Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

23 April 2018

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 11 2017/18

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To provide a summary of capital programme expenditure to date, year-end forecasts and approve the variations to the capital programme.
3. To inform Members of the Council's Balance Sheet transactions.

Information

Background

4. 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

5. 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 10 £'000	Committee	Annual Budget £'000	Actual to Period 11 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
206	Children & Young People	119,954	105,770	120,147	193
(4,152)	Adult Social Care & Public Health	209,036	170,805	203,266	(5,770)
535	Community & Place	125,590	112,428	126,250	660
(116)	Policy	34,047	35,686	33,587	(460)
(244)	Finance & Major Contracts Management	3,229	2,967	2,939	(290)
(226)	Governance & Ethics	7,209	6,824	7,102	(107)
(805)	Personnel	16,263	16,692	15,443	(820)
(4,802)	**Net Committee (under)/overspend**	**515,328**	**451,172**	**508,734**	**(6,594)**
(5,440)	Central items	(10,400)	(32,738)	(15,639)	(5,239)
-	Schools Expenditure	184	-	184	-
180	Contribution to/(from) Traders	505	1,677	707	202
(10,062)	**Forecast prior to use of reserves**	**505,617**	**420,111**	**493,986**	**(11,631)**
(575)	Transfer to / (from) Corporate Reserves	(15,066)	(794)	(15,641)	(575)
2,394	Transfer to / (from) Departmental Reserves	(9,772)	(717)	(5,803)	3,969
-	Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(8,243)	**Net County Council Budget Requirement**	**475,279**	**418,600**	**467,042**	**(8,237)**

Committee and Central Items

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

Adult Social Care & Public Health (forecast £5.8m underspend, 2.8% of annual budget)

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

- Older Adults across the County are forecasting an overspend of £2.3m (an increase of £0.5m). This is primarily due to increases in long term nursing and homecare commitments.
- Younger Adults across the County are forecast to underspend by £2.4m, due primarily to a sustained over achievement of Continuing Health Care income.

7. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.4m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.

8. Residential Services are forecasting a reduced underspend of £0.4m. All services are now forecasting underspends across staffing plus overachievement of income targets.

9. Day Services are forecasting a reduced underspend of £0.5m. This is due to an underspend of £0.7m on staffing, offset partly by the continuing overspend on fleet transport.

10. The Transformation Division is forecasting an underspend of £1.3m, £0.2m of which relates to the Care Act. There is also a £1.1m underspend on the Better Care Fund Act through slippage on various schemes.

11. Public Health is currently forecasting an underspend of £2.1m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes, Obesity and Smoking and Tobacco. The Public Health Grant is ring-fenced and as such the overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Community & Place (forecast £0.7m overspend, 0.5% of annual budget)

12. This overspending is due mainly to the additional labour costs and additional salt purchases for road-gritting, together with the cost of day staff being brought in to cover the winter period.

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

13. 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 £5.3m 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 £0.6m 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 £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.

18. There is also a net underspend of £0.8m on pension enhancements, trading organisations, National Non-Domestic Rates and interest charges.

Progress with savings and risks to the forecast

19. 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.

Balance Sheet
General Fund Balance

20. 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.

21. 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

22. 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	(4,931)	
		(4,931)
Variations funded from other sources :		
Net variation from 2016/17 and financing adjustments	(399)	
		(399)
Revised Gross Capital Programme		**97,190**

23. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 11.

Table 3 – Capital Expenditure and Forecasts as at Period 11

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 11 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	27,435	21,611	26,746	(689)
Adult Social Care & Public Health	4,958	849	4,806	(152)
Community & Place	43,737	30,765	41,486	(2,251)
Policy	20,661	13,528	18,374	(2,287)
Finance & Major Contracts Mngt	180	85	186	6
Personnel	219	7	212	(7)
Contingency	-	-	-	-
Total	**97,190**	**66,845**	**91,810**	**(5,380)**

Children & Young People

24. In the Children and Young People capital programme, a forecast underspend of £0.7m has been identified. This is due to £0.7m forecast slippage against the School Places as minor slippage is expected against the overall programme of works.

