Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

18 September 2017

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 4 2017/2018

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 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 Procurement Team.
6. To provide Members with an update from the Accounts Payable and Accounts Receivable Teams.

Information and Advice

Background

7. The Council approved the 2017/18 budget at its meeting on 23 February 2017. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

Summary Revenue Position

8. The table below summarises the revenue budgets for each Committee for the forthcoming financial year. A £5.7m 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 3 £'000	Committee	Annual Budget £'000	Actual to Period 4 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
(261)	Children & Young People	132,561	30,289	132,473	(88)
848	Adult Social Care & Public Health	211,301	52,151	210,823	(478)
(85)	Community & Place	113,615	28,715	113,451	(164)
134	Policy	34,779	12,731	34,905	126
(179)	Finance & Major Contracts Management	2,972	1,115	2,786	(186)
(32)	Governance & Ethics	7,209	2,370	7,090	(119)
(98)	Personnel	16,781	5,488	16,348	(433)
327	**Net Committee (under)/overspend**	**519,218**	**132,859**	**517,876**	**(1,342)**
(4,374)	Central items	(11,146)	(268)	(15,445)	(4,299)
-	Schools Expenditure	29	-	29	-
-	Contribution to/(from) Traders	-	958	-	-
(4,047)	**Forecast prior to use of reserves**	**508,101**	**133,549**	**502,460**	**(5,641)**
-	Transfer to / (from) Corporate Reserves	(15,066)	-	(15,066)	-
(625)	Transfer to / (from) Departmental Reserves	(12,256)	(229)	(12,274)	(18)
-	Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(4,672)	**Net County Council Budget Requirement**	**475,279**	**133,320**	**469,620**	**(5,659)**

Committee and Central Items

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

Adult Social Care & Public Health (forecast £0.5m underspend, 0.2% of annual budget)

9. The underlying forecast is an underspend of £0.5m. This includes the removal of £3.9m from the ASC and PH budget for additional savings proposals in 2017/18 (see paragraph 19 of this report), partly offset by an increase in Continuing Health Care income. The budgets have also been adjusted for the Improved Better Care Fund (IBCF).

10. Throughout the County, the significant variances across the service types are as follows:

- Residential and nursing care are now forecasting a £1.0m overspend primarily in Younger Adults. This is an increase in expenditure of £0.8m compared to period 3, predominantly due to a rise in Older Adults entering the services in the South.
- Supported accommodation is forecasting a reduced overspend of £0.4m primarily in Younger Adults.
- Homecare is reporting an increased overspend of £2.3m primarily in Older Adults.
- External day services are still forecasting an underspend of £0.5m across Younger and Older Adults.
- Direct payments are reporting a combined increased overspend of £2.3m across Older and Younger Adults. This is an increase of £0.4m compared to period 3 due to a combination of reduced budgets for the additional savings and new packages.

- Staffing budgets are forecasting an underspend of £0.6m across Older and Younger Adults, due to slippage in recruitment. This is a shift in month of £2.5m and is due to an increase in budget for posts from the IBCF.
- Continuing Health Care income is forecast to be £3.2m more than budget. This is a £0.5m reduction in anticipated income, the majority of which is due to the closure of one substantial package; this is partially offset by reduced personal budget expenditure.
- Predicted needs and transitions are forecasting an overspend of £0.1m.
- Recharged income within the department is £1.3m less than budget due to recruitment delays on IBCF funded posts.

11. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.4m due to overachievement of client contribution income.

12. The Transformation Division is forecasting an underspend of £1.4m on the IBCF and Care Act, through slippage on various schemes.

13. Public Health is currently forecasting an underspend of £0.8m due to underspends on the staffing budget and less activity on health check programmes, obesity and smoking and tobacco.

Central Items (forecast £4.3m underspend)

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

15. 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 £0.4m.

16. Table 1 assumes that the contingency request proposed in paragraph 19 is approved. It is forecast that this additional contingency budget will not be spent thereby resulting in a £3.9m underspend.

17. As part of the Spring Budget 2017, the Government announced that Nottinghamshire County Council would be receiving additional funding for Adult Social Care and Health. The budget has been amended to reflect this additional grant in accordance with the report that went to Adult Social Care and Public Health Committee in July 2017. This funding will be utilised to help provide high quality social care to more people and help to ease the burden on the National Health Service.

