Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

18 December 2017

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 7 2017/18

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To request approval for additional contingency requests.
3. To provide a summary of capital programme expenditure to date, year-end forecasts and approve the variations to the capital programme.
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 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.

Summary Revenue Position

8. The table below summarises the revenue budgets for each Committee for the current financial year. A £8.0m 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 6 £'000	Committee	Annual Budget £'000	Actual to Period 7 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
152	Children & Young People	119,824	71,033	120,166	342
(1,352)	Adult Social Care & Public Health	209,548	105,038	207,745	(1,803)
(304)	Community & Place	126,228	82,685	126,241	13
301	Policy	34,547	25,115	34,475	(72)
(196)	Finance & Major Contracts Management	3,229	1,847	2,972	(257)
(54)	Governance & Ethics	7,209	4,148	7,156	(53)
(427)	Personnel	16,262	10,805	15,702	(560)
(1,880)	**Net Committee (under)/overspend**	**516,847**	**300,671**	**514,457**	**(2,390)**
(5,835)	Central items	(11,024)	(41,423)	(17,204)	(6,180)
-	Schools Expenditure	40	-	40	-
-	Contribution to/(from) Traders	208	1,665	208	-
(7,715)	**Forecast prior to use of reserves**	**506,071**	**260,913**	**497,501**	**(8,570)**
219	Transfer to / (from) Corporate Reserves	(15,066)	-	(14,753)	313
466	Transfer to / (from) Departmental Reserves	(10,226)	(693)	(9,985)	241
-	Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(7,030)	**Net County Council Budget Requirement**	**475,279**	**260,220**	**467,263**	**(8,016)**

Committee and Central Items

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

Adult Social Care & Public Health (forecast £1.8m underspend, 0.9% of annual budget)

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

- Older Adults across the County are forecasting an increased overspend of £2.9m. This is primarily due to increased Long Term Residential/Nursing placements. Though demand and average package costs are increasing for all services and while this can be contained in year, it is likely to present a pressure in future years.
- Younger Adults across the County are forecast to underspend by £1.9m, due primarily to increased Continuing Health Care income.
- Expenditure on Section 256 commitments is forecasting an overspend of £0.3m. This is offset by an increased use of reserves.
- Direct Services are forecast to underspend by £0.5m on staffing.

10. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.5m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.

11. The Transformation Division is forecasting an underspend of £0.6m on the Improved Better Care Fund (IBCF) and Care Act, through slippage on various schemes.

12. Public Health is currently forecasting an underspend of £0.5m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes, Obesity, Smoking and Tobacco. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Personnel (forecast £0.6m underspend, 3.4% of annual budget)

13. This underspending relates mainly to savings of £0.5m 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 £6.2m underspend)

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

15. 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 £1.9m will be received in 2017/18.

16. 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.

17. 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 £3.2m of the permanent contingency budget that remains uncommitted.

18. There is also a net underspend of £0.4m on Pension enhancements, trading organisations, National Non-Domestic Rates and interest charges.

Requests for contingency

19. As reported to Children and Young People Committee in November 2017, a request for contingency has been submitted to provide the funding to meet the costs associated (£160,000) establishing a Social Impact Bond jointly with Nottingham City Council and Derby City Council. The Authority's share of this is £53,333, with an estimate of £20,000 to be spent in 2017/18. However the timing of the spending may be different than planned so any under/overspend on the original 2017/18 allocation will be carried into 2018/19.

20. A budget pressure has been identified in Children and Young People Committee in relation to the Multi-Agency Safeguarding Hub (MASH) and Care Leavers, due to increases in the number of referrals and looked after children. This will form part of the budget process for future years and separate approval sought to add the pressure to the Medium Term Financial Strategy

(MTFS). A temporary contingency request has been received from Children and Young People Committee for £0.2m to address this pressure in 2017/18.

Progress with savings and risks to the forecast

21. 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.

Balance Sheet
General Fund Balance

22. 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.

23. 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.

Consultation on the Proposed Changes to the Prudential Framework of Capital Finance

24. On 10 November 2017, the Department for Communities and Local Government published a consultation on proposed changes to the prudential framework of capital finance. The consultation sets out the Government's intended approach for dealing with two main issues – Investments and the Minimum Revenue Provision.

25. From an investments point of view, whilst the Government does not want to discourage local authorities from investing to deliver local economic regeneration, it believes that local authorities need to demonstrate more transparency and openness with regard to its investment decisions.

26. With regard to the Minimum Revenue Provision (MRP), the Government has decided to clarify the approach to be adopted when changing the methodologies used to calculate MRP. It has been decided that any over-provision that results from a change of MRP methodology cannot be calculated retrospectively.

