

18 July 2016**Agenda Item: 4****REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND
IMPROVEMENT****FINANCIAL MONITORING REPORT: PERIOD 2 2016/2017****Purpose of the Report**

1. To provide a summary of the revenue position of the County Council for the year to date with year-end forecasts.
2. Request approval for an additional contingency request.
3. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
4. To inform Members of the Council's Balance Sheet transactions.

Information and Advice**Background**

5. The Council approved the 2016/17 budget at its meeting on 25 February 2016. As with previous financial years, progress updates will be closely monitored and reported to both management and Committee on a monthly basis.

Summary Revenue Position

6. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. A £0.8m 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 – Revenue Expenditure and Forecasts as at Period 2

Forecast Variance as at Period 1 £'000	Committee	Annual Budget £'000	Actual to Period 2 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
-	Children & Young People	135,977	17,328	137,159	1,182
-	Adult Social Care & Health	222,346	20,191	220,831	(1,515)
-	Transport & Highways	57,541	6,287	57,849	308
-	Environment & Sustainability	31,175	619	31,444	269
-	Community Safety	2,968	74	3,227	259
-	Culture	12,752	1,316	12,745	(7)
-	Policy	23,594	1,699	23,461	(133)
-	Finance & Property	30,950	6,345	30,734	(216)
-	Personnel	2,612	45	2,622	10
-	Economic Development	1,124	141	1,186	62
-	Public Health *	5,462	(6,999)	4,685	(777)
-	Net Committee (under)/overspend	526,501	47,046	525,943	(558)
-	Central items	(19,839)	1,716	(19,933)	(94)
-	Schools Expenditure	87	87	87	-
-	Contribution to/(from) Traders	311	477	309	(2)
-	Forecast prior to use of reserves	507,060	49,326	506,406	(654)
-	Transfer to / (from) Corporate Reserves	(15,134)	-	(15,134)	-
-	Transfer to / (from) Departmental Reserves	(9,289)	(922)	(9,423)	(134)
-	Transfer to / (from) General Fund	(3,741)	-	(3,741)	-
-	Net County Council Budget Requirement	478,896	48,404	478,108	(788)

* The actual net expenditure for Public Health is skewed depending upon the timing of the receipt of grant.

Committee and Central Items

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

Children & Young People (forecast £1.2m overspend)

8. The report on the Management Accounts 2015/16, which was considered by Finance and Property Committee on 20 June 2016, highlighted a £1.2m overspend against the budget for SEND Home to School Transport. There are likely to be further needs related pressures against this budget over the coming months and work is being undertaken to understand and quantify this. Members will be kept up to date on progress. The forecast for Period 2 includes an anticipated overspend of £1.4m associated with this pressure.

9. There are also issues on achieving the savings targets relating to Looked After Children Provider Services and this will be kept under review over the coming months.

10. An underspend of £0.2m in Business Support is forecast which relates to savings associated with holding vacancies in anticipation of future years' budget savings. A report is being taken to Personnel Committee in July in respect of the business support review.

Adult Social Care & Health (forecast £1.5m underspend)

11. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a net overspend of £0.8m (£0.9m overspend after the use of reserves). The main variances are:
- Client Contribution income is forecasting a shortfall of £1.2m primarily due to a reduction in property income
 - The contribution to the Integrated Community Equipment Loans Scheme (ICELS) Pooled Budget is forecast to be £0.2m less than budget, due to contract re-negotiations with County Health Partners
 - The Access and Safeguarding Teams are forecasting a £0.2m underspend due to staffing vacancies
12. The North Nottinghamshire Division is currently forecasting a net underspend of £1.9m against the budget. This is comprised of the following:
- Day Services and Employment are forecasting an underspend of £1.0m. This is due to staffing underspends with delayed recruitment and underutilisation of absence cover
 - Care and Support Centres are forecasting an underspend of £0.6m due to underspends on staffing, though it is anticipated that staffing levels will increase with additional use of assessment beds
 - Short Breaks Services are forecasting an underspend of £0.1m. This is primarily due to staffing underspends, partly offset by a shortfall in NHS Carers breaks income
 - Employment Services are forecasting an underspend of £0.1m. This is due to a £0.4m underspend on staffing offset by a forecast shortfall in income due to a reduction in delivered meals by County Enterprise Foods
 - Bassetlaw Community Care are forecasting an underspend of £0.1m due to underspends in Older Adults but this is partially offset by overspends in Younger Adults
13. The Mid and South Divisions are currently forecasting a breakeven position. Across Mid and South Nottinghamshire the major variances are:
- Older Adults across the County are forecasting an underspend of £2.3m primarily due to underspends on staffing and Direct Payments
 - Younger Adults across the County are forecasting an overspend of £2.3m due to overspends on Supported Living despite a significant amount of additional continuing health care income and underspends on Direct Payments and Staffing
14. Since the start of the calendar year, there have been a total of 84 vacant posts of which 34 were permanent and 50 were temporary. 50 of these have now been appointed to and are either in post or due to start soon. There are further interviews in June and July to fill the remaining 34 posts. As a result of the ongoing recruitment to these vacant posts, all occupational therapist assessments are currently within the 28 day timescale, although there are still approximately 380 social work assessments outside of timescale. Action is being taken to address this and all assessments should be within timescale in 4 months.
15. The Transformation Division is currently forecasting an underspend of £0.4m against the budget. This is due to forecast underspends on the Care Act pending decisions on how this will be spent.