Requests for contingency

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

19. In year savings not identified at the annual budget have been made in ASCH of £3.9m. It is proposed that this saving is incorporated into the Council's contingency budget.

20. A request to increase the contribution from contingency from £50,000 to £100,000 has been submitted by Communities and Place Committee to fund the Authority’s share of the staging costs associated with Nottinghamshire hosting the fourth stage of the Tour of Britain cycling race on 6th September 2017.

Progress with savings and risks to the forecast

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.

22. Issues associated with the achievement of savings relating to Adult Social Care Transport are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Major Contracts Management Committee.

Balance Sheet
General Fund Balance

23. 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.

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

Capital Programme

25. 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	21,555	
		21,555
Variations funded from other sources :		
Net variation from 2016/17 and financing adjustments	(1,085)	
		(1,085)
Revised Gross Capital Programme		**122,990**

26. 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	42,419	5,404	37,956	(4,463)
Adult Social Care & Public Health	7,212	344	7,110	(102)
Communities & Place	48,338	4,386	45,261	(3,077)
Policy	23,506	4,998	23,351	(155)
Finance & Major Contracts Mngt	220	(161)	220	-
Personnel	295	-	295	-
Contingency	1,000	-	1,000	-
Total	**122,990**	**14,971**	**115,193**	**(7,797)**

Children and Young People

27. In the Children and Young People's capital programme, an underspend of £4.5m 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 are coming in 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 £0.4m underspend is forecast against the Beardall Street Phase 2 project.

28. Also in the Children and Young People's Committee, a number of section 106 contributions totalling £1.4m have been secured from developers. This funding will be used to part fund capital projects that will create additional school places at the following Schools – Ernehale Junior, Kingsway Primary, Candleby Lane Primary, Manor Park Primary, College House Primary, St. Augustine's Primary, King Edward Primary and Butlers Hill Primary.

    It is proposed that the Children and Young People's Committee capital programme is varied to reflect the additional section 106 contributions.

29. In the Communities and Place Committee capital programme an underspend of £3.1m has been identified. This is mainly due to a forecast underspend of £1.8m as a result of slippage against the Sherwood Forest Visitor Centre project which is now expected to complete in July 2018 with further remediation work to be completed in Autumn 2018. Also, delays to the start of Libraries Modernisation schemes has resulted in slippage of £0.8m against this programme.

    It is proposed that the Communities and Place capital programme is varied to reflect the slippage against the Sherwood Forest Visitor Centre and the Libraries Modernisation programme.

30. Also in the Communities and Place Committee capital programme, a competitive bidding round has taken place during 2017 for the Highways Maintenance Challenge Fund Tranche 2. The Council has been successful in securing a £5.0m grant to carry out highway improvements along the whole of the Mansfield and Ashfield Regeneration Route. It is proposed that a variation to the capital programme will formally be approved as part of a report to Policy Committee in September 2017.

31. In the Policy Committee, an ICT Replacement Programme is already approved within the capital programme. Revenue funding of £0.4m has been identified to further this programme and ensure that the Council's IT estate maintains the appropriate specification during this year.

    It is proposed that the Policy Committee capital programme is varied to reflect the additional revenue contribution towards the IT Replacement Programme.

Financing the Approved Capital Programme

32. 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	12,674	-	139	42,419
Adult Social Care & Public Health	6,165	984	-	63	7,212
Communities & Place	18,920	28,383	600	435	48,338
Policy	22,420	817	-	269	23,506
Finance & Major Contracts Mngt	-	-	-	220	220
Personnel	295	-	-	-	295
Contingency	1,000	-	-	-	1,000
Total	**78,406**	**42,858**	**600**	**1,126**	**122,990**

33. It is anticipated that borrowing in 2017/18 will increase by £14.7m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

- £21.6m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
- Net slippage in 2017/18 of £6.9m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

