APPENDIX 1

Report to Cabinet Member for Finance

1 August 2022

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 3 2022/2023

Purpose of the Report

1. To provide the Cabinet Member for Finance with a summary of the budget monitoring position as at Period 3.

Information and Advice

Background

2. The Council approved the 2022/23 budget at its meeting on 24 February 2022. As with previous financial years, progress updates will be closely monitored and reported to management, the Cabinet Member for Finance or Cabinet each month.

Summary Revenue Position

3. The table below summarises the revenue budgets for each Portfolio for the forthcoming financial year. An overspend of £4.4m is currently projected against the budget approved by Full Council in February 2022. As a consequence of this adverse variance and the significant levels of uncertainty and financial challenges facing the Council over the medium term, 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 2	Portfolio	Annual Budget £'000	Actual to Period 3 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
2,289	Children & Young People	167,256	23,587	169,326	2,070
(425)	Adult Social Care & Public Health	234,621	28,808	235,269	648
779	Transport & Environment	117,075	11,610	117,504	429
145	Communities	18,581	3,994	18,772	191
188	Economic Development & Asset Management	25,216	3,388	25,261	45
81	Deputy Leader & Transformation	5,218	1,124	5,124	(94)
(45)	Finance	15,594	3,279	15,545	(49)
467	Personnel	26,074	6,412	26,235	161
3,479	**Net Committee (under)/overspend**	**609,635**	**82,202**	**613,036**	**3,401**
-	Central items	(36,836)	(7,849)	(36,836)	-
-	Schools Expenditure	129	-	129	-
674	Contribution to/(from) Traders	(1,174)	435	(758)	416
4,153	**Forecast prior to use of reserves**	**571,754**	**74,788**	**575,571**	**3,817**
-	Transfer to / (from) Corporate Reserves	(5,590)	-	(5,590)	-
270	Transfer to / (from) Departmental Reserves	(6,692)	-	(6,075)	617
-	Transfer to / (from) General Fund	-	-	-	-
4,423	**Net County Council Budget Requirement**	**559,472**	**74,788**	**563,906**	**4,434**

Committee Variations

Children & Young People's (£2.1m overspend)

4. The Children and Young People's portfolio is currently forecasting an overspend of £2.1m after the planned use of grant reserves. This mainly relates to a £1.8m overspend in Commissioning and Resources and a further £0.3m overspend across other areas in the Department.

5. The Commissioning and Resources Division overspend relates to a forecast overspend against external Looked After Children placement costs and Internal Residential Homes budgets, offset by underspends in Children's Centre and internal foster care payment budgets.

6. Much of the overspend is due to general market conditions with demand outstripping supply in all placement types, plus the impact of inflation. It is increasingly difficult to secure IFA placements, resulting in more costly alternatives, consequently the weighted average placement cost is increasing.

7. In view of the high cost of external residential placements the forecast is highly sensitive to changes in e.g., numbers, weekly costs, and placement mix. There are robust monitoring

processes to track trend data, average costs, and actual numbers of children in placement to highlight potential issues as soon as possible.

8. A number of actions are being progressed to mitigate the forecast overspend position, as follows:

    - Introducing an accommodation panel to ensure that all creative and flexible solutions have been considered, to give young people and their families the best possible support to enable where possible, the young person to remain within their family network. This will look at utilising existing edge of care capacity more effectively, as well as drawing in the new edge of care team.
    - Strengthening the senior oversight of decision-making around placement moves where residential care is being requested.
    - Improving the kinship support offer to friends and family members caring for a child in care or at risk of being in care.
    - Implementing plans to improve the recruitment and retention of NCC foster carers.
    - Growing internal and not-for-profit residential care to reduce the numbers of children being cared for in spot purchase residential placements.

Adult Social Care & Public Health (£0.6m overspend)

9. The Adult Social Care & Public Health portfolio is currently reporting a forecast overspend of £0.6m. This is mainly due to an overspend in Living Well and Ageing Well (£4.4m) offset by underspends in Direct & Provider Services (£2.6m), Maximising Independence (£0.6m) and Public Health (£0.6m).