Public Health (£0.8m underspend)

16. This forecast underspend is due mainly to slippage in activity against the Obesity Programme which will be re-programmed into the 2017/18 and 2018/19 financial years, together with an underspend against the Smoking and Tobacco Programme.
17. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Central Items (forecast £0.1 underspend)

18. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
19. At the time of setting the 2016/17 budget, several funding allocations had not been announced and therefore assumptions about certain grants were made, based on the best information available at the time.

Requests for Contingency

20. The Council budget includes a contingency budget of £5.5m to cover redundancy costs, slippage of savings and unforeseen events. Contingency requests approved previously and including the request below total £2.4m leaving a balance of £3.1m for future requests. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.
21. A request for contingency has been submitted by the Children and Young People's Committee to provide £0.4m funding to meet increased insurance costs associated with historical abuse cases. This risk was identified but not addressed in the 2016/17 budget which was approved in February 2016. It is anticipated that these costs cannot now be contained within existing budgetary provisions, hence the need for a permanent contingency request.

Transfer to / (from) reserves

22. A review of reserves is being undertaken to identify surplus earmarked reserves that may be released to support the budget and form part of the overall budget strategy.

Progress with savings and risks to the forecast

23. Council on 25 February 2016 approved savings proposals of £17.6m for delivery over the four year period 2016-20. 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.
24. Unachievable savings have been identified against the Reducing the Costs of Residential Placement (Younger Adults) project in 2017/18. The current pace of reviews and a restriction to the project's scope has resulted in predicted unachievable savings of £0.5m in 2017/18 with a further £0.5m of savings slipping from 2017/18 to 2018/19.

25. Issues associated with the achievement of savings relating to Looked After Children Provider Services, SEND Home to School Transport and Independent Travel Training are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Property Committee.

Capital Programme

26. Table 2 summarises changes in the gross Capital Programme for 2016/17 since approval of the original programme in the Budget Report (Council 25/02/16):

Table 2 – Revised Capital Programme for 2016/17

	2016/17	
	£'000	£'000
Approved per Council (Budget Report 2016/17)		112,345
Variations funded from County Council Allocations : Net slippage from 2015/16 and financing adjustments	14,738	
		14,738
Variations funded from other sources : Net slippage from 2015/16 and financing adjustments	355	
		355
Revised Gross Capital Programme		127,438

27. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 2.

Table 3 – Capital Expenditure and Forecasts as at Period 2

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	43,691	2,465	43,644	(47)
Adult Social Care & Health	9,730	141	9,730	-
Transport & Highways	38,626	2,303	39,021	395
Environment & Sustainability	3,128	109	3,128	-
Community Safety	100	-	100	-
Culture	5,440	-	3,520	(1,920)
Policy	255	(8)	255	-
Finance & Property	17,415	1,098	17,176	(239)
Personnel	372	173	372	-
Economic Development	6,681	136	6,681	-
Contingency	2,000	-	2,000	-
Total	127,438	6,417	125,627	(1,811)

Children and Young People

28. In the Children and Young People's capital programme, a School Condition Grant of £6.058m has been confirmed by the Department for Education. This figure is also indicative of the allocation that will be received in 2017/18.

It is proposed that the Children and Young People's capital programme is varied to reflect the confirmed School Condition Grant.