25. Also in the Children and Young People Committee, a section 106 contribution totalling £0.3m has been received. This funding will be used to create additional school places as a result of local property developments.

It is proposed that the Children and Young People capital programme is varied to reflect the additional section 106 contribution.

26. On 15 March 2018 the Education and Skills Funding Agency confirmed the Authority's 2018/19 School Condition and Healthy Pupils Capital Fund grant allocations. The confirmed figures are lower than grant estimations that were included in the 2018/19 Annual Budget Report to Full Council on 28 February 2018 as follows:

	Estimated (£000)	**Confirmed (£000)**
School Capital Allocation	5,500	4,810
Healthy Pupil Capital Fund	0	406
Total	**5,500**	**5,216**

It is proposed that that Children and Young People capital programme is varied to reflect the confirmed School Condition and Healthy Pupils Capital Grant allocations.

27. The School Building Improvement Programme includes a £1.8m workstream to improve the condition of school kitchens. It is proposed that the Schools Catering Service make a £0.1m contribution to further this programme of work in 2017/18, funded from their existing revenue budget.

It is proposed that the Children and Young People capital programme is varied to reflect the £0.1m contribution from the Schools Catering Service.

Community and Place

28. In the Community and Place Committee capital programme a forecast underspend of £2.3m has been identified. This is as a result of slippage against a number of schemes:

- Forecast slippage of £0.6m has been identified against the major highways capital schemes due to a number of schemes needing to co-ordinate delivery with major highways and utility works to minimise disruption.
- Forecast slippage of £0.7m identified against the Sherwood Forest Visitor Centre and Rufford Abbey capital projects as works slip into the following financial year.
- Further slippage of £0.9m has been identified against a number of capital projects in the Community and Place Committee capital programme.

29. Also in the Community and Place Committee, a number of additional external funding opportunities have been secured as follows:

- The Authority has been successful in levering in £0.5m of external funding from the Environment Agency to carry out flood alleviation projects in the Hucknall and Daybrook areas.

- The Authority has been successful in a bid to secure £1.4m of Joint Quality Air Clean Bus Technology funding. This grant will be used to fit buses with green technology to help reduce tailpipe emissions.
- The Department for Transport has confirmed that the Authority will be receiving an additional Pothole Action Fund capital grant totalling £0.8m. This is in addition to the £1.2m Pothole Action Fund grant received earlier in the year.

  It is proposed that the Community and Place capital programme is varied to reflect the additional external funding streams identified above.

Policy

30. In the Policy Committee capital programme a forecast underspend of £2.3m has been identified. This is mainly as a result of £1.5m slippage against the IT capital programmes as the contract associated with the Journey to the Cloud project is expected to slip into the next financial year. Also, £0.8m slippage has been identified against the Economic Development Capital Fund as grant recipients are now expected to claim funding in 2018/19.

31. Also in the Policy Committee capital programme the Authority has been successful in securing a £1.0m Land Release Funding capital grant allocation from the Ministry of Housing, Communities and Local Government (MHCLG). This grant allocation will fund works required to enable land in Eastwood to be released for housing by 2020.

    It is proposed that the Policy Committee capital programme is varied to reflect the £1.0m Land Release Fund capital grant received from the MHCLG.

32. In the Policy Committee capital programme, a review of expenditure incurred on the Business Reporting and Management Information (BRMI) project has been undertaken. It has been identified that £0.5m of expenditure incurred in the project revenue accounts should be capitalised. In order to ensure that this is treated correctly in the accounts it is proposed that the necessary accounting adjustment is processed. The overall budget for the project remains unchanged.

    It is proposed that the Policy Committee capital programme is varied by £0.5m to reflect the capitalisation of BRMI expenditure.

