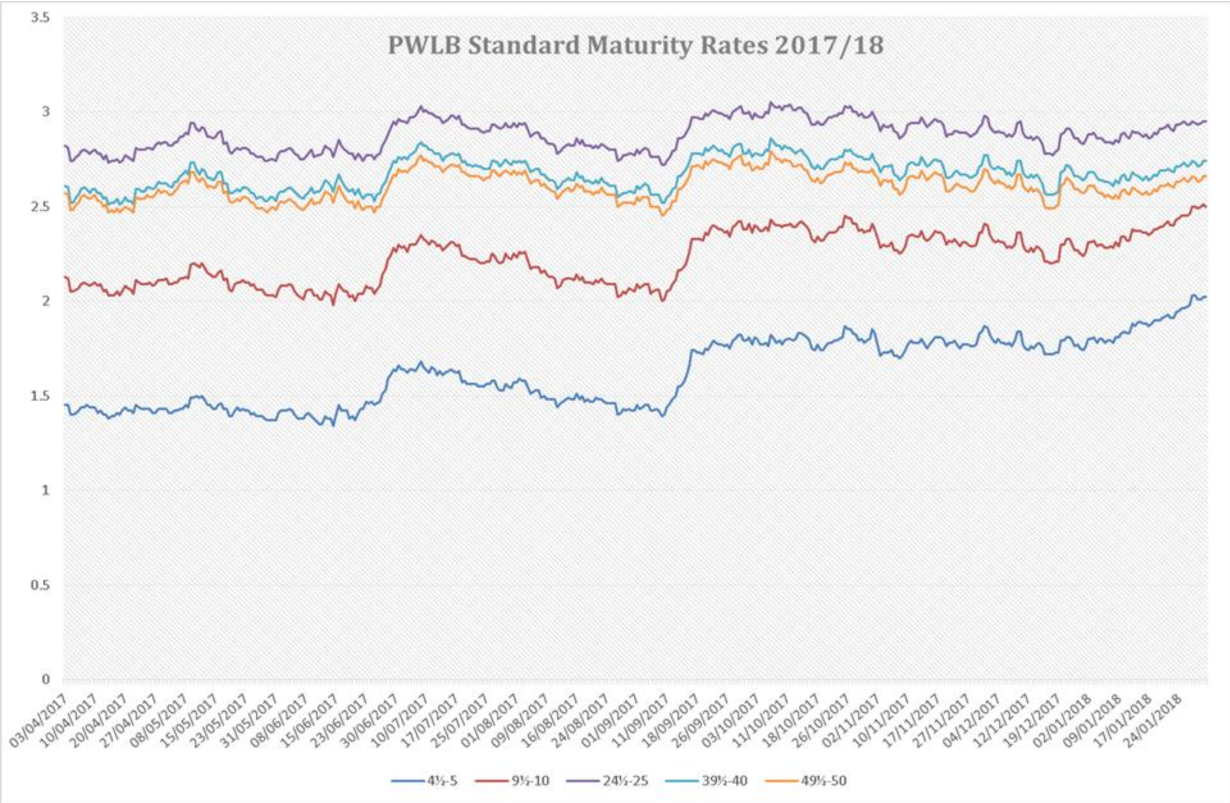


44. The chart above gives the following information:

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.

45. The Treasury Management Strategy for 2017/18 identified a need to borrow approximately £30m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. The first £10m tranche of this was taken from PWLB in July, and a further £20m was taken in December. This is reflected in the cash forecast chart above. 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 2017/18 so far.