Transport and Highways

29. In the Transport and Highways capital programme, an allocation of £3.154m is already approved to fund the Rolls Royce Development Project. To complete the scheme, additional funding of up to £0.540m is required due to the increased cost of materials as a result of inflation since preparation of the original 2013 scheme estimates. A bid for this additional funding is supported by the Corporate Asset Management Group.

It is proposed that the Transport and Highways capital programme is varied to reflect the additional contribution to the Rolls Royce Development project, funded from capital allocation.

30. Also in the Transport and Highways Committee, a review of the capital programme has been undertaken to ensure that available funding is aligned to forecast activity. As such, a variation to the capital programme is proposed as detailed in the table below. This variation has no impact on the overall capital programme

Budget Line	Budget Adjustment (£000's)
Street Lighting	414
Road Maintenance and Renewals	145
Road Safety	(59)
Integrated Transport Measures	(500)
Total	0

Culture

31. In the Culture Committee capital programme, a forecast underspend of £1.9m has been identified. This is as a result of the Sherwood Forest Visitor Centre project being re-profiled into 2017/18.

Finance and Property

32. In the Finance and Property Committee, it is proposed that the capital programme is varied by £0.250m to fund risk management capital projects required to minimise insurance costs.

It is proposed that the Finance and Property capital programme is varied by £0.250m to include a risk management programme, funded from reserves.

33. Also in the Finance and Property Committee, there was an allocation in the approved capital programme to fund demolition costs associated with the Denewood Centre. This was removed from the capital programme in March 2015 as it was understood that the demolition costs were to be netted off the capital receipt. We have now been asked to fund the demolition costs and will receive a higher capital receipt on disposal. The capital receipts forecast has been amended to reflect this revised approach.

It is proposed that the Finance and Property capital programme is varied by £0.125m to reflect the demolition costs associated with the Denewood Centre, funded from capital allocation.

Financing the Approved Capital Programme

34. Table 4 summarises the financing of the overall approved Capital Programme for 2016/17.

Table 4 – Financing of the Approved Capital Programme for 2016/17

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	19,909	23,482	-	300	43,691
Adult Social Care & Health	8,395	1,083	252	-	9,730
Transport & Highways	10,104	28,172	-	350	38,626
Environment & Sustainability	1,853	62	600	613	3,128
Community Safety	100	-	-	-	100
Culture	5,440	-	-	-	5,440
Policy	255	-	-	-	255
Finance & Property	17,365	50	-	-	17,415
Personnel	-	82	-	290	372
Economic Development	4,040	2,574	67	-	6,681
Contingency	2,000	-	-	-	2,000
Total	69,461	55,505	919	1,553	127,438

35. It is anticipated that borrowing in 2016/17 will increase by £12.4m from the forecast in the Budget Report 2016/17 (Council 25/02/2016). This increase is primarily a consequence of:

- £23.5m of net slippage from 2015/16 to 2016/17 and financing adjustments funded by capital allocations.
- Variations to the 2016/17 capital programme funded from capital allocations totalling £8.7m as approved to the July 2016 Full Council meeting.
- Net slippage in 2016/17 of £2.4m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

