

**9 November 2015****Agenda Item: 5****REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT  
FINANCIAL MONITORING REPORT: PERIOD 6 2015/2016****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. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
3. To inform Members of the Council's Balance Sheet transactions.

**Information and Advice****Background**

4. The Council approved the 2015/16 budget at its meeting on 26 February 2015. 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**

5. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. A minor underspend position 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 6**

Forecast Variance as at Period 5 £'000	Committee	Annual Budget £'000	Actual to Period 6 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
3,349	Children & Young People	136,435	73,270	138,772	2,337
(2,974)	Adult Social Care & Health	207,832	83,726	204,303	(3,529)
434	Transport & Highways	58,581	35,068	58,991	410
(252)	Environment & Sustainability	31,262	14,127	30,858	(404)
235	Community Safety	2,983	419	3,225	242
(44)	Culture	13,268	7,389	13,226	(42)
(284)	Policy	25,347	14,043	24,876	(471)
(760)	Finance & Property	34,593	20,603	33,908	(685)
(167)	Personnel	3,218	1,177	2,691	(527)
3	Economic Development	1,533	251	1,535	2
(546)	Public Health *	5,217	2,998	4,422	(795)
(1,006)	<b>Net Committee (under)/overspend</b>	<b>520,269</b>	<b>253,071</b>	<b>516,807</b>	<b>(3,462)</b>
-	Central items	(5,826)	(41,028)	(5,028)	798
-	Schools Expenditure	(263)	(263)	(263)	-
18	Contribution to/(from) Traders	(520)	2,987	(490)	30
(988)	<b>Forecast prior to use of reserves</b>	<b>513,660</b>	<b>214,767</b>	<b>511,026</b>	<b>(2,634)</b>
-	Transfer to / (from) Corporate Reserves	(6,363)	-	(6,241)	122
2,267	Transfer to / (from) Departmental Reserves	(14,033)	(39)	(11,557)	2,476
-	Transfer to / (from) General Fund	(6,038)	-	(6,038)	-
1,279	<b>Net County Council Budget Requirement</b>	<b>487,226</b>	<b>214,728</b>	<b>487,190</b>	<b>(36)</b>

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

## Committee and Central Items

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

### Children & Young People (forecast £2.3m overspend)

7. The underlying overspend is £2.0m (after planned use of grant reserves and excluding redundancy costs). This is a decrease of £0.8m compared with period 5 mainly due to the Strategic Development Fund and contingency allocations totalling £0.5m to cover the costs of the Social Work Practice Pilot and the Historic Abuse Team, together with a decrease in the number of residential placements, Independent Fostering Agency placements and semi-independent living placements expected between now and the end of the financial year. There is a range of mitigating actions being developed and pursued which has included a letter from the Acting Corporate Director to restrict all non-essential spend and to adhere to vacancy control procedures as part of budget control measures. All agency posts require the explicit approval of the Service Director Children's Social Care. The budget review has now been completed for high spending services within the department, the results of which will be reported in due course.

8. The Children's Social Care Division is reporting a forecast net overspend of £2.4m (£2.2m after the planned use of grant reserves), the major contributing variances being:
- £1.6m overspend on staffing due to the continued use of agency staff to cover vacancies in social work and safeguarding teams;
  - £0.1m overspend on Provider Services (Looked After Children placements) due to the difficulty in moving children to lower cost in-house placements. There is also a continuing overspend in the Fostering Service due to the growth of Fostering Futures carers;
  - £0.1m overspend on transport, as demand continues to exceed the budget;
  - £0.3m overspend on the rest of Children's Disability Services (CDS) mainly due to flexible and targeted short breaks and associated childcare;
  - £0.2m overspend on the social work practice pilot which includes a forecast extension to the original timescale of 6 months to 31 March 2016. This is a reduction of £0.2m following the successful bid for £0.2m from the Strategic Development Fund;
  - £0.1m net underspend on all other budgets mainly due to vacancies within the Family Assessment and Family Resource Service;
  - £0.1m was showing as an overspend in period 5 for the additional cost of agency backfill for the historic abuse team. This has now been funded from the contingency allocation.
9. The Education Standards and Inclusion Division is reporting a forecast overspend of £0.5m, mainly due to an overspend on Special Educational Needs and Disability Policy and Provision. There is a continued demand for home to school transport in excess of the budget.
10. The Youth, Families and Culture Division is forecasting an underspend of £0.7m (£1.0m underspend after the planned use of grant reserves) mainly due to an underspend on Early Years and Early Intervention relating to contract savings and pension refunds.
11. The Capital and Central Charges area is forecasting a £0.3m overspend due to insurance charges in excess of the budget allocated for this purpose which is the additional cost of premiums for historic abuse cases.
12. There is also a minor underspend of £0.1m in Business Support.