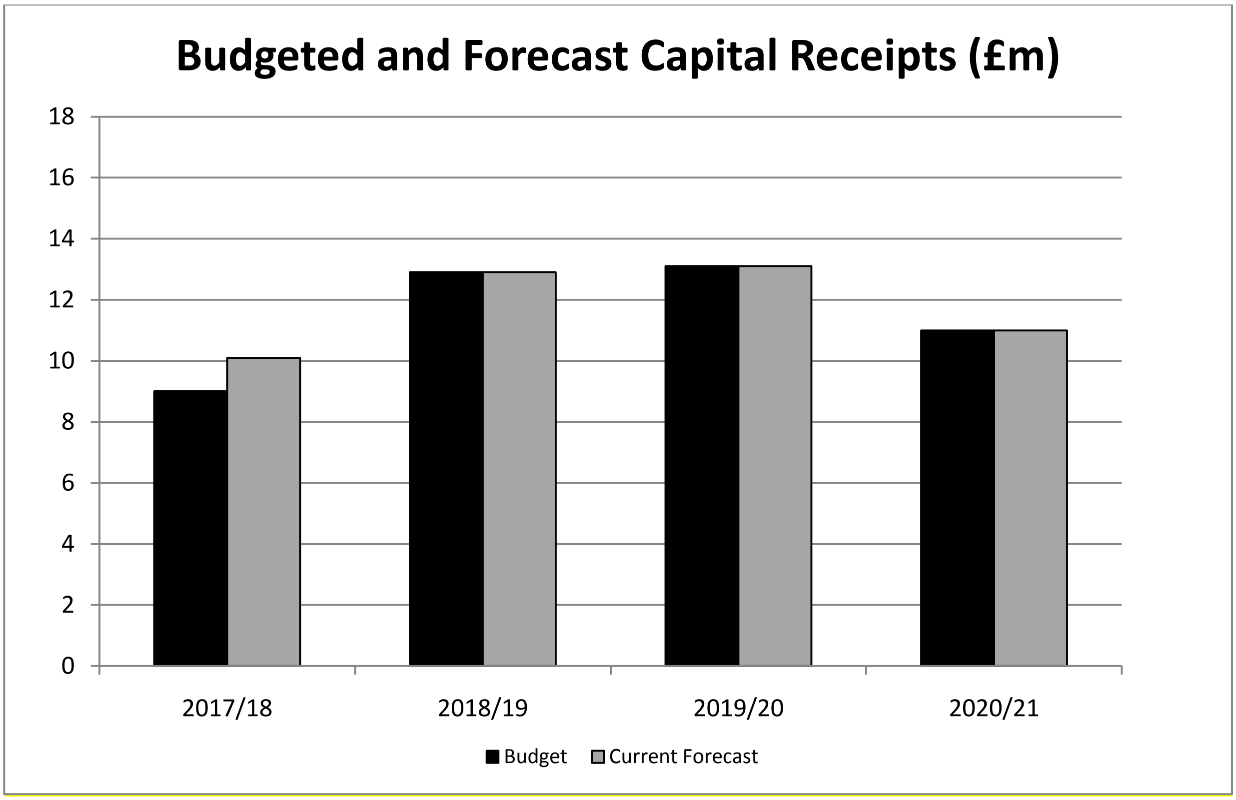
Prudential Indicator Monitoring

34. 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

35. 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.

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



37. 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.

38. The capital receipt forecast for 2017/18 is £10.1m. To date in 2017/18, capital receipts totalling £0.2m have been received.

39. 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.