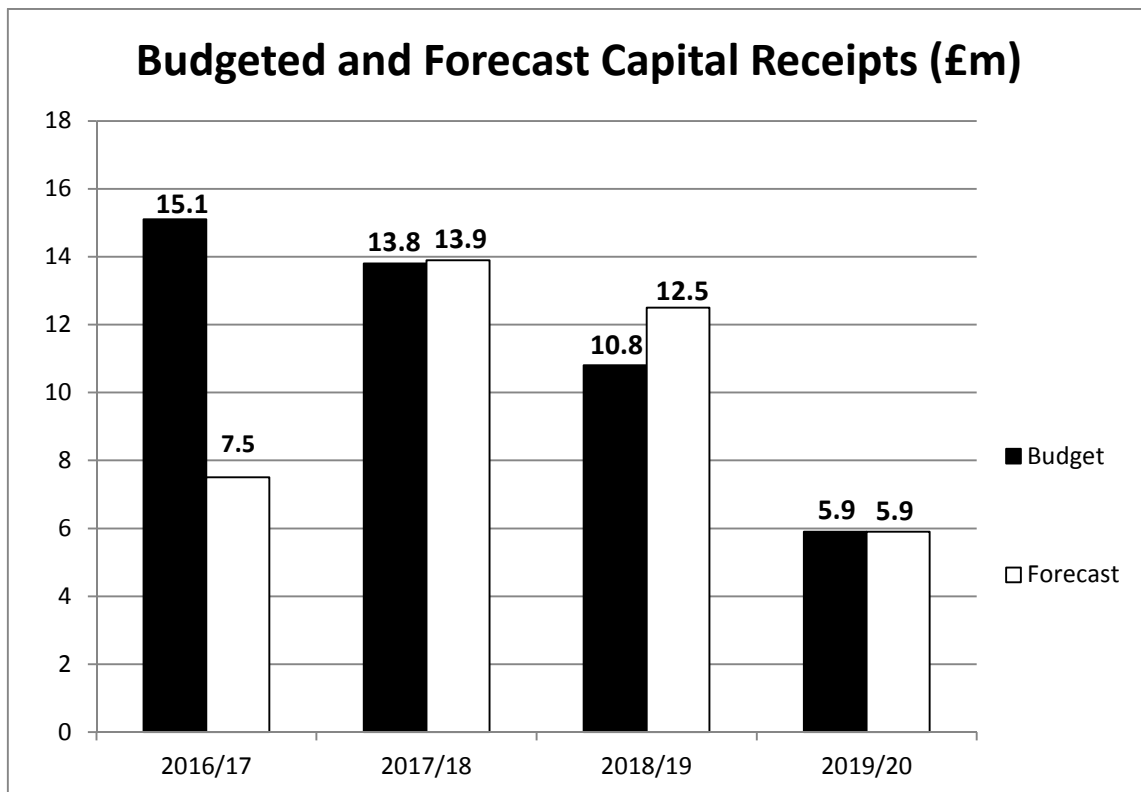
Prudential Indicator Monitoring

36. 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

37. 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.

38. The chart below shows the budgeted and forecast capital receipts for the four years to 2019/20.



39. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2016/17 (Council 25/02/2016). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

40. The capital receipt forecast for 2016/17 is £7.5m. This is below the budgeted figure due to slippage on three major sites. Despite this, the overall capital receipts forecast remains relatively unchanged although an element has been re-profiled into 2020/21. To date in 2016/17, capital receipts totalling £2.7m have been received.

41. 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.

42. Current Council policy (Budget Report 2016/17) is to set capital receipts 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.