#### **Adult Social Care & Health (forecast £3.5m underspend)**

13. The underlying forecast position is an underspend of £1.6m (after the planned use of reserves and excluding redundancy costs).
14. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a net underspend of £0.4m (£0.2m underspend after the use of reserves). The main variances are:
- Client Contribution income is forecasting a shortfall of £1.4m. This is due to a general decline in personal budget income;
  - Supporting People are now forecasting a £1.3m underspend due to a reduction on the LD Contract spend;

- There remains an underspend of £0.2m on software costs within the Framework Team and the Market Development Team;
  - Business Support are showing a temporary underspend of £0.1m on insurance recharges;
  - Use of reserves in the division is £0.2m less than budget due to delays in appointing project staffing within Framework and Commissioning.
15. The North Nottinghamshire Division is currently forecasting a net underspend of £1.2m (£0.9m underspend after the use of reserves) against the budget. This is comprised of the following:
- Residential Services are now forecasting an underspend of £0.9m. This is primarily due to an underspend on staffing in the Care and Support Centres. It is still envisaged the refurbishment of James Hince Court could be met from within the service budget rather than from the use of reserves;
  - Day Services and Employment are forecasting an underspend of £1.1m. This is comprised of a £1.4m underspend on staffing within Day Services and Supported Employment offsetting a £0.3m overspend on Transport Services;
  - Bassetlaw Community Care are forecasting an overspend of £0.8m due to overspends in Younger Adults
16. The Mid and South Nottinghamshire Divisions are currently forecasting a net combined overspend of £0.1m (£1.3m overspend after the use of reserves) This is likely to increase as there is a backlog of assessments waiting to be done. Across Mid, South and North Nottinghamshire (including the £0.8m overspend from Bassetlaw) the major variances on care package costs are:
- Older Adults across the County are currently reporting an underspend of £1.9m; this is a reduction in commitment of £1.0m since last month;
  - Younger Adults across the County are reporting an overspend of £3.9m which is an increase of £0.7m since last month. £1.2m of the overspend relates to the additional costs of Transforming Care and £0.3m relates to the shortfall on ILF in year;
  - Expenditure under the remit of Service Directors and the Principal Social Worker are reporting an underspend of £1.2m due mainly to delays in recruitment.
17. Throughout the County, the service continues to experience difficulties recruiting to vacancies. This is having an impact on the number of assessments and reviews waiting to be done.
18. The Transformation Division is currently forecasting an underspend of £2.0m against the budget. This is due to a reduction in commitment of £1.7m since Period 5 and is due to the announcement that the County Council will not be required to repay the funding provided by the Government for Part 2 of the Care Act.

## **Finance & Property (forecast £0.7m underspend)**

19. This forecast underspend is due to:

- £0.4m underspend in Property due to a staffing rationalisation and savings on county office building maintenance in advance of saving requirements in 2016/17, together with additional Estates income;
- £0.2m underspend on county offices and facilities management due to reduced business rates payable on county offices;
- £0.1m underspend within Finance and Procurement relating to staff vacancies in advance of saving requirements in 2016/17.

## **Personnel (forecast £0.5m underspend)**

20. This forecast net underspend is due to vacancy savings across the Health and Safety Group and the Workforce Planning and Organisational Development Group, together with savings on running costs and additional income generation.

## **Public Health (forecast £0.8m underspend)**

21. This forecast underspend is due mainly to contract savings against the Sexual Health and Domestic Violence and Abuse Programmes, together with lower than anticipated employee costs against the Public Health Directorate budget.

22. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

## **Central Items (forecast £0.9m overspend)**

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

24. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net overspend on interest of £1.2m.

25. At the time of setting the 2015/16 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. Throughout the year confirmations are received, and current forecasts suggest a net increase of £0.3m will be received in 2014/15.

26. The Council's original budget included a contingency of £5.1m to cover redundancy costs, slippage of savings and unforeseen events. Following base budget adjustments (£2.5m) being removed from Departmental budgets and contingency requests (£4.5m) approved at previous Finance and Property Committees, the remaining contingency balance stands at £3.1m. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.

## **Transfer to / (from) reserves**

27. A review of reserves has been undertaken to identify surplus departmental reserves that may be released to support the budget. The outcome of this review resulted in £3.6m of departmental reserves being transferred to corporate reserves as part of the overall budget strategy.

## **Progress with savings (forecast shortfall £2.2m in 2015/16)**

28. Given the continued financial challenge that the Council is facing, savings schemes were approved as part of the 2015/16 budget process.
29. Savings options experiencing slippage or non-deliverability issues have been reported to Finance and Committee previously. In addition, issues associated with the achievement of savings relating to Provider Services (LAC Placements) and SEND Home to School Transport / 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.
30. The recent review of Redefining Your Council (considered by Policy Committee in July 2015) noted that transformation is inherently risky to deliver and that the task of achieving significant budget savings becomes increasingly difficult over time, as change is overlaid upon change. Considerable lessons have been learned from savings projects which have been approved and delivered to date. Whilst programme and project management arrangements have been effective, a stronger approach to the identification and management of the assumptions which underpin projects is being put in place to ensure that they are evidenced and challenged prior to full implementation.