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	18,612	8,684	-	139	27,435
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	**51,920**	**44,033**	**188**	**1,049**	**97,190**

34. It is anticipated that borrowing in 2017/18 will decrease by £4.9m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This decrease 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 £19.5m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

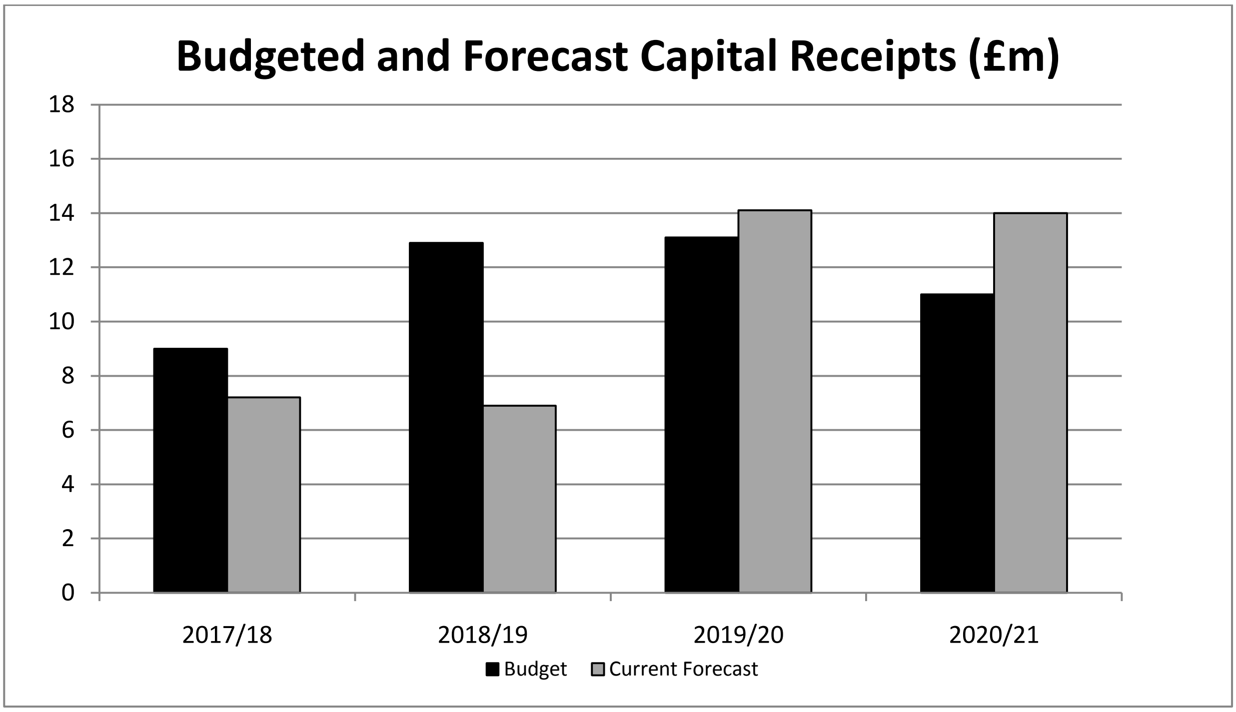
Prudential Indicator Monitoring

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 £3.2m have been received.