10. The underspend in Direct & Provider Services is across all services and is mainly due to the following:

    - Anticipated additional NHS Continuing Healthcare income into residential services which is positive in supporting people with complex health and social care needs.
    - Increased underspend in Day Services due to slippage on recruitment. Although the vacancy rate is high and the majority of posts need to be recruited to maintain service continuity, retaining a proportion of vacancies will assist in redesigning services and job roles in response to the recently launched Day Opportunities Strategy.

11. The forecast overspend in Living Well continues to reduce, mainly due to more accurate forecasting of anticipated spend and demand by teams and ongoing issues / slippage in recruiting to vacant posts.

12. Living Well spend continues to be challenging, particularly in relation to increasing needs and market forces, where there is limited availability of services, particularly for people with complex needs, which results in lack of market competition and high placement costs. A number of actions are being taken to mitigate this, as follows:

    - Close oversight of placement decisions through an effective panel process.
    - Joint work with Strategic Commissioning to develop the external provider market and maximise how we utilise contracted services.

- A focus on taking a strengths-based approach to support, to maximise independence and reduce the need for formal support.
- Reviewing the transition of young people approaching adulthood to ensure that interventions are timely and cost effective. This will form part of the focused budget setting work over the summer period.
- A joint programme of work relating to home care and Housing with Care has been set out which will help to develop community alternatives that are cost effective and improve outcomes for our residents.

Central Items

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

14. The Council's budget includes a base contingency budget of £4.0m to cover redundancy costs, slippage of savings and other potential unforeseen events. Also, in 2022/23 further demand and inflationary pressures have been identified that have a degree of uncertainty with regard to likelihood, value and profiling; including assumption on pay awards. As such, an additional provision of £13.3m has been made within the contingency to fund these pressures should they arise. The Cabinet, Cabinet Member for Finance or the Section 151 Officer are required to approve the release of contingency funds.

Requests for Contingency

15. Nottinghamshire County Council has committed to supporting the D2N2 Growth Hub which coordinates access to business support for companies across the LEP area, with a focus on companies that demonstrate higher growth potential in the LEP's priority sectors. In July 2018, the former Policy Committee agreed a match funding commitment over the period 2019 to 2022. The allocation of £46,875 will be funded from Contingency.

16. There has already been a call on the 2022/23 contingency budget from requests that have been approved by the previous Finance Committee, Cabinet or the Section 151 Officer which total £3.8m. Table 1 assumes that the remaining contingency budget will be utilised in full for future requests

Main Areas of Risk within the 2022/23 budget

17. As reported previously, there are significant risks and uncertainties associated with the current environment that local authorities are operating within, both in the short and medium terms. The main financial risks faced by the Council are as follows:-

    - Any on-going financial impact of the COVID19 pandemic and the implications that this may have on the delivery of Council services.
    - The cost pressures factored into the Council's budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to Adults and Children's Social Care Services, Transport Services, the impact of the National Living Wage, agreement of the pay award, the impact of the proposed Adult Social Care reform as well as any additional burdens identified by Central Government.

- The COVID19 pandemic coupled with the UK leaving the EU has had a significant impact on the availability of staffing resource particularly in the social care sector as recruiting and retaining care staff across social care services remains difficult. Staff shortages have also been experienced in catering, facilities management and waste services.
- Whilst the Council is somewhat protected from immediate inflation on direct energy costs through the advanced purchasing arrangement with Crown Commercial Services (CCS), wider inflationary pressures driven by energy costs could have a detrimental impact across a whole range of service areas.
- Fuel prices which are at a record high, will also be felt across all areas of the organisation in due course, with the potential for contracts to become unaffordable for the council or unviable for some service providers.
- The 2022/23 Settlement reflected a one-year settlement only. As a result, estimated future increases in Central Government grants that are set out in the MTFS may not be in line with future announcements.
- Higher costs associated with the capital programme due to material shortages and increases in the cost of construction and other key materials.