Capital Programme

27. 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	£'000
Approved per Council (Budget Report 2017/18)		102,520
Variations funded from County Council Allocations :		
Net slippage from 2016/17 and financing adjustments	19,655	
		19,655
Variations funded from other sources :		
Net variation from 2016/17 and financing adjustments	691	
		691
Revised Gross Capital Programme		**122,866**

28. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 7.

Table 3 – Capital Expenditure and Forecasts as at Period 7

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 7 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	39,813	12,280	35,196	(4,617)
Adult Social Care & Public Health	7,212	346	5,745	(1,467)
Community & Place	50,120	9,923	47,873	(2,247)
Policy	24,706	9,043	23,609	(1,097)
Finance & Major Contracts Mngt	220	(134)	220	-
Personnel	295	7	295	-
Contingency	500	-	500	-
Total	**122,866**	**31,465**	**113,438**	**(9,428)**

Children & Young People

29. In the Children and Young People's capital programme, a forecast underspend of £4.6m has been identified. This is mainly due to a £4.0m forecast underspend against the Schools Capital Refurbishment Programme. Following scrutiny and challenge of final accounts by the commissioning and delivery property teams, the cost of completed projects is lower than previously forecast. It is also anticipated that an element of the 2017/18 programme will slip into the next financial year as a result of the late notification of grant. A further £0.6m underspend is forecast against the Beardall Street Phase 2 project.

Adult Social Care & Public Health

30. In the Adult Social Care and Public Health Committee capital programme, a forecast underspend of £1.5m has been identified. This mainly relates to a forecast slippage of £1.3m identified against the Supported Living capital programme.

    It is proposed that the Adult Social Care and Public Health Committee capital programme is varied to reflect the slippage identified against the Supported Living programme.

Community & Place

31. In the Community and Place Committee capital programme an underspend of £2.2m has been identified. This is mainly as a result of a £1.0m re-profiling of the Flood Alleviation capital programme as the Environment Agency have made changes to their flood investment programme timetable. Also, £0.8m of the Energy Saving Programme has been re-profiled into the next financial year.

    It is proposed that the Community and Place Committee capital programme is varied to reflect the re-profiled Flood Alleviation and Energy Saving programmes.

32. As reported to Policy Committee in September 2017, the Authority has been successful in securing a £5m Challenge Fund grant from the Department of Transport to carry out improvement works to the A38/A617 Mansfield and Ashfield Regeneration Route. As part of the grant award there is a requirement for a 10% local contribution. It is proposed that underspends against the Worksop Bus Station (£0.1m) and the A57 Roundabout project (£0.4m) are re-allocated to the Challenge Fund project to fund this contribution.

    It is proposed that the Community and Place Committee capital programme is varied to reflect the £0.5m local contribution to the Challenge Fund project funded from underspends as detailed above.

33. The Authority has been successful in securing a £0.7m capital grant from the Sustainable Transport Programme to deliver a cycle network across West Bridgford.

    It is proposed that the Community and Place capital programme is varied to reflect the £0.7m capital grant received from the Sustainable Transport Programme.

34. Also in the Community and Place capital programme, the Authority has been successful in securing a £0.4m grant from the Environment Agency to carry out a flood alleviation project in Hucknall Town Centre. This project will deliver an increased level of flood protection to 21 properties in Thoresby Dale, Hucknall and complements work already carried out as part of the Hucknall Town Centre Improvement Scheme.

It is proposed that the Community and Place capital programme is varied to reflect the £0.4m capital grant received from the Environment Agency

Policy

35. In the Policy Committee capital programme an underspend of £1.1m has been identified. This is mainly as a result of forecast underspends against the Gamston Development (£0.5m) and Retford Post 16 Centre (£0.2m) as these projects are now expected to be re-profiled into future financial years.

It is proposed that the Policy Committee capital programme is varied to reflect the re-profiled Gamston Development and Retford Post 16 capital projects.