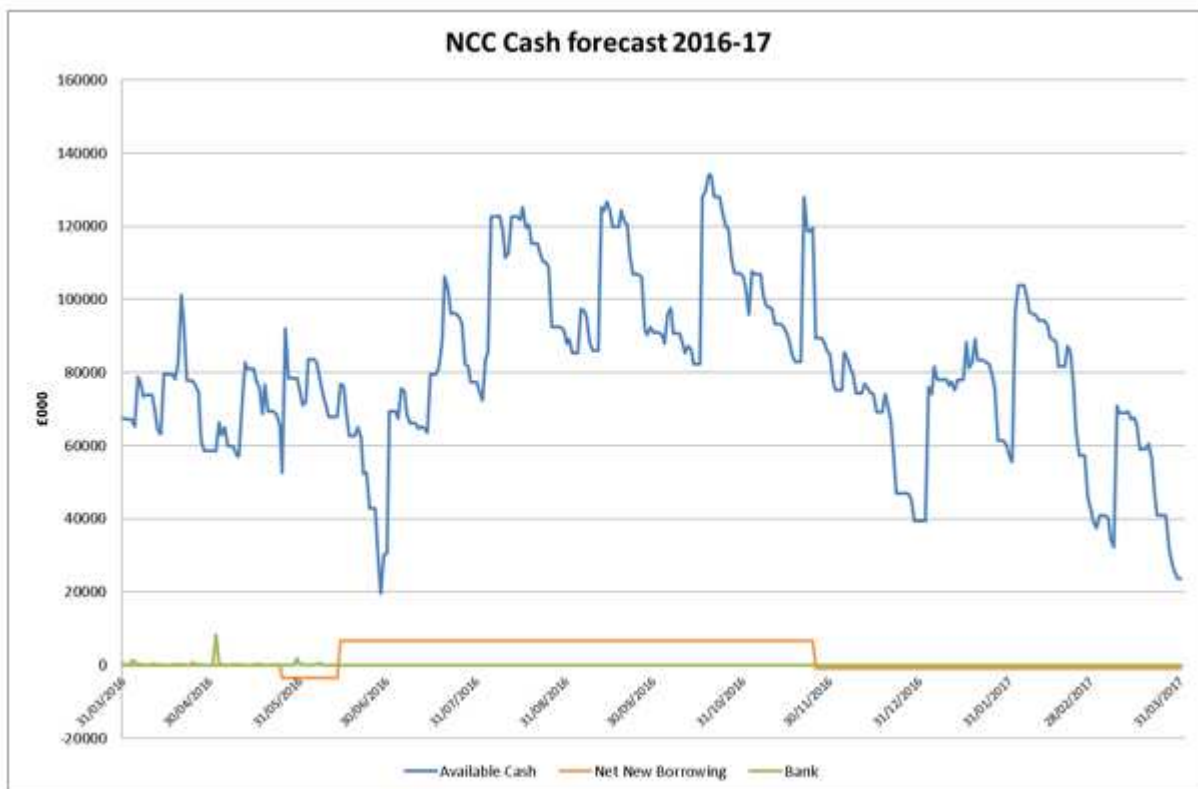
Treasury Management

43. 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. The Cash forecast chart below shows the actual cash flow position to date and forecasts for the

2016/17. 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. However, cash outflows, in particular capital expenditure, tend to increase later in the year.

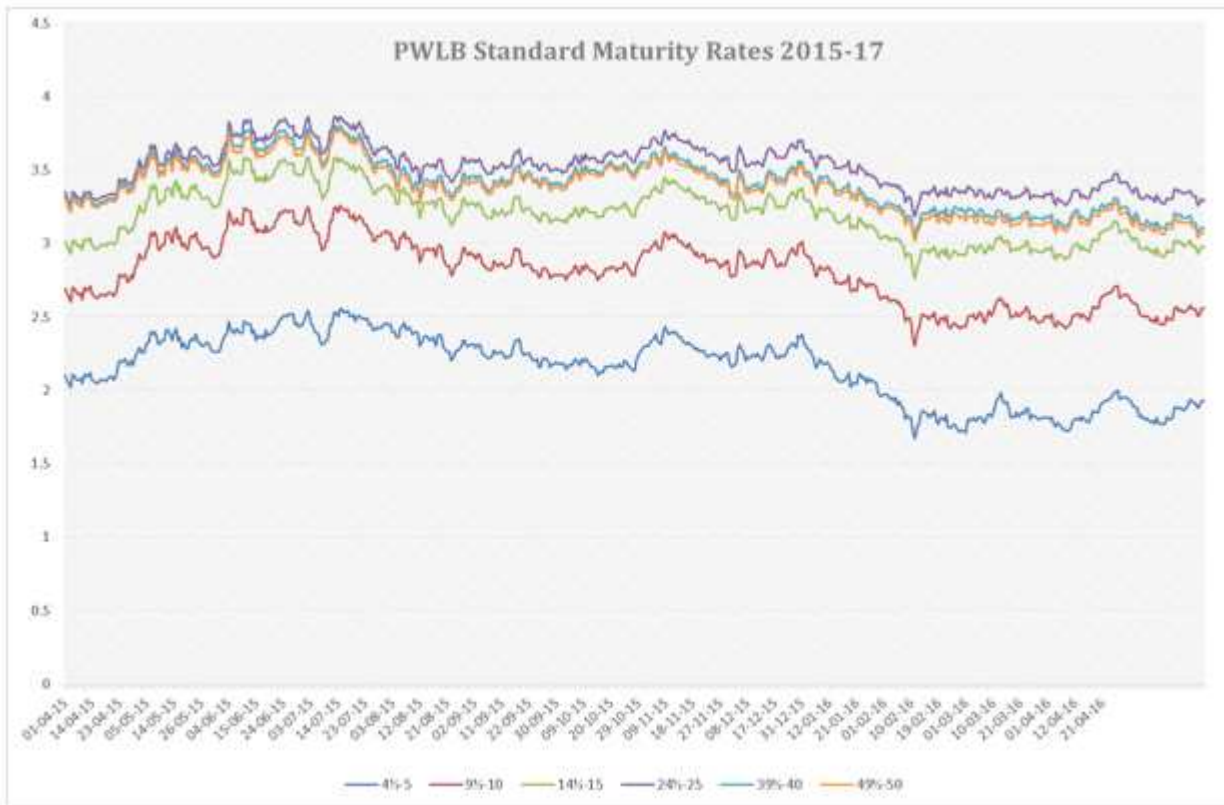
The chart below gives the following information:

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.