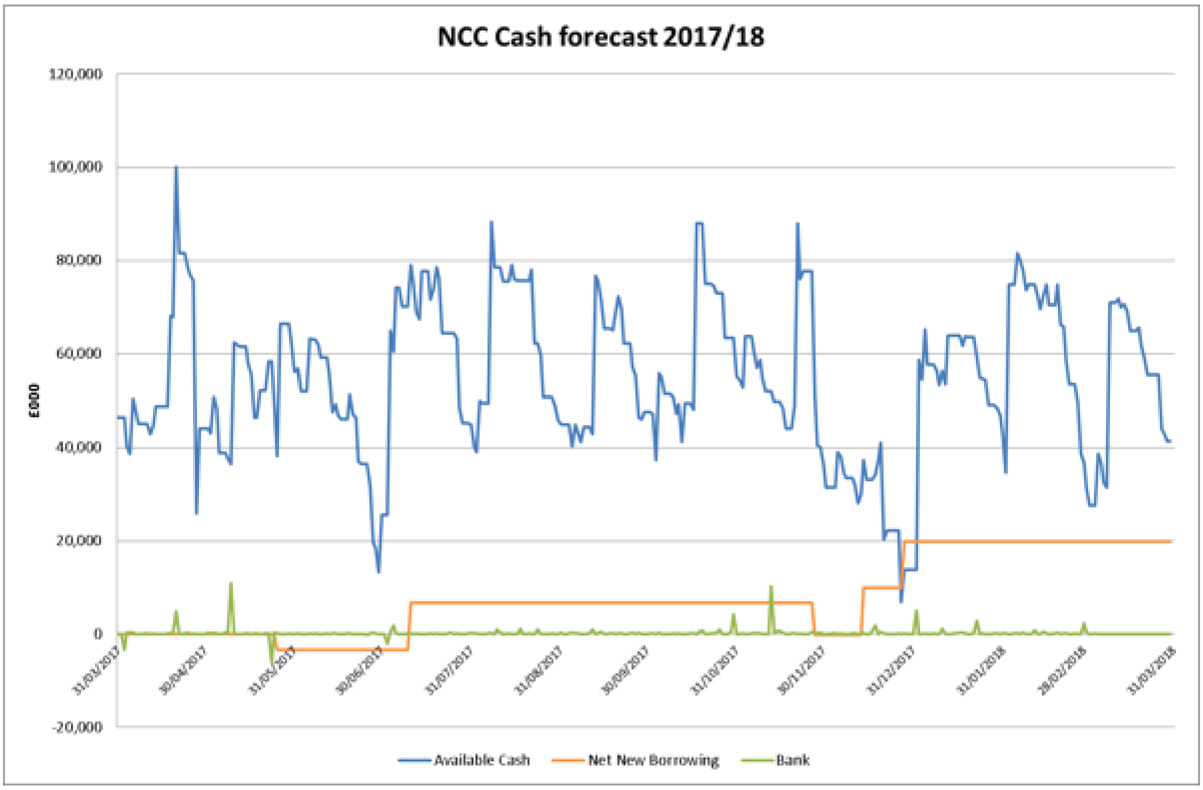
40. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

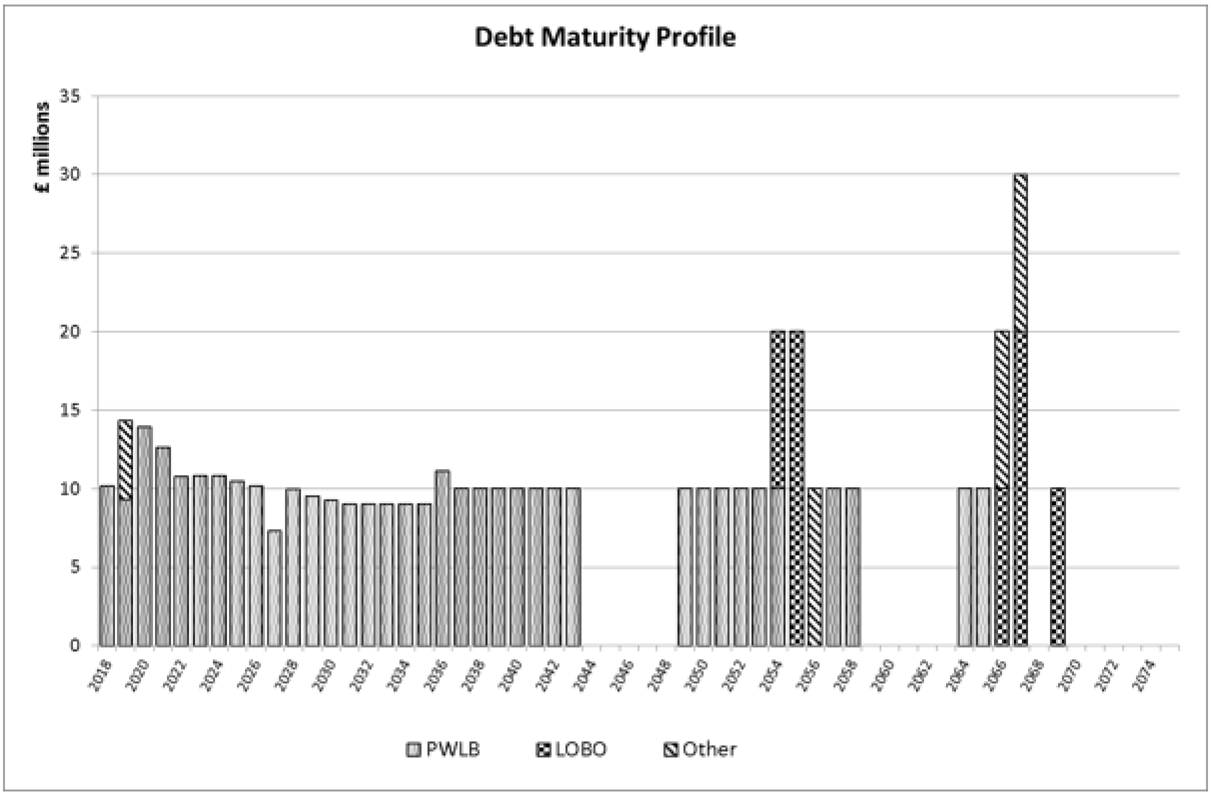
45. The Treasury Management Strategy for 2017/18 identified a need to borrow approximately £30m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. The first £10m tranche of this was taken from PWLB in July 2017, and a further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