Financing the Approved Capital Programme

36. 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	29,606	10,068	-	139	39,813
Adult Social Care & Public Health	6,165	984	-	63	7,212
Community & Place	16,320	33,177	188	435	50,120
Policy	23,620	817	-	269	24,706
Finance & Major Contracts Mngt	-	-	-	220	220
Personnel	295	-	-	-	295
Contingency	500	-	-	-	500
Total	**76,506**	**45,046**	**188**	**1,126**	**122,866**

37. It is anticipated that borrowing in 2017/18 will increase by £10.0m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

- £19.7m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
- Net slippage in 2017/18 of £9.7m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

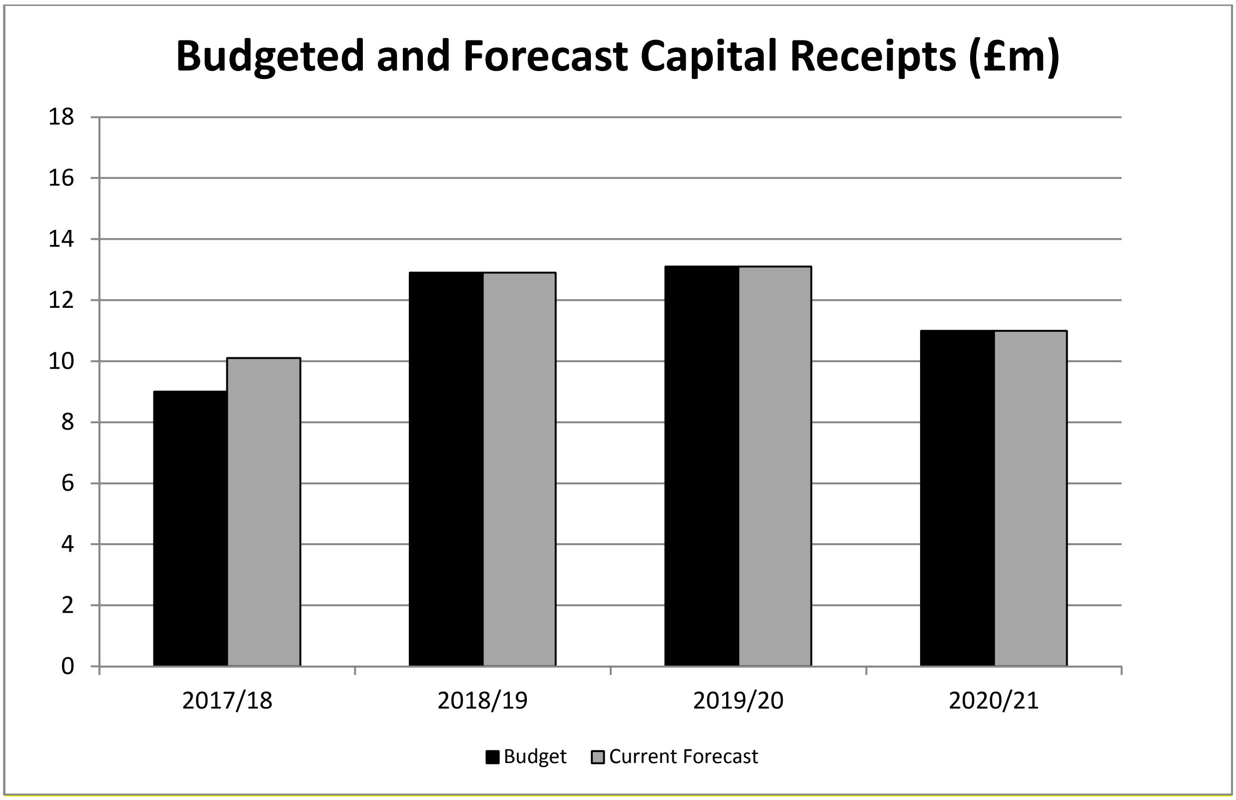
Prudential Indicator Monitoring

38. 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

39. 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.

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



41. 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.

42. The capital receipt forecast for 2017/18 is £10.1m. To date in 2017/18, capital receipts totalling £1.4m have been received.

43. 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.