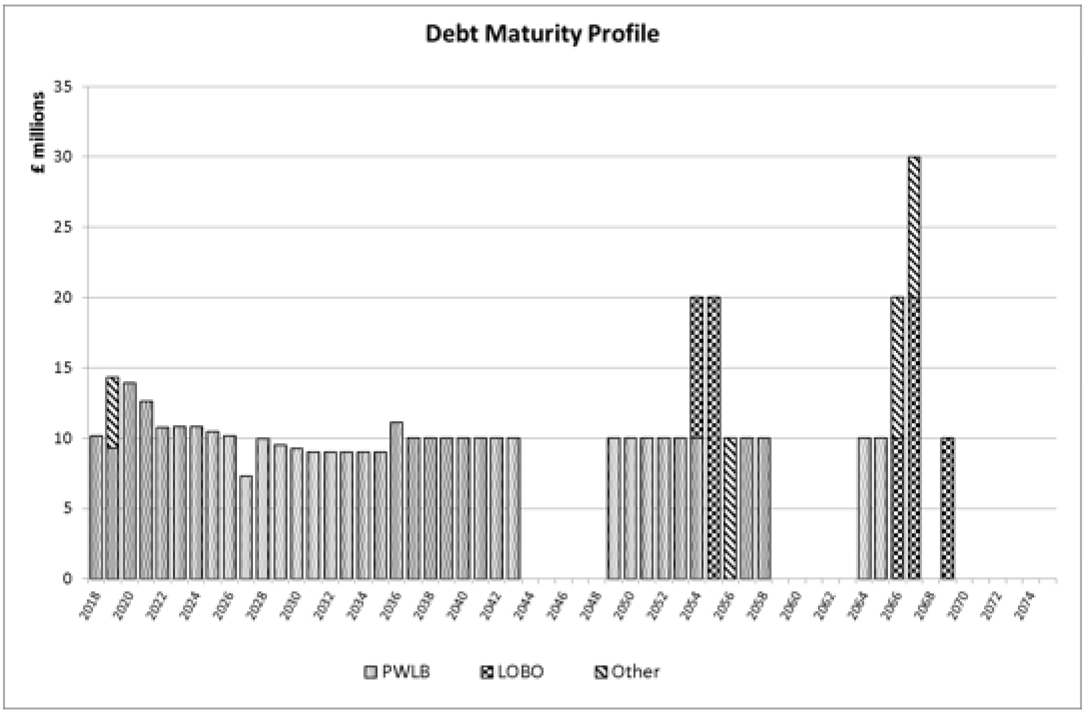


46. Borrowing decisions will take account of a number of factors including:
    - expected movements in interest rates
    - current maturity profile
    - the impact on revenue budgets and the medium term financial strategy
    - the treasury management prudential indicators.

47. 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.

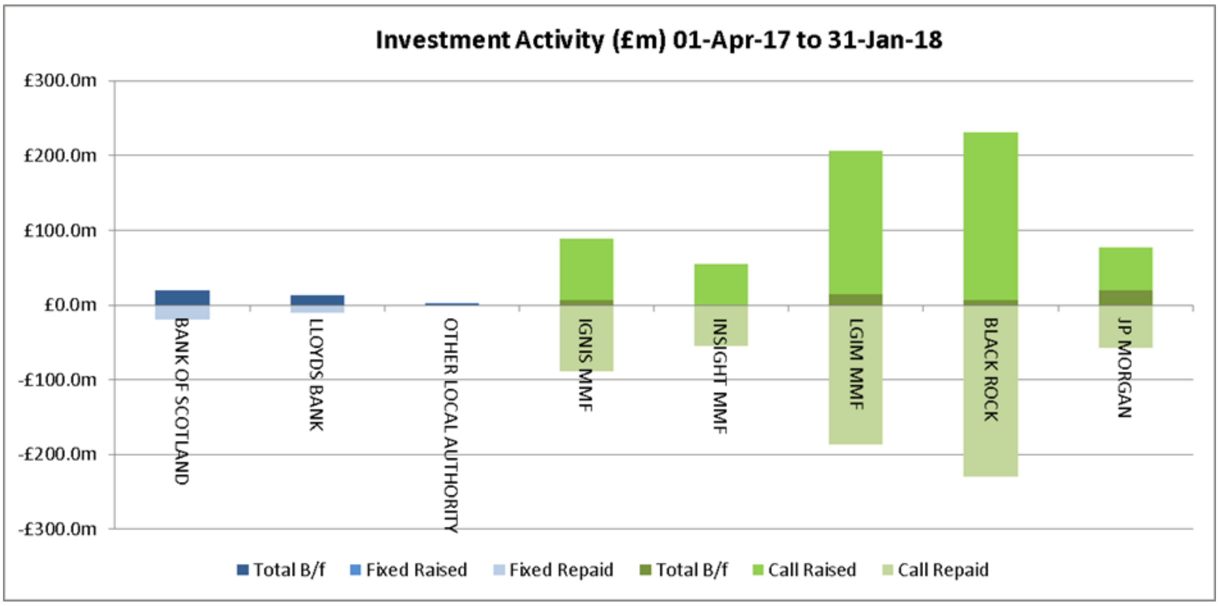
48. Longer-term borrowing (maturities up to 51 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the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

49. 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.