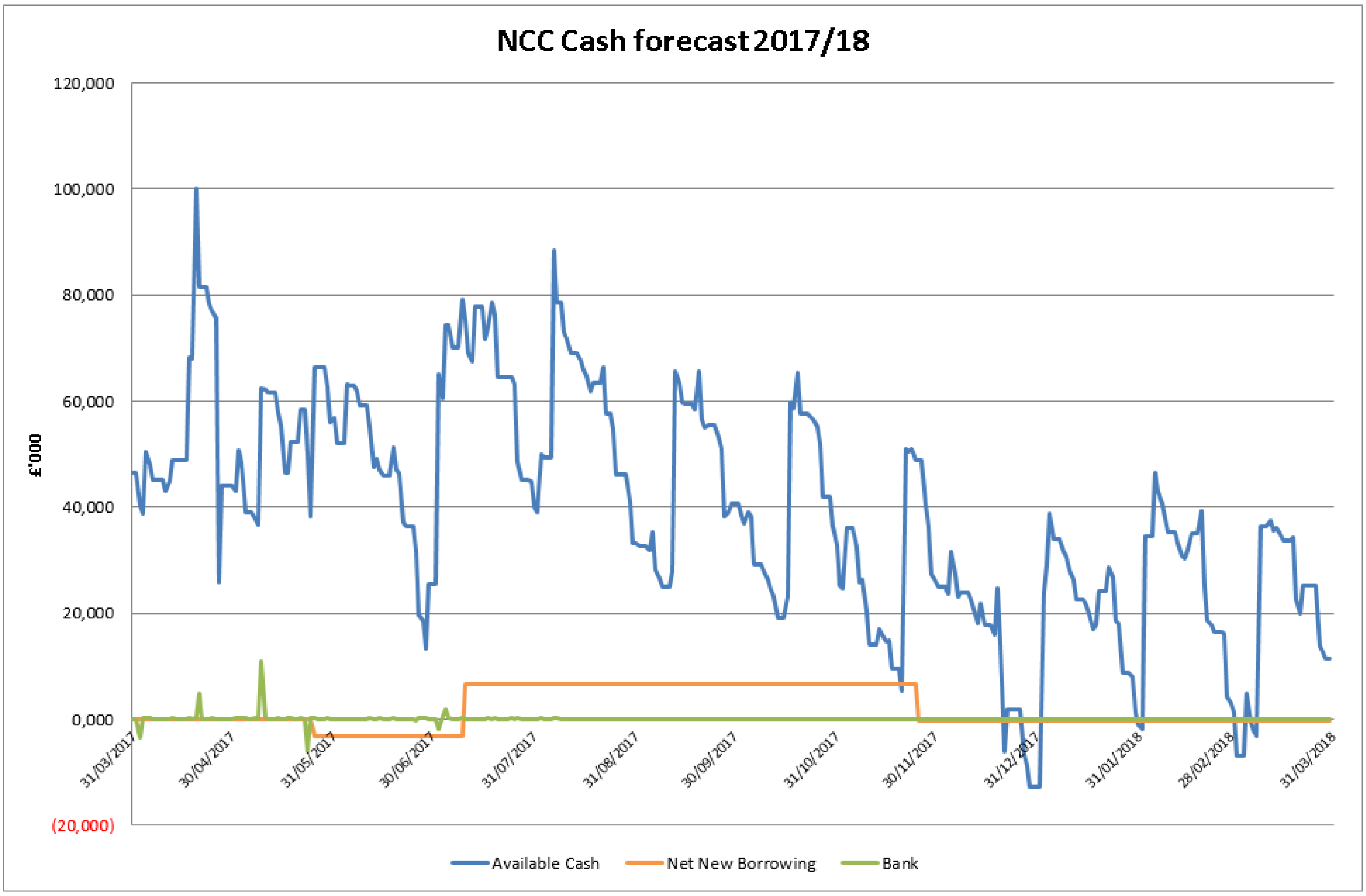
40. A full review of capital receipts is currently being undertaken. The results of this review will be reported in due course and forecasts amended accordingly.

41. Current Council policy (Budget Report 2017/18) is to use the first £2.3m 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

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 on 10th 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