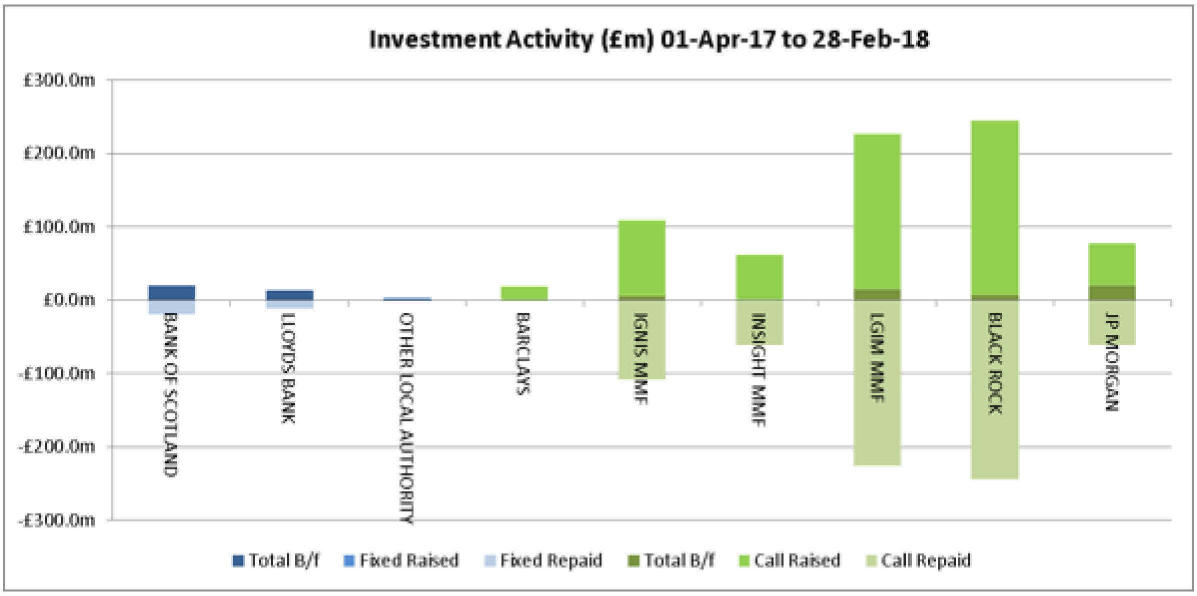
48. Longer-term borrowing (maturities up to 51 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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 February 2018 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £37m 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 three 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	-	(12,000)	1,000
Other Local Authority	1,500	1,450	(1,450)	1,500
Barclays	-	18,000	-	18,000
IGNIS MMF	6,000	102,250	(108,200)	50
Insight MMF	-	61,250	(61,250)	-
LGIM MMF	13,950	211,800	(225,150)	600
Black Rock	6,500	238,150	(244,650)	-
JP Morgan	20,000	57,500	(61,500)	16,000
Total	**80,950**	**690,400**	**(734,200)**	**37,150**



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

Statutory and Policy Implications

52. 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 the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:
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Constitutional Comments (KK 09/04/2018)

53. 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 21/03/2018)

54. 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