Balance Sheet
General Fund Balance

18. Cabinet approved the 2021/22 closing General Fund Balance of £35.2m on 14 July 2022. This balance represents 6.2% of the net budget requirement.

Capital Programme

19. Table 2 summarises changes to the gross Capital Programme for 2022/23 since approval of the original Programme in the Budget Report (Council 24/02/22):

Table 2 – Revised Capital Programme for 2022/23

	2021/22 £'000	£'000
Approved per Council (Budget Report 2020/21)		126,879
Variations funded from County Council Allocations :		
Net slippage from 2020/21 and financing adjustments	22,321	
		22,321
Variations funded from other sources :		
Net variation from 2020/21 and financing adjustments	982	
		982
Revised Gross Capital Programme		**150,182**

20. Table 3 shows actual capital expenditure to date against the forecast out-turn at Period 3.

Portfolio	Revised Capital Programme £'000	Actual Expenditure to Period 3 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	46,953	7,046	47,376	423
Adult Social Care & Public Health	917	103	924	7
Transport & Environment	53,812	4,864	51,214	(2,598)
Communities	3,225	131	2,976	(249)
Economic Devt & Asset Mngt	28,820	1,310	28,820	-
Finance	12,430	1,063	11,600	(830)
Personnel	106	-	106	-
Contingency	3,919	-	3,919	-
Total	**150,182**	**14,517**	**146,935**	**(3,247)**

21. In the Transport and Environment portfolio capital programme, a forecast underspend of £2.6m is currently being reported. This is due to expected slippage of £1.0m against the Flood Alleviation and Drainage programme as a result of a number of factors including the profiling of schemes as they go through the Environment Agency funding process and the phasing of capital bids for investment from other external sources. Expected supplier delay has resulted in £0.6m slippage being reported against the Transport and Travel Services capital budget and it is currently expected that £0.9m of expenditure relating to the Trees for Climate programme will be re-profiling into the next financial year.

22. Also, in the Finance portfolio capital programme, a forecast underspend of £0.8m is being reported. This is as a result of £0.8 slippage that is currently being reported against the Computer Equipment Replacement programme as device availability in the market place determines the speed in which replacements can be undertaken.

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Variations to the Capital Programme

23. Under the Council's new governance arrangements, the Section 151 officer has approved variations to the capital programme as set out in the following paragraphs:

Children & Young People (CYPS)

24. **School Access Initiative** – A need has been identified to provide two hygiene suites to assist children with special needs at two mainstream schools. These projects are due for completion in 2022/23 and it was proposed that the costs are funded from the SBIP programme budget. The CYPS portfolio capital programme has therefore been varied to transfer £0.3m from the SBIP programme budget to the School Access Initiative programme budget to reflect the cost of these works.

25. **Sharphill School -** Minor additional costs of £0.05m have been identified to bring the new school in Edwalton to completion**.** The CYPS capital programme has been varied by £0.05m, funded from the School Places programme, to reflect the final cost of the new school.

26. **School Building Improvement Programme (SBIP)** - The SBIP is already approved within the CYPS portfolio capital programme. It was proposed that £0.6m contributions from the planned maintenance revenue budget is used to further this programme. The CYPS portfolio capital programme has been varied to reflect the £0.6m revenue contributions to the SBIP programme.

27. **School Places Programme** - In the CYPS portfolio capital programme, section 106 contributions totalling £1.1m have been secured by the Authority. It was proposed that this funding is used to part-fund a capital project that has created additional pupil places at Radcliffe on Trent Infant and Junior Schools. The CYPS portfolio capital programme has been varied to reflect the £1.1m S106 contributions secured.

Adult Social Care & Public Health

28. **ASCH Strategy** – In the ASCH portfolio capital programme a need has been identified to install WiFi in buildings that provide Direct Services. Revenue funding totalling £0.2m has been identified to fund the associated costs. The ASCH portfolio capital programme has therefore been varied to reflect the £0.2m project to install WiFi, funded from revenue budgets.