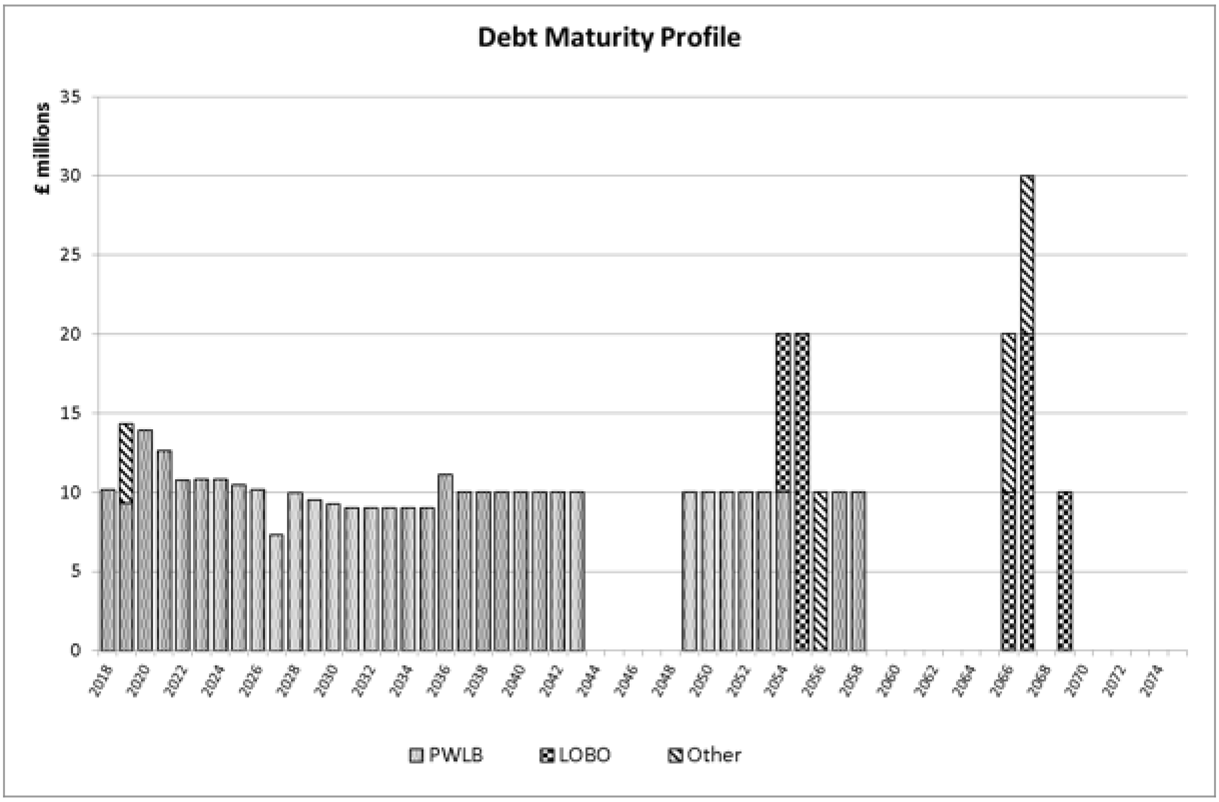
able to take advantage of the PWLB "certainty rate" which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates over the course of 2017 so far.

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 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.

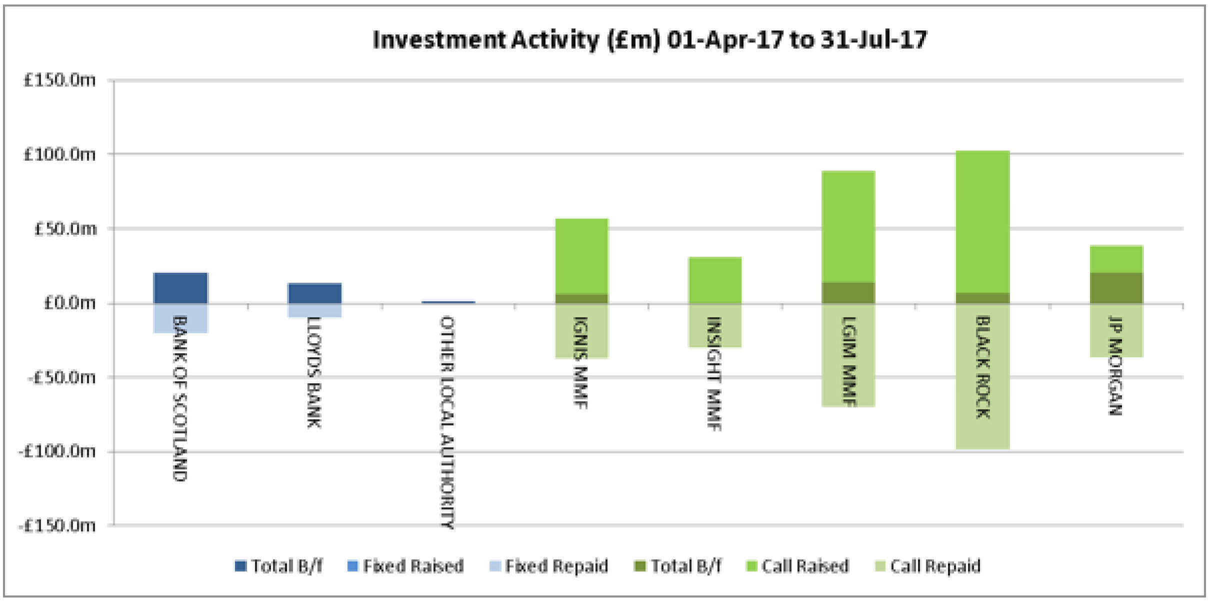
48. Longer-term borrowing (maturities up to 52 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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.