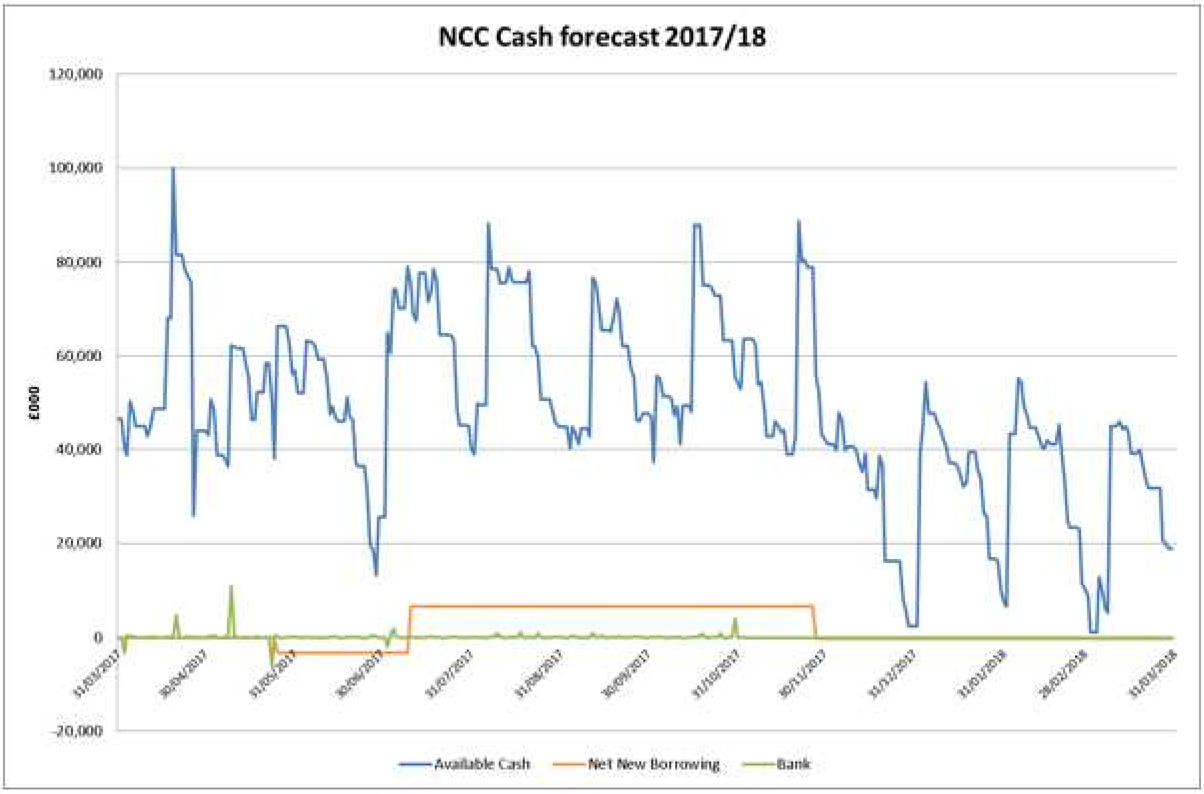
44. A full review of capital receipts is currently being undertaken. The results of this review will be reported in due course and forecasts amended accordingly.

45. 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 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

46. 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.

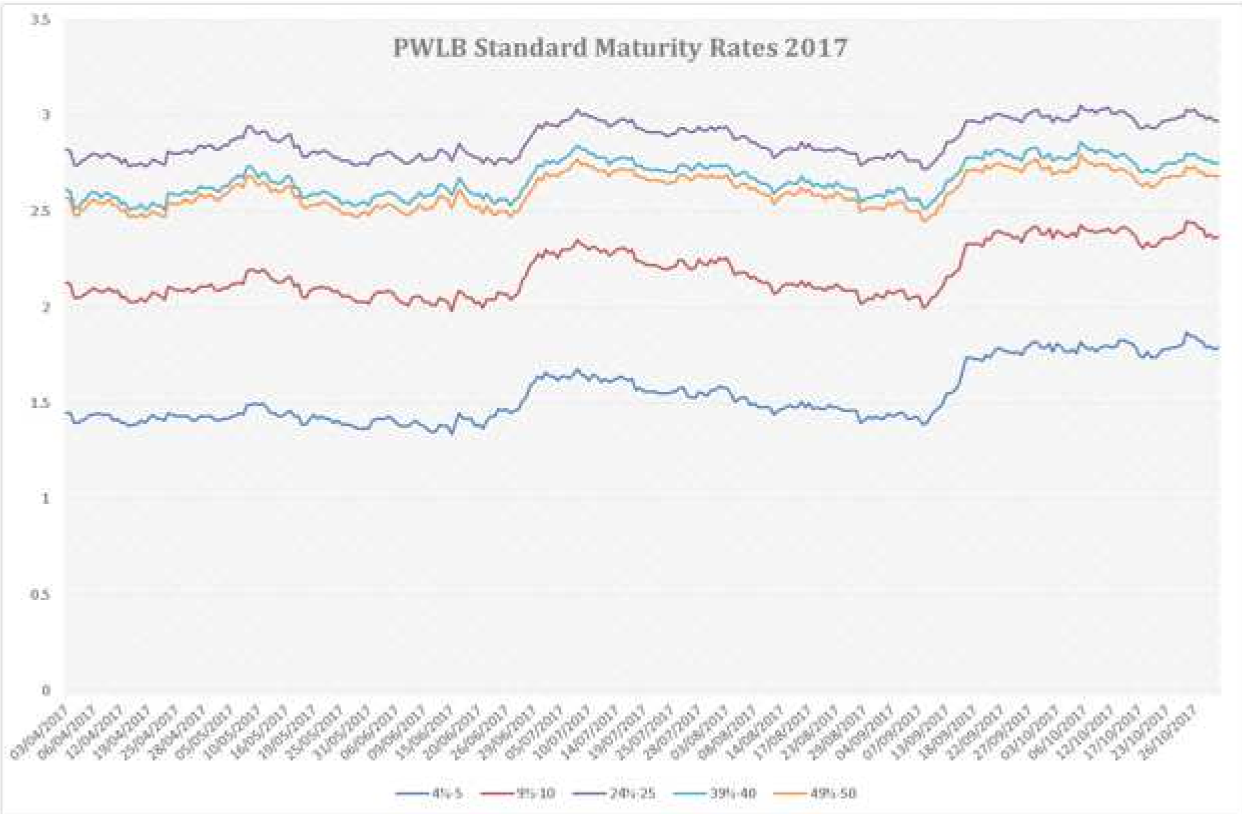
47. The Cash forecast chart below shows the actual cash flow position for the financial year 2017/18. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart shows a need for the Council to borrow during the course of the year.