Transport & Environment

29. **Southwell Flood Project** – The Flood Alleviation and Drainage programme is already approved within the Transport and Environment portfolio capital programme. It has been identified that £0.4m of this funding is required to bring the Southwell Flood Project to completion. The Transport and Environment portfolio capital programme has therefore been varied to transfer £0.4m budget from the Flood Alleviation and Drainage budget to fund the completion of the Southwell Flood Project.

30. **Integrated Transport Measures** - The Authority has been successful in receiving Section 106 developer contributions totalling £0.05m relating to bus stop improvements. The Integrated Transport Measures capital programme has therefore been varied to reflect the £0.05m Section 106 contributions received from developers.

Financing of the Approved Capital Programme

31. Table 4 summarises the financing of the overall approved capital programme for 2022/23

Table 4 – Financing of the Approved Capital Programme for 2022/23

Portfolio	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	27,555	19,348	-	50	46,953
Adult Social Care & Public Health	43	851	-	23	917
Transport & Environment	12,549	40,013	726	524	53,812
Communities	3,035	170	20	-	3,225
Economic Devt & Asset Mngt	22,979	4,667	100	1,074	28,820
Finance	8,555	2,040	-	1,835	12,430
Personnel	106	-	-	-	106
Contingency	3,919	-	-	-	3,919
Total	**78,741**	**67,089**	**846**	**3,506**	**150,182**

32. It is anticipated that borrowing in 2022/23 will increase by £19.5m from the forecast in the Budget Report 2022/23 (Council 24/02/22). This increase is primarily a consequence of:

- £22.3m of net slippage from 2021/22 to 2022/23 and financing adjustments funded by capital allocations.
- Net slippage in 2022/23 of £2.8m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