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 July 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £49m 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	-	-	1,500
IGNIS MMF	6,000	51,050	(37,050)	20,000
Insight MMF	-	30,500	(30,250)	250
LGIM MMF	13,950	75,100	(69,800)	19,250
Black Rock	6,500	95,800	(98,750)	3,550
JP Morgan	20,000	18,750	(36,850)	1,900
Total	**80,950**	**271,200**	**(302,700)**	**49,450**



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 total debt shows an overall increase of £0.6m compared to Quarter 1 2016/17, this is represented by £1.1m reduction in other debts and an increase of £1.7m in Residential and non-domiciliary debts.

53. The Residential and non-domiciliary debts debt figures continue to be influenced by full cost invoices to services 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.

54. The write off total as at the end of Quarter 1 was £154,402.

Invoices raised in quarter

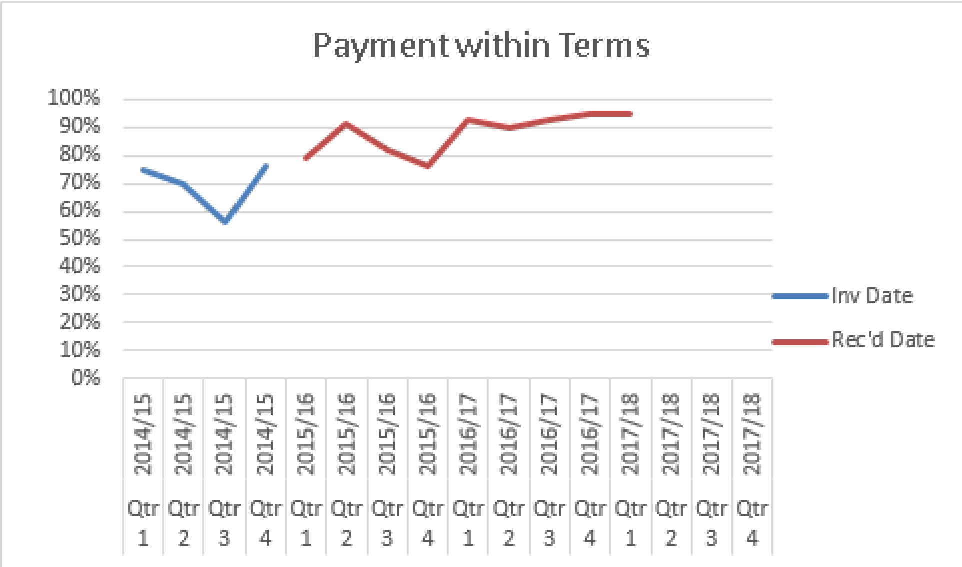
	Quarter 1	Year to date
Number	43,044	43,044
Value	£45,913,591	£45,913,591