44. The Treasury Management Strategy for 2016/17 identified a need for additional borrowing of £52m to fund the capital programme, replenish internal balances and to replace maturing debt. However, given slippage in the 2015/16 capital programme and a less severe than forecast use of reserves, the forecast borrowing requirement for 2016/17 is currently £4m. This figure continues to be monitored – it could decrease further with continuing slippage, or on the other hand it could increase if, for instance, any of the Council's LOBO loans were suddenly to be called. Furthermore, if PWLB rates appear attractive it may still be in the Council's financial interest to borrow more than this minimum amount. In June a further £10m was borrowed on these grounds.

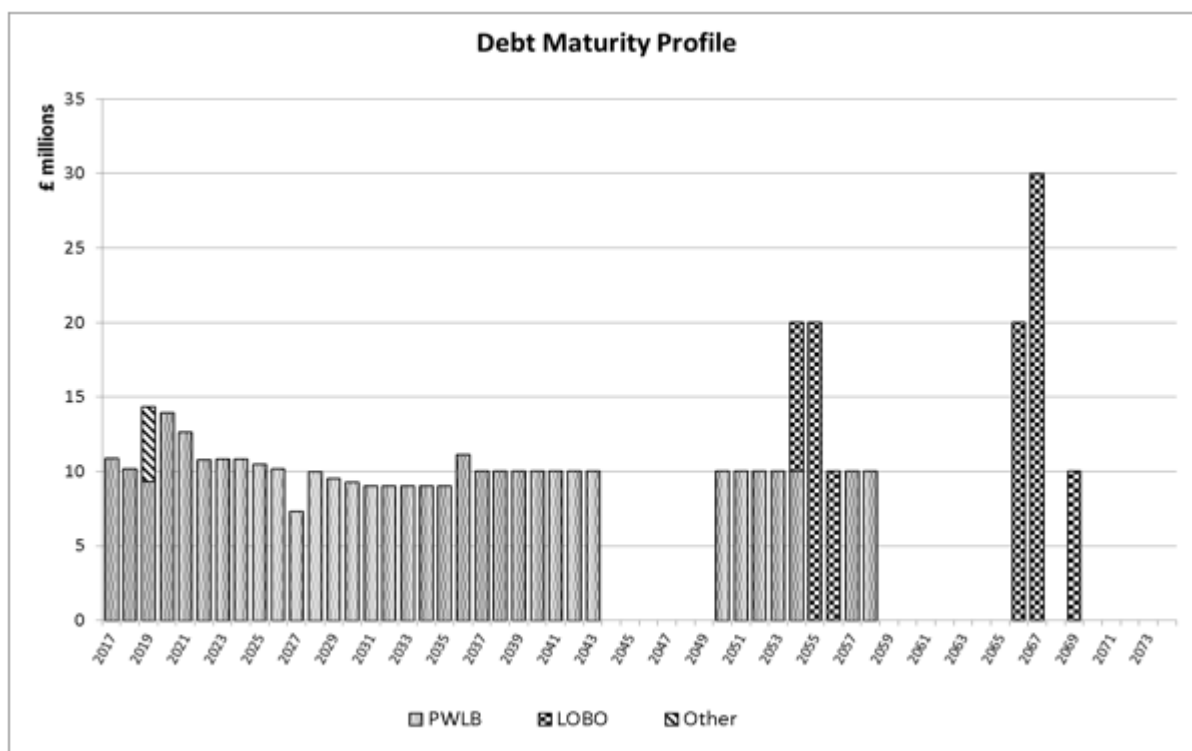
45. PWLB rates are monitored closely in order to feed into decisions on new borrowing. Longer term rates remain fairly low. The Council is able to take advantage of the PWLB “certainty rate” which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates during 2015/16 and the first period of 2016/17.