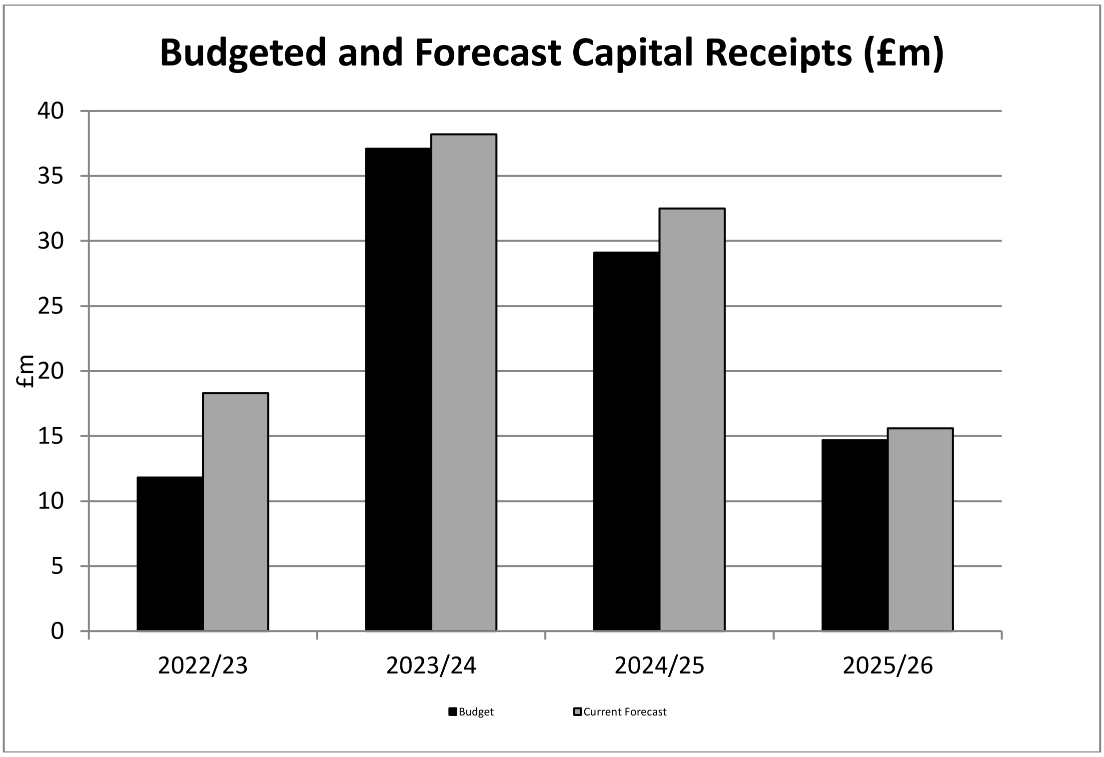
Prudential Indicator Monitoring

33. 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

34. 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.

35. The chart below shows the budgeted and forecast capital receipts for the four years to 2025/26.



36. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2022/23 (Council 24/02/2022). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

37. The capital receipt forecast for 2022/23 is £18.3m. To date in 2022/23, no capital receipts have been received.

38. 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.

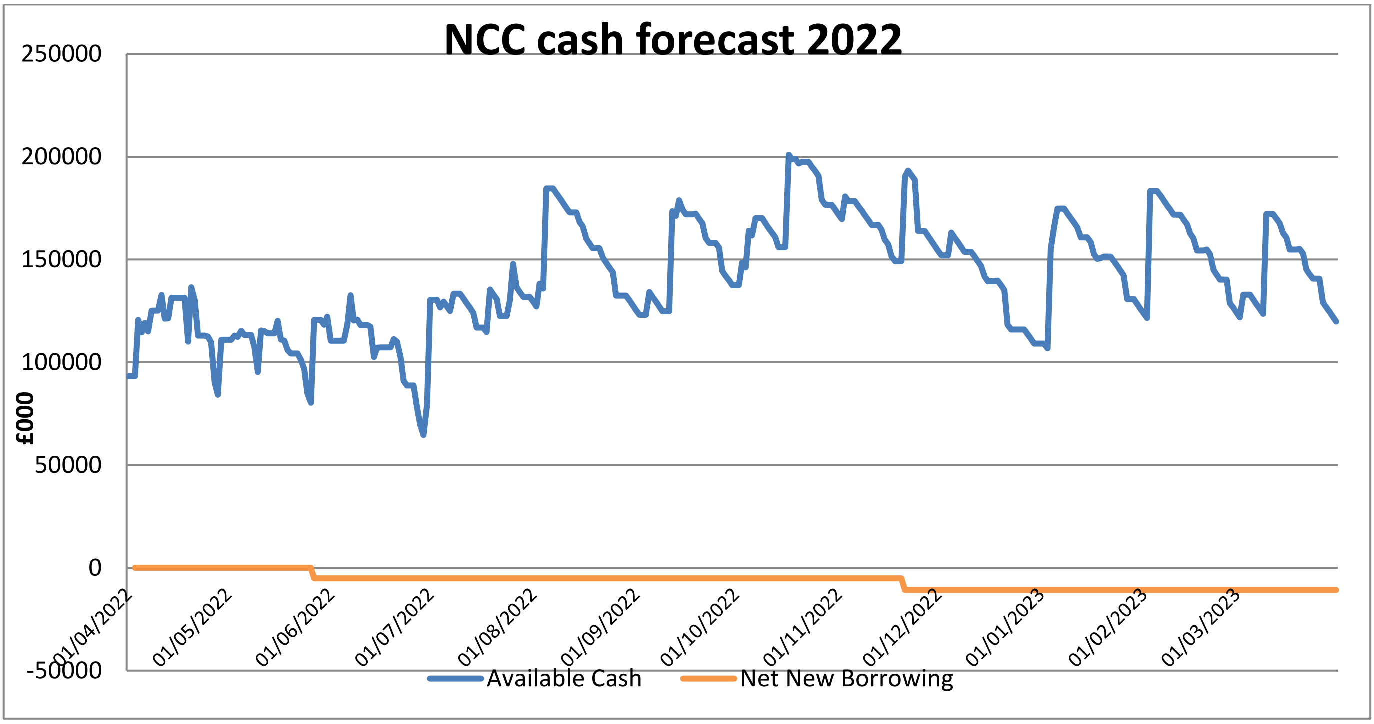
39. Current Council policy (Budget Report 2022/23), to minimise the impact of the cost of borrowing on the revenue budget, is to use capital receipts to the value approved as part of the 2021/22 Budget Report to set against previous years' borrowing thereby reducing the impact of the

Minimum Revenue Provision on the revenue accounts. This will enable excess capital receipts to be used to fund future additional capital investment.