48. 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.

49. 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 on 10 July. 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 so far.



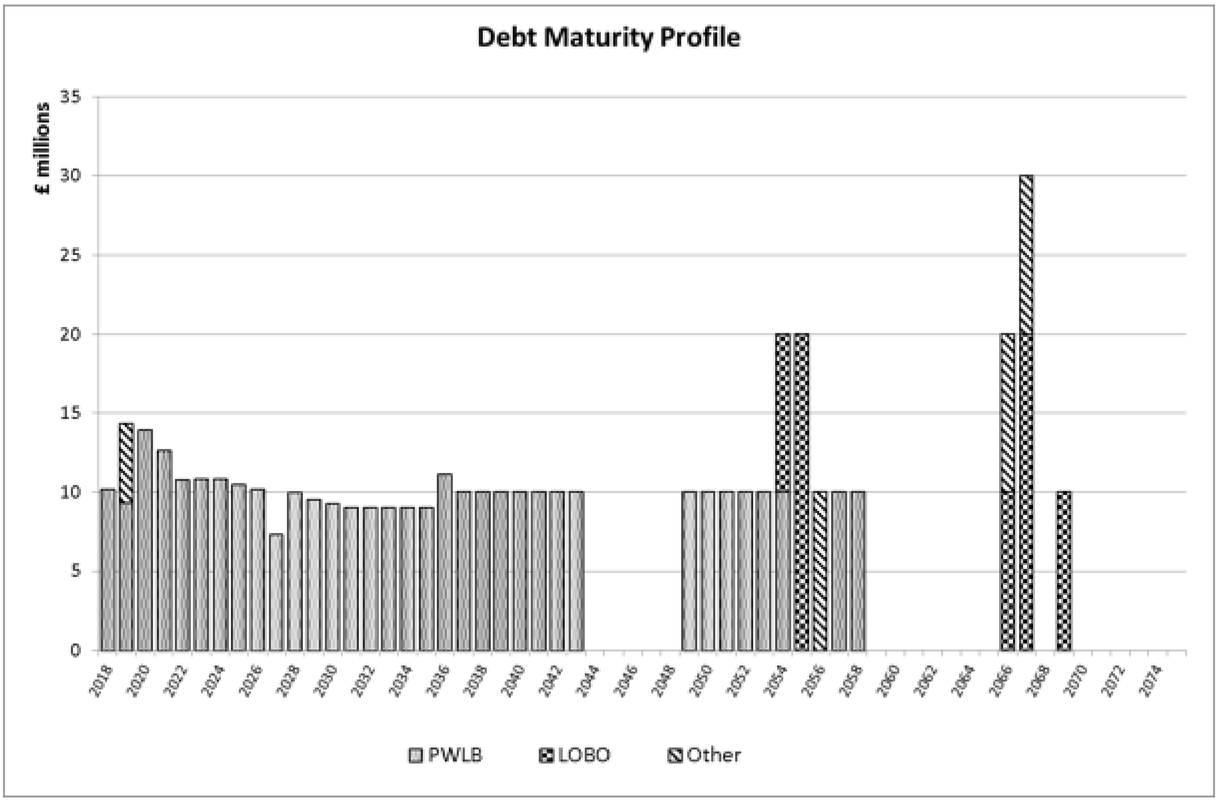
50. Borrowing decisions will take account of a number of factors including:
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

51. 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.