50. The investment activity for 2017/18 to the end of January 2018 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £47m at the end of the period. This reduction includes the effect of making a £39m contribution to the Nottinghamshire Pension Fund in April 2017 for the 3 years of the triennial valuation period.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	20,000	-	(20,000)	-
Lloyds Bank	13,000	-	(10,000)	3,000
Other Local Authority	1,500	1,450	(1,450)	1,500
IGNIS MMF	6,000	83,250	(88,250)	1,000
Insight MMF	-	54,450	(54,450)	-
LGIM MMF	13,950	192,850	(186,800)	20,000
Black Rock	6,500	225,200	(229,900)	1,800
JP Morgan	20,000	57,500	(57,500)	20,000
Total	**80,950**	**614,700**	**(648,350)**	**47,300**



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

Debt Recovery Performance

52. The debt position at the end of Quarter 3 shows an increase in the total debt of £3.0m mainly attributed to the raising of back dated invoices to account for VAT on the provision of school meals to academy schools. The position at 6 months shows a comparable position for care debts and an improvement in sundry debtors.

53. The Residential and non-domiciliary debt figures continue to be influenced by full cost invoices to service users that have not yet joined the deferred payments scheme. This debt amounts to £2.0m, 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.

54. The write off total as at the end of Quarter 3 was £420,606.

Invoices raised in quarter

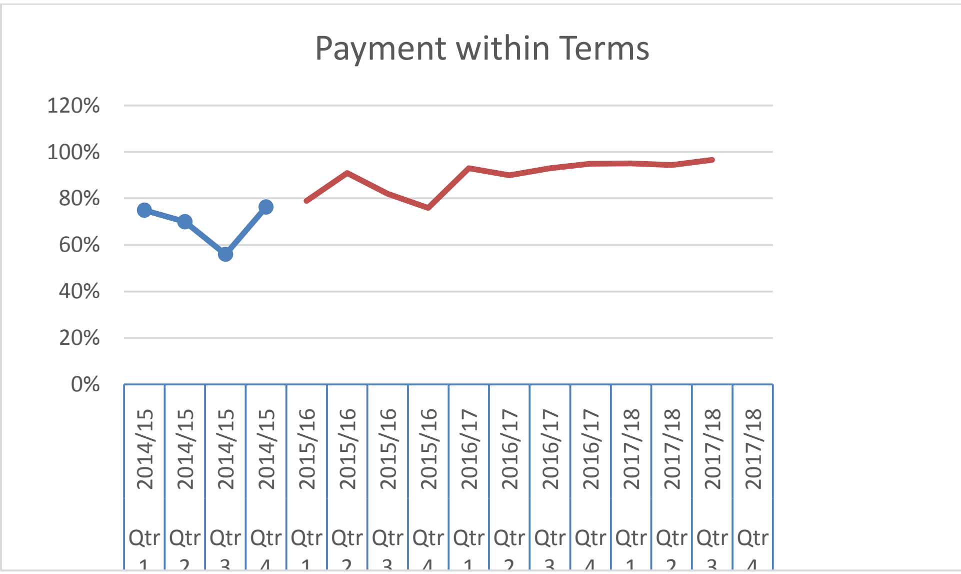
	Quarter 3	Year to date
Number	35,028	111,093
Value	£36,504,434	£113,941,257