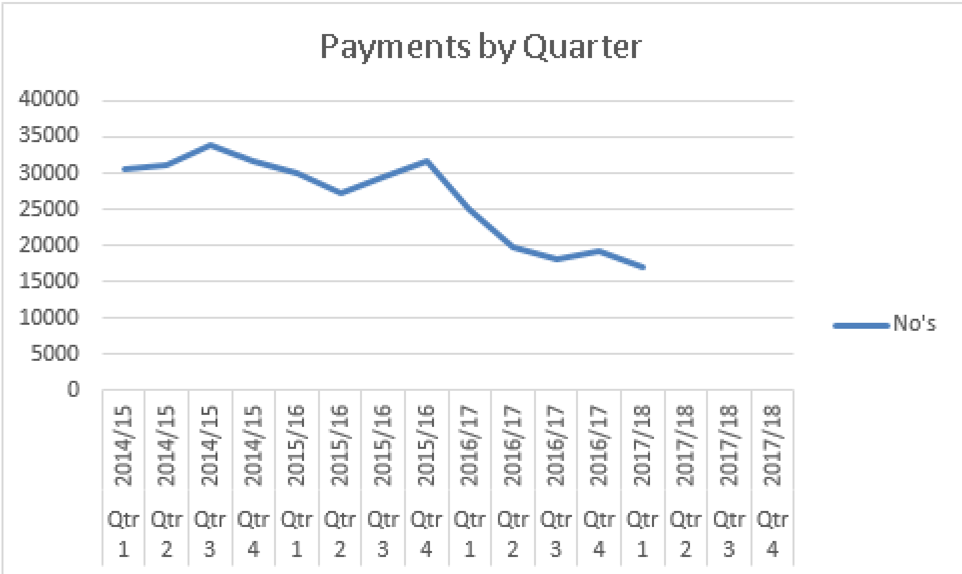
Debt position at 30/06/17

	Residential & Domiciliary Care	All Other	Total
Total	£9,750,428	£11,997,228	£21,747,656
Over 6 months	£5,015,280	£848,614	£5,863,894
% over 6 months	51.4%	7.1%	27.0%

Accounts Payable (AP) Performance

55. Payment Performance for Quarter 1 was recorded as 95.1%, this trend has continued at 95% or above for the past 2 quarters. With 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 around 17,000 processed in Quarter 1.





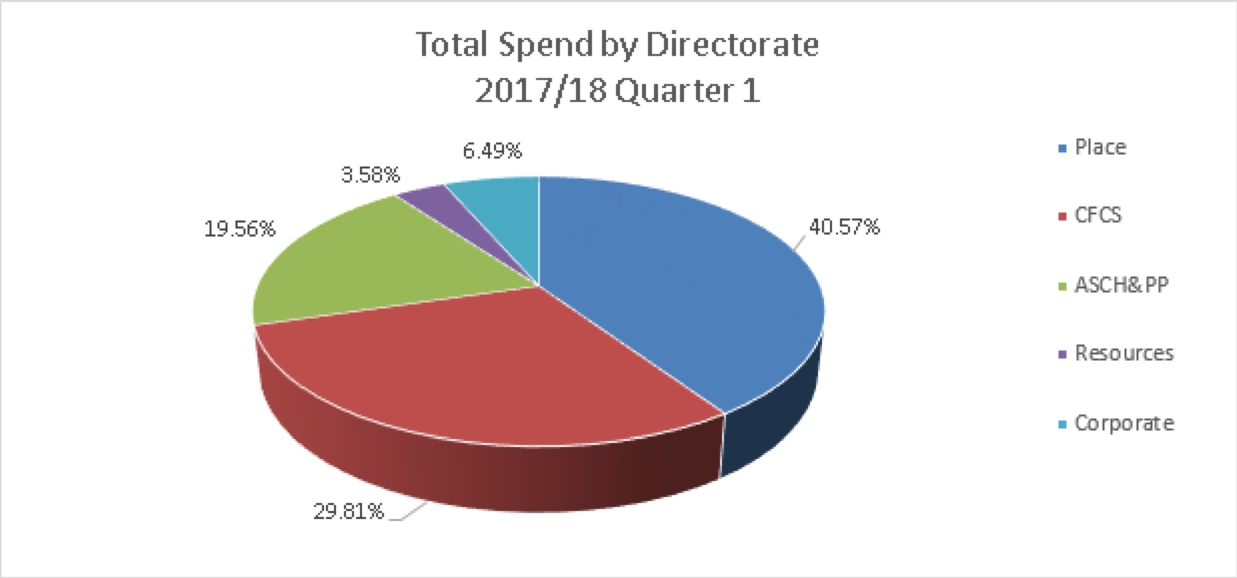
56. The debt recovery and accounts payable performance information will continue to be reviewed at an operational level on a fortnightly basis. The strategic performance information will be compiled for this report to Committee on a quarterly basis.