52. 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. Commerzbank, which holds some £20m of Council LOBO

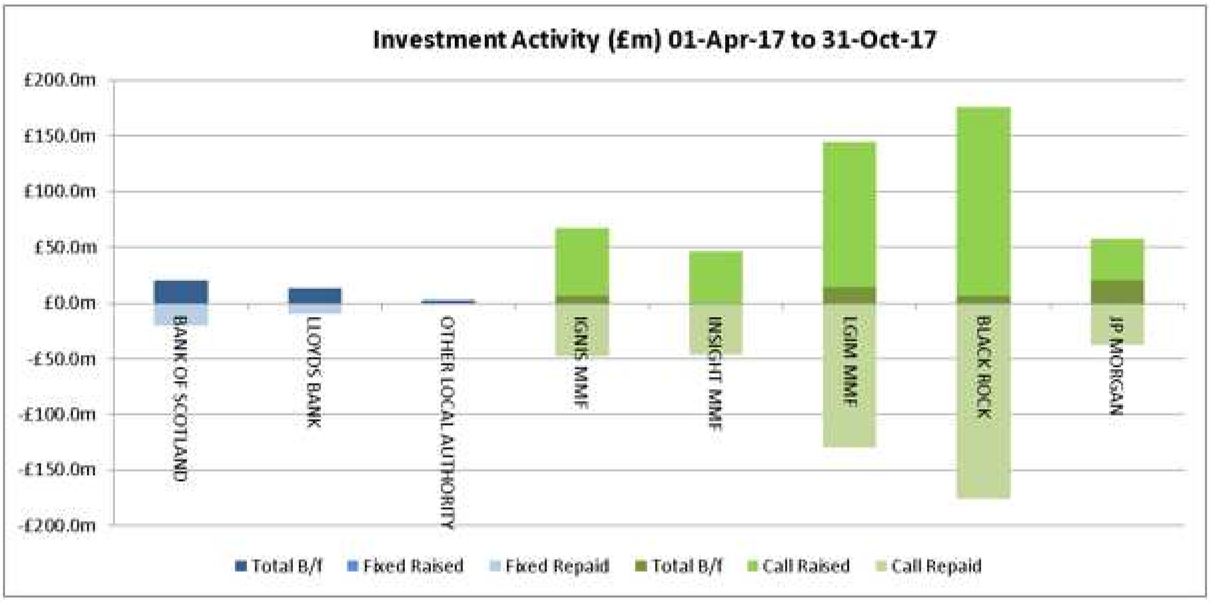
debt, has enquired whether the Council wishes to redeem this for around £26m. The cost of this £6m premium would be negated by replacement debt (from PWLB) having a lower interest rate.

53. 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.



54. The investment activity for 2017/18 to the end of October 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £60m 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 contributions deficit.

	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	250	(250)	1,500
IGNIS MMF	6,000	61,450	(47,450)	20,000
Insight MMF	-	46,550	(46,550)	-
LGIM MMF	13,950	130,850	(129,600)	15,200
Black Rock	6,500	169,650	(176,150)	-
JP Morgan	20,000	37,250	(37,250)	20,000
Total	**80,950**	**446,000**	**(467,250)**	**59,700**



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

Debt Recovery Performance

56. The debt position at the end of Quarter 2 shows decreases in Total Debt and over 6 months debt positions compared to Quarter 1. However, some of this reduction in debt will relate to the cyclical raising of invoices for adult care, although there has been some recent successes in obtaining payment of large property based invoices and accounts from deceased estates.

57. The Residential and non-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 debt amounts to £1.8m, 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.

58. The write off total as at the end of Quarter 2 was £232,255.

Invoices raised in quarter

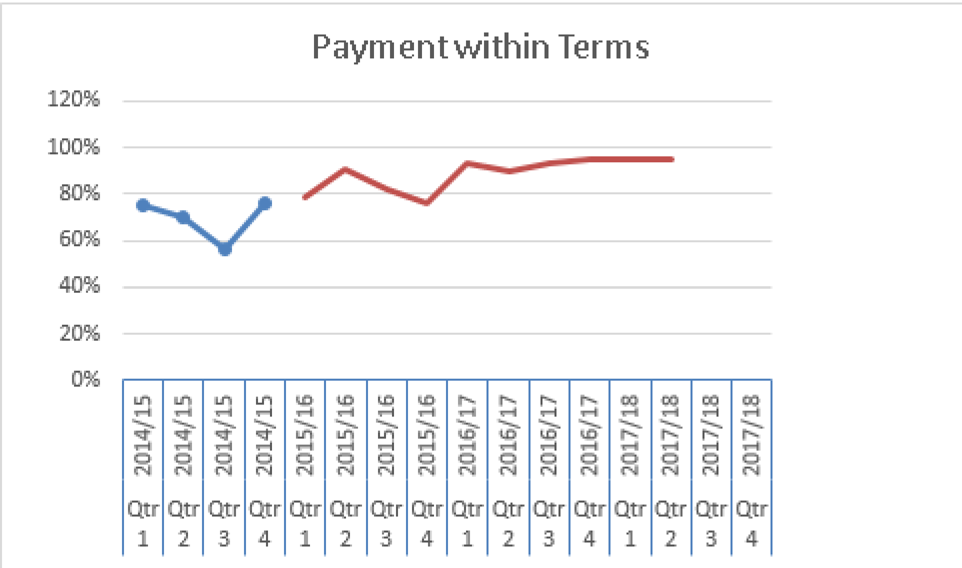
	Quarter 2	Year to date
Number	33,021	76,065
Value	£31,523,232	£77,436,823