Debt position at 30/09/17

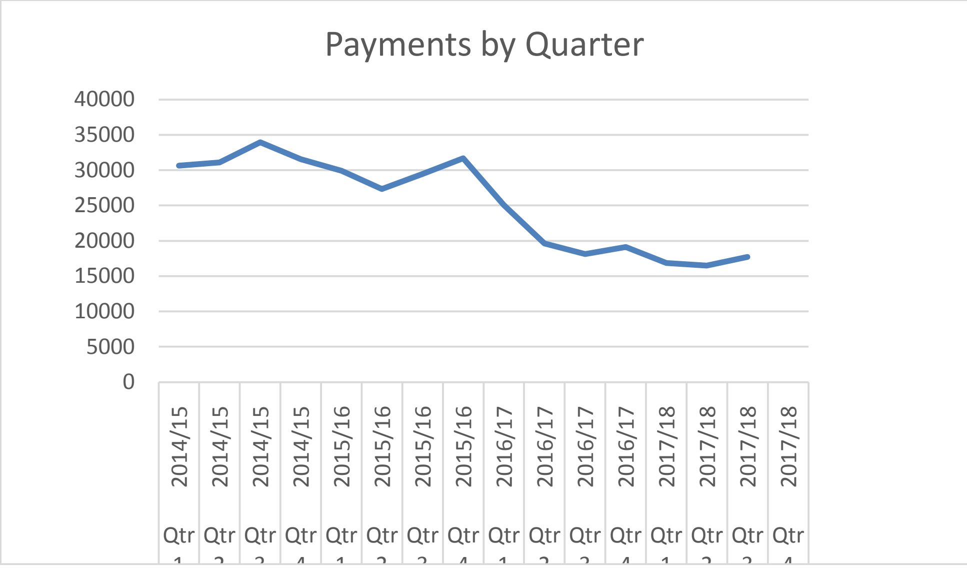
	Residential & Domiciliary Care	All Other	Total
Total	£8,731,692	£10,955,348	£19,687,040
Over 6 months	£5,225,142	£669,543	£5,894,685
% over 6 months	59.8%	6.1%	29.9%

Accounts Payable (AP) Performance

55. During quarter 3, 97% of commercial invoices were paid within terms. This represents a cumulative 95% payment within terms figure for 2017/18. 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.



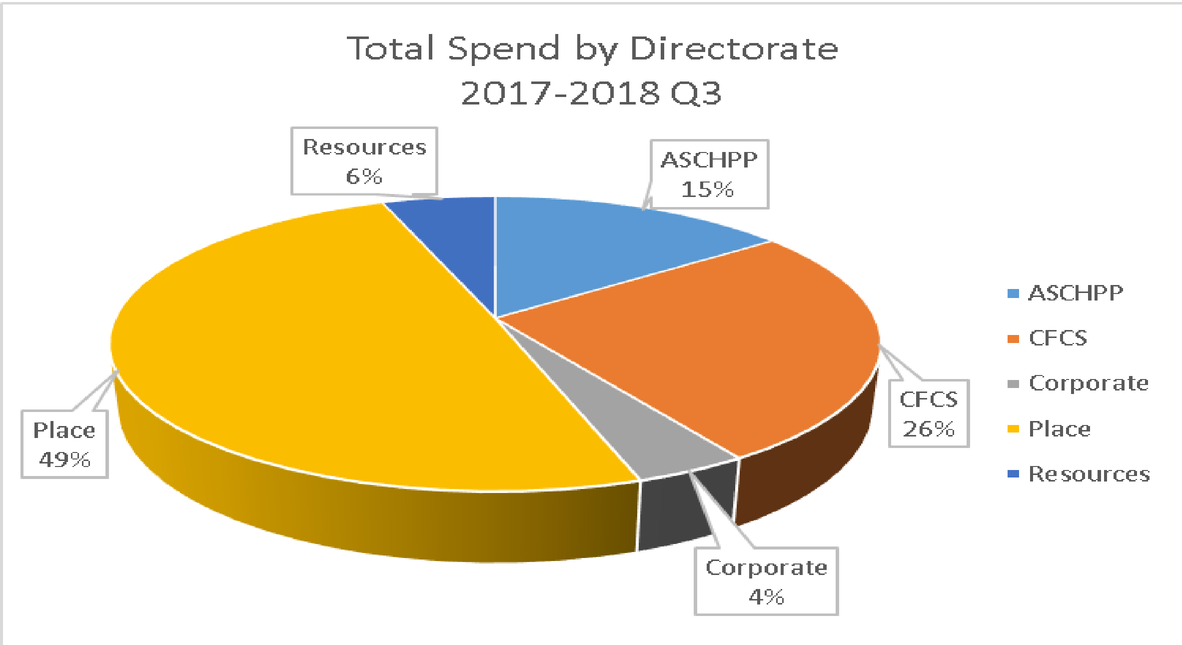
56. The increased use of consolidated invoices and the shift to ASDM's during the last financial year has resulted in a reduction in the volume of invoices processed, we now anticipate an annual volume of 70,000 documents relating to commercial spend annually, a reduction of around 40% compared to 2015/16.