Procurement Performance

57. As an organisation, NCC has spent £122m in the first quarter of the financial year 2017/18 with external suppliers. This represents a decrease of £24m when compared with the same

period of the previous financial year. The top 5% (118) of suppliers account for 80% (98m) of the total supplier spend. The remaining 95% (2,560) have a total expenditure of £24m with an average spend of £9,400.

58. The chart below shows the total amount spent in the period, by Directorate. Place has the highest level of expenditure at almost 41%, whilst collectively the care related Directorates (ASCH&PP, CFCS) account for almost 50% of all spend.



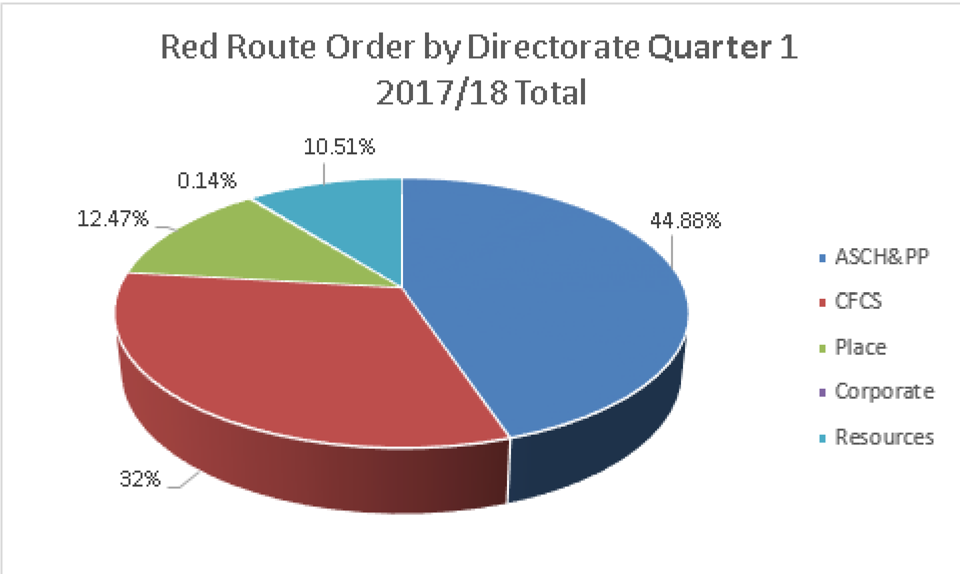
59. The Council's primary ordering route is through BMS. Orders that are processed through BMS are classified as 'Compliant', whilst purchases made outside of the Council's systems are deemed to be 'Non-Compliant'.

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 (BMS Purchase Orders) remains at 63% of the total spend for both quarters, Non-Compliant (Non PO) ordering remains at 37%. 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 1 of the previous financial year.

Directorate	PO Volume Apr 2017	PO Volume May 2017	PO Volume Jun 2017	Total Q1 2017/18	Total Q1 2016/17
ASCH & PH	240	187	141	**568**	**780**
CFCS	300	332	249	**881**	**1,409**
Place	260	234	249	**743**	**1,439**
Corporate	4	-	9	**13**	**7**
Resources	81	81	100	**262**	**335**
Total	**885**	**834**	**748**	**2,467**	**3,970**

61. Purchase orders themselves are split into Green and Red orders. Green orders are those which are raised with the Procurement Centre's pre-arranged agreements or contracted suppliers. Red orders are those that do not have approved suppliers or contracts set up on BMS, and require additional work. When compared with the same period in the previous financial year the volume of 'Red' orders have reduced from 9,446 to 8,698. The chart below illustrates Red Route orders by Directorate as a percentage for Quarter 1 2017/18. The Procurement Team are working with stakeholders to improve these figures.



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

Statutory and Policy Implications

63. 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 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 variations to the Capital Programme.

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

5) To comment on the performance of the Procurement Team.

6) To comment on the performance of the Accounts Payable and Accounts Receivable Teams.

Nigel Stevenson Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:
Keith Palframan, Group Manager, Financial Strategy and Compliance
Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (KK 30/08/2017)

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

Financial Comments (KP 23/08/2017)

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