46. Borrowing decisions will take account of a number of factors including:

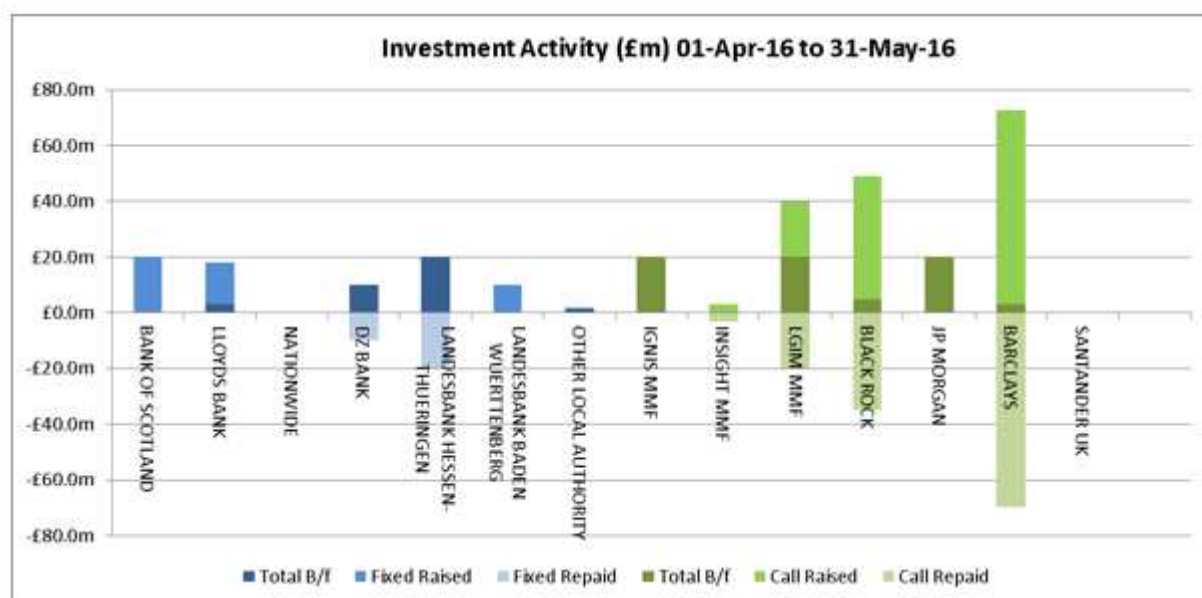
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators

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 42 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. Longer-term borrowing (maturities up to 53 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 increases the rate at an option point, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. They are shown in the chart below at their furthest maturity points, but could actually mature at various points before then, constituting a risk that the Council will have to then borrow at the prevailing interest rate. The ‘other’ loan denotes more recent borrowing from the money markets where the main objective was to minimise interest costs. Refinancing of these loans has been factored into the Treasury Management Strategy.



48. The investment activity for 2016/17 to the end of May 2016 is summarised in the chart and table below. Outstanding investment balances totalled £102m at the start of the year and £127m at the end of the period. This is slightly higher than balances at the same time last year, and reflects the reduction in the need to borrow (mentioned above).

	Total B/ £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	-	20,000	-	20,000
Lloyds Bank	3,000	15,000	-	18,000
Nationwide	-	-	-	-
DZ Bank	10,000	-	(10,000)	-
Landesbank Hessen- Thueringen	20,000	-	(20,000)	-
Landesbank Baden Wuerttemberg	-	10,000	-	10,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	-	-	20,000
Insight MMF	-	3,050	(3,050)	-
LGIM MMF	20,000	19,950	(19,950)	20,000
Black Rock	4,700	44,400	(34,950)	14,150
JP Morgan	20,000	-	-	20,000
Barclays	2,950	69,750	(69,600)	3,100
Santander UK	-	-	-	-
Total	102,150	182,150	(157,550)	126,750



49. The Council's lending list has been reviewed for 2016/17, and additional banks meeting the Council's lending criteria have been added. All counterparty ratings are regularly monitored and lending restrictions placed accordingly.

Procurement Performance

50. The Procurement Group continues to review the Council's performance on a regular basis. An update on Strategic Performance Information and ongoing developments will be provided for this report to Committee on a quarterly basis with the next update to be included in the Period 4 report.

Debt Recovery and Accounts Payable Performance

51. 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 with the next update to be included in the Period 4 report

Statutory and Policy Implications

52. 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 note the revenue budget expenditure to date and year end forecasts
- 2) To approve the contingency request

- 3) To note the Capital Programme expenditure to date and year end forecasts and approve variances to the Capital Programme
- 4) To note the Council's Balance Sheet transactions

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For any enquiries about this report please contact:

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Simon Cunnington - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (KK 29/06/2016)

53. The proposals in this report are within the remit of the Finance and Property Committee.

Financial Comments (GB 24/06/2016)

54. The financial implications are stated within the report itself.

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'