Treasury Management

40. 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 (TMG).

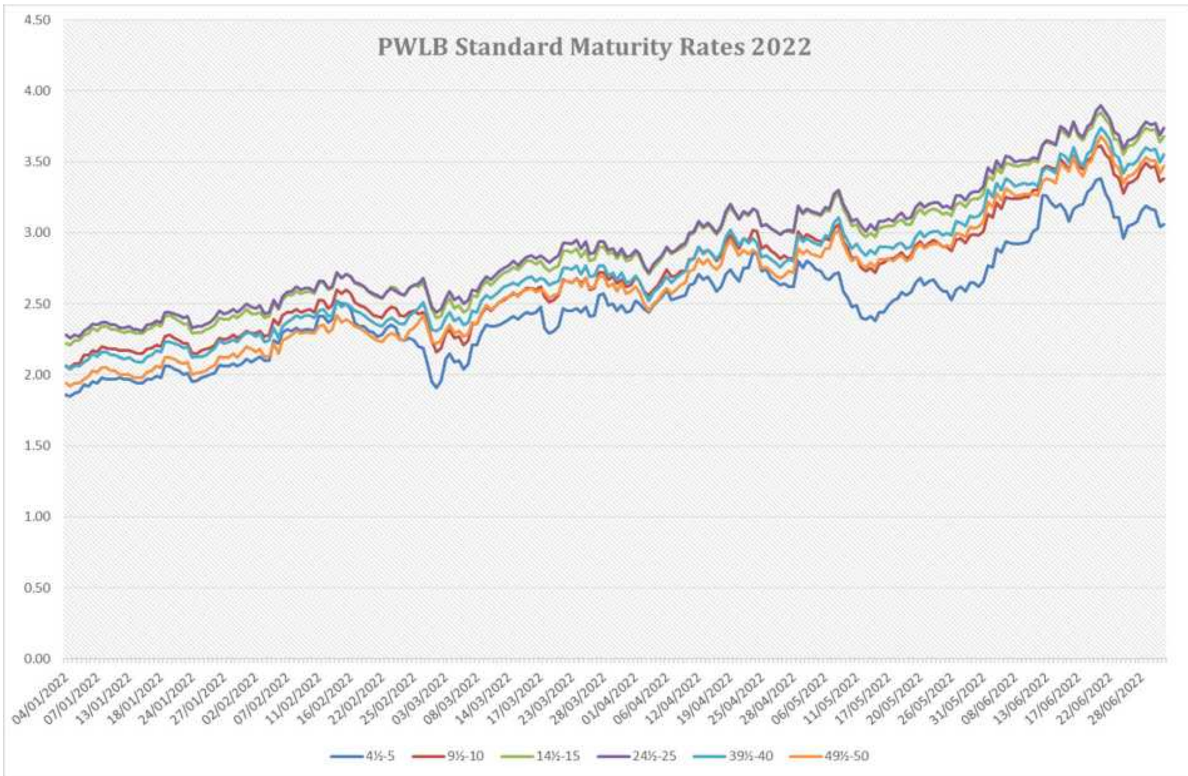
41. The cash forecast chart below shows the current estimated cash flow position for the financial year 2022/23. Cash inflows are typically higher at the start of the year due to the front-loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart below reflects this. Also, expected borrowing in support of capital expenditure is not included in the forecast. The chart thereby helps highlight the points in the year when such borrowing will be necessary, and it is monitored daily so that treasury management staff can act comfortably in advance of the cash being required, the aim being to maintain adequate but not excessive liquidity.