Debt position at 30/09/17

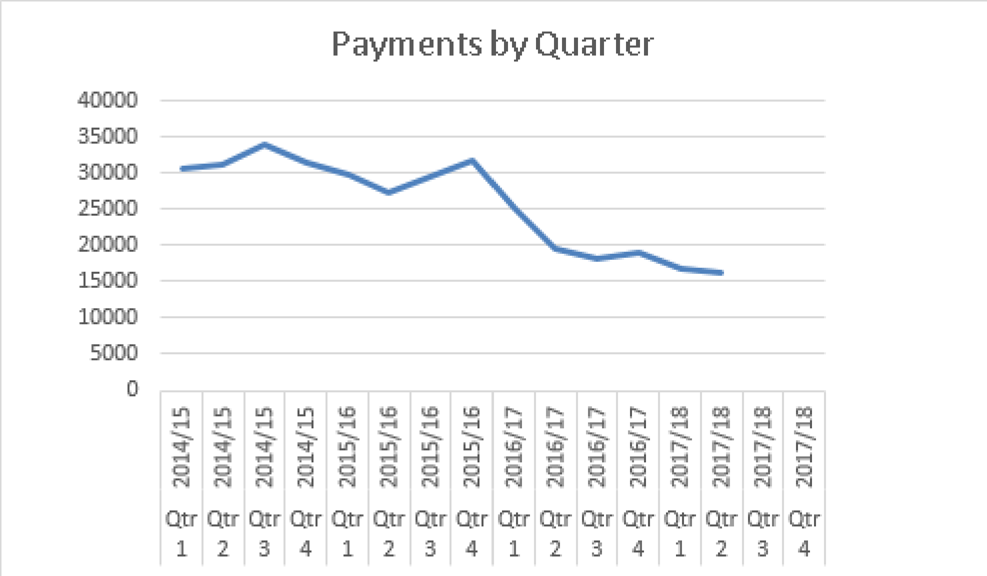
	Residential & Domiciliary Care	All Other	Total
Total	£8,118,010	£8,560,695	£16,678,705
Over 6 months	£5,060,950	£765,287	£5,826,237
% over 6 months	62.3%	8.9%	34.9%

Accounts Payable (AP) Performance

59. Payment Performance for Quarter 2 remains consistent around 95%. 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.



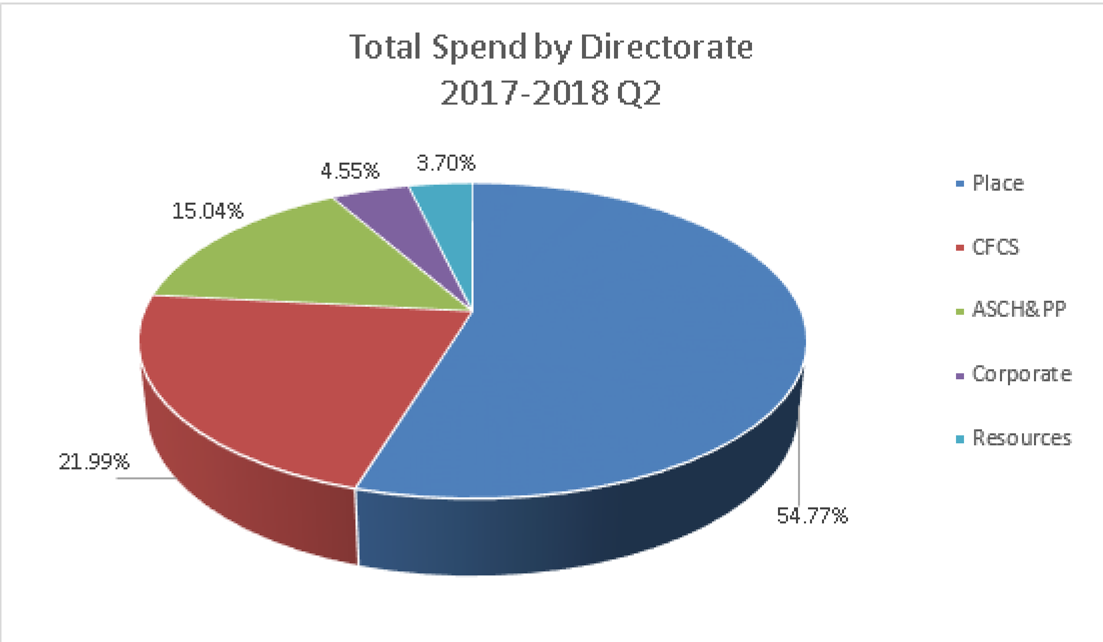
60. The increased use of consolidated invoices and the shift to ASDM's during the last financial year, the volume of invoices attributed to commercial spend continues to reduce with an expected 70,000 documents relating to commercial spend annually.