Procurement Performance

57. As an organisation, NCC has spent £126m in the third quarter of the financial year 2017/18 with external suppliers. This represents a decrease of £36m when compared with the same period of the previous financial year. The top 3% (91) of suppliers account for 80% (£100m) of the total supplier spend. The remaining 97% (2,736 suppliers) have a total expenditure of £26m with an average spend of £9,600.

58. 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 41% of all spend.



59. 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’.

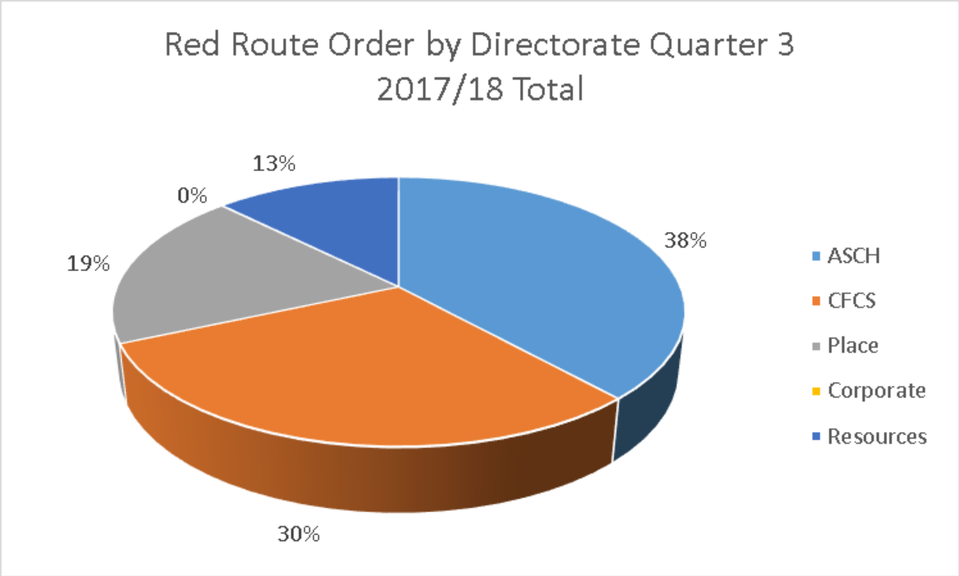
Retrospective orders are also classified as non–compliant, as they are typically raised after delivery of goods/services. Services commissioned and managed through other Corporate Systems, for example Frameworki/Mosaic, are out of scope. Purchase Orders are beneficial to the organisation as they provide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

60. When compared with the same period of the previous financial year, compliant ordering remains at 72% for all three quarters of the total spend and therefore Non-compliant (non PO) ordering remains at 28% of the total spend. This reflects a slight change when compared with quarter 3 2016/17 results at 73% compliant spend and 27% non-compliant spend

61. The table below shows the number of retrospective orders by month and by Directorate. The total volume of retrospective orders has reduced overall when compared with quarter 3 of the previous financial year for comparison.

Directorate	PO Volume Oct 2017	PO Volume Nov 2017	PO Volume Dec 2017	Total Q3 2017/18	Total Q3 2016/17
ASCH & PH	241	247	227	**715**	**486**
CFCS	334	369	332	**1,035**	**937**
Place	229	236	179	**644**	**759**
Corporate	5	4	5	**14**	**-**
Resources	137	162	136	**435**	**285**
Total	**946**	**1,018**	**879**	**2,843**	**2,467**

62. 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 6,204 to 6,457. The chart below illustrates Red Route orders by Directorate as a percentage for Quarter 3 2017/18. The Procurement Team are continuing to work with stakeholders to improve these figures.



Statutory and Policy Implications

63. 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 approve the contingency request.

3) To approve the request to transfer money into an earmarked reserve.

4) To comment on the capital programme expenditure to date and year-end forecasts

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

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 (GR 21/02/2018)

64. 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 (KP 21/02/2018)

65. 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