42. 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.

43. The Treasury Management Strategy for 2022/23 identified a need to borrow approximately £20m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. 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 2022 so far.

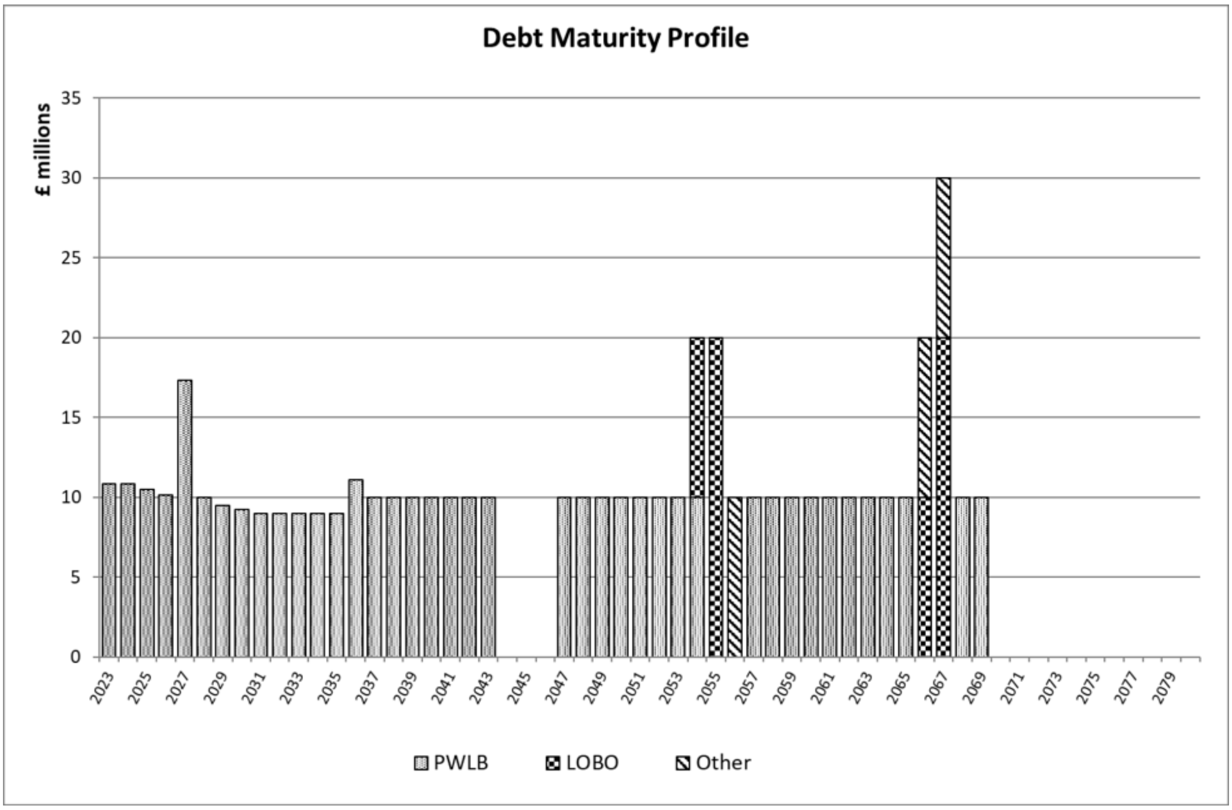


44. Borrowing decisions will take account of a number of factors including:
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium-term financial strategy
- the treasury management prudential indicators.

45. 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 50 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.