Procurement Performance

61. As an organisation, NCC has spent £118m in the Second quarter of the financial year 2017/18 with external suppliers. This represents a decrease of £32m when compared with the same period of the previous financial year. The top 5% (168) of suppliers account for 85% (£100m) of the total supplier spend. The remaining 95% (3,198 suppliers) have a total expenditure of £18m with an average spend of £5,600.

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



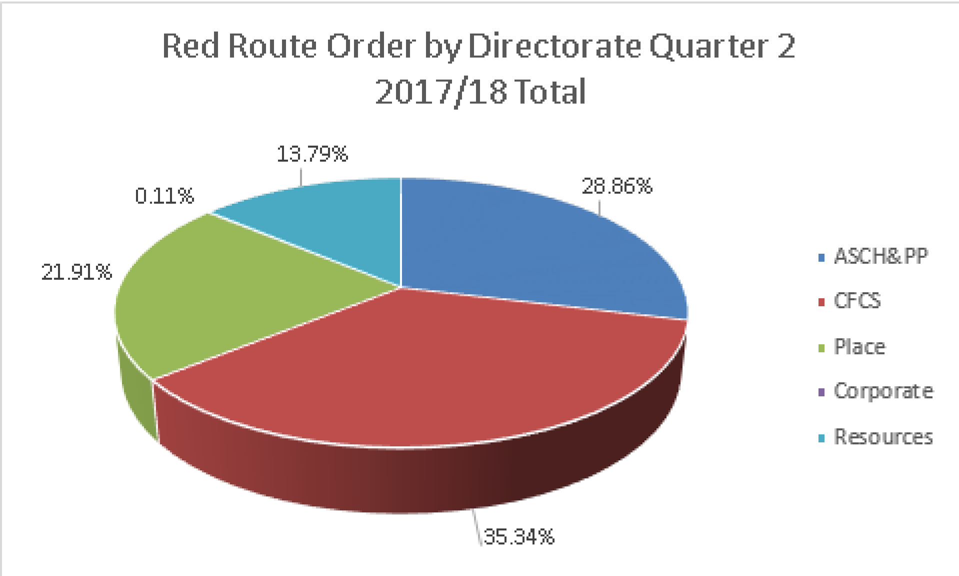
63. The Council’s primary ordering route is through BMS.Orders that are processed through BMS are classified as ‘Compliant’, whilst purchases made outside of the Council’s systems are deemed to be ‘Non-Compliant’.

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.

64. When compared with the same period of the previous financial year. Compliant ordering remains at 67% for both quarters of the total spend and therefore Non-compliant (non PO) ordering remains at 33% of the total spend. 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 2 of the previous financial year.

Directorate	PO Volume Jul 2017	PO Volume Aug 2017	PO Volume Sep 2017	Total Q2 2017/18	Total Q2 2016/17
ASCH & PH	123	92	86	**301**	**656**
CFCS	224	276	212	**712**	**1,051**
Place	236	199	191	**626**	**1,221**
Corporate	1	4	-	**5**	**11**
Resources	108	98	102	**308**	**352**
Total	**692**	**669**	**591**	**1,952**	**3,291**

65. 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 7,184 to 6,404. The chart below illustrates Red Route orders by Directorate as a percentage for Quarter 2 2017/18. The Procurement Team are continuing to work with stakeholders to improve these figures.



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

Statutory and Policy Implications

67. 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 requests.
3) To comment on the capital programme expenditure to date, year-end forecasts and approve the variations to the Capital Programme.
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 performance of the Procurement Team.

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 29/11/2017)

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

Financial Comments (GB 23/11/2017)

69. 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’