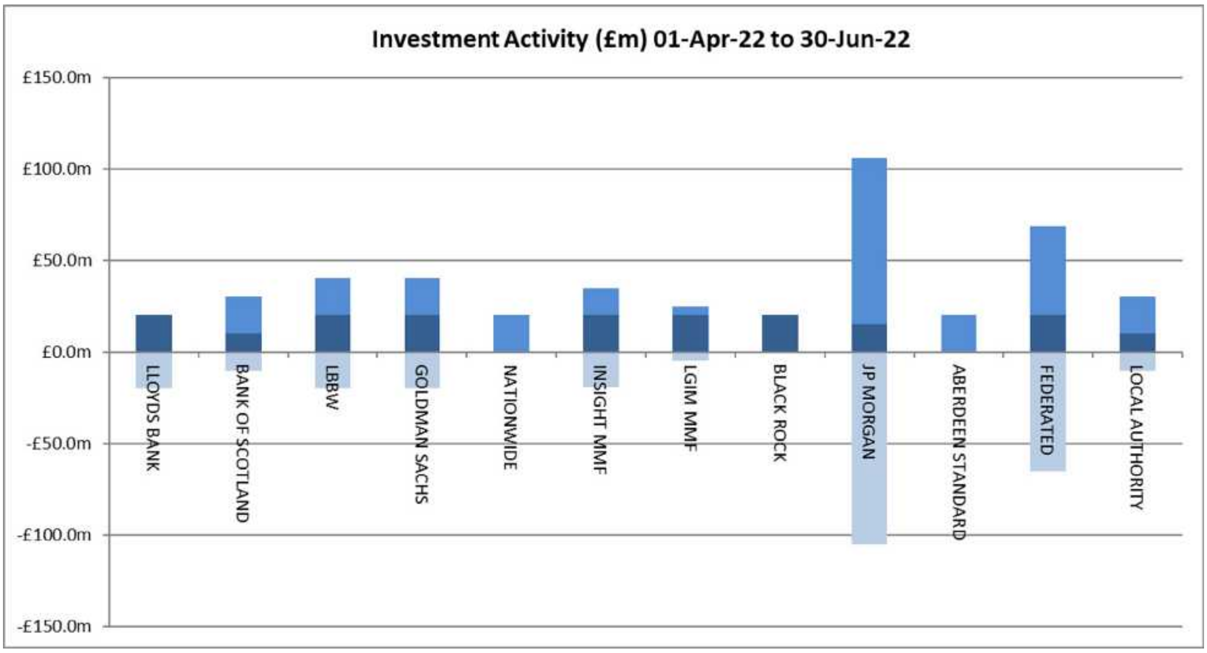
46. Long-term borrowing was also obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken 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.

47. The 'other' loans shown in the chart consists of fixed-term loans from Barclays Bank.



48. The investment activity for 2022/23 to date is summarised in the chart and table below. Outstanding investment balances totalled approximately £175m at the start of the year and £179m at the end of June.

	Total B/f	Total Raised	Total Repaid	Outstanding
	£000	£000	£000	£000
LLOYDS BANK	20,000	0	-20,000	0
BANK OF SCOTLAND	10,000	20,000	-10,000	20,000
LBBW	20,000	20,000	-20,000	20,000
GOLDMAN SACHS	20,000	20,000	-20,000	20,000
NATIONWIDE	0	20,000	0	20,000
INSIGHT MMF	20,000	14,850	-19,450	15,400
LGIM MMF	20,000	4,500	-4,500	20,000
BLACK ROCK	20,000	0	0	20,000
JP MORGAN	14,800	91,100	-105,300	600
ABERDEEN STANDARD	0	20,000	0	20,000
FEDERATED	20,000	48,600	-65,200	3,400
LOCAL AUTHORITY	10,000	20,000	-10,000	20,000
	174,800	**279,050**	**-274,450**	**179,400**



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

Statutory and Policy Implications

50. 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) For the Cabinet Member for Finance to:-

- Note the individual Portfolio revenue budgets for 2022/23.
- Note the contingency requests submitted to date.
- Note the summary of capital expenditure to date, year-end forecasts and variations to the capital programme.
- Note the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Infrastructure and Improvement

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

Constitutional Comments (GR 26/06/2022)

51. This report is just for noting.

Financial Comments (GB 21/07/2022)

52. 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'