## Capital Programme

31. Table 2 summarises changes in the gross Capital Programme for 2015/16 since approval of the original programme in the Budget Report (Council 26/02/15):

**Table 2 – Revised Capital Programme for 2015/16**

	2015/16	
	£'000	£'000
Approved per Council (Budget Report 2015/16)		112,039
Variations funded from County Council Allocations : Net slippage from 2014/15 and financing adjustments	3,486	
		3,486
Variations funded from other sources : Net slippage from 2014/15 and financing adjustments	8,920	
		8,920
<b>Revised Gross Capital Programme</b>		<b>124,445</b>

32. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 6.

**Table 3 – Capital Expenditure and Forecasts as at Period 6**

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 5 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	50,240	11,702	44,098	(6,142)
Adult Social Care & Health	5,713	1,381	4,930	(783)
Transport & Highways	39,207	17,893	36,816	(2,391)
Environment & Sustainability	2,416	901	2,516	100
Community Safety	-	-	-	-
Culture	1,532	675	1,284	(248)
Policy	1,410	1,123	2,033	623
Finance & Property	15,337	4,465	14,859	(478)
Personnel	298	19	298	-
Economic Development	7,554	2,339	7,554	-
Contingency	738	-	738	-
<b>Total</b>	<b>124,445</b>	<b>40,498</b>	<b>115,126</b>	<b>(9,319)</b>

33. In the Children and Young People's Committee, there is a total forecast underspend of £6.1m. This is as a result of slippage against the School Places programme (£4.6m) and savings identified against the School Capital Refurbishment programme (£1.4m).

34. In the Adult, Social Care and Health Committee, there is a total forecast underspend of £0.8m. This is as a result of lower forecast expenditure against the Supported Living programme as initial objectives of the programme have been met with lower than expected capital spend.

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

35. In the Transport and Highways Committee, a forecast underspend of £2.3m has been identified. This is mainly as a result of a forecast underspend against the Rolls Royce Development project (£1.5m), the Hucknall Town Centre Improvement Scheme (£1.4m) and the Flood Alleviation programme (£0.6m).

36. The Rolls Royce Development project has been re-profiled as the project continues to be developed. Capital expenditure forecast of £1.5m has been moved into the next financial year.

**It is proposed that the Transport and Highways Committee capital programme is varied to reflect the re-profiled Rolls Royce Development project.**

37. Following the conclusion of work to resolve planning issues, the capital expenditure profile associated with the Hucknall Town Centre Improvement Scheme has been agreed with the principal contractor. The project is now due on site from early 2016 resulting in £1.4m forecast capital expenditure moving into the next financial year.

**It is proposed that the Transport and Highways Committee capital programme is varied to reflect the re-profiled Hucknall Town Centre Improvement Scheme.**

38. The Flood Alleviation and Drainage programme has been re-profiled as a number of key schemes have been programmed to be delivered in the next financial year following completion of feasibility studies.

**It is proposed that the Transport and Highways Committee capital programme is varied to reflect the re-profiled Flood Alleviation and Drainage programme.**

39. The slippage identified in the Transport and Highways Committee capital programme above is offset by a £1.0m over-programming against the Road Maintenance and Renewal and Integrated Transport Measures programmes. Work is on-going to drive this forecast overspend down and to manage within the approved budget.

40. Also in the Transport and Highways capital programme, a £0.2m bid was made to the Corporate Asset Management Group for capital resources to undertake further carriageway works as part of the Roads Maintenance and Renewals programme.

**It is proposed that the Transport and Highways capital programme is varied by £0.2m to reflect further works on the Roads Maintenance and Renewals programme, funded from capital allocation.**



41. In the Policy Committee capital programme there is a forecast overspend of £0.6m. This is as a result of the final Ways of Working payments to the contractor falling into the current year. The Ways of Working programme overall is still forecasting to underspend by £0.5m.

**It is proposed that the Policy Committee capital programme is varied to reflect the additional Ways of Working costs expected to be incurred in 2015/16**

### **Financing the Approved Capital Programme**

42. Table 4 summarises the financing of the overall approved Capital Programme for 2015/16.

**Table 4 – Financing of the Approved Capital Programme for 2015/16**

<b>Committee</b>	<b>Capital Allocations £'000</b>	<b>Grants &amp; Contributions £'000</b>	<b>Revenue £'000</b>	<b>Reserves £'000</b>	<b>Gross Programme £'000</b>
Children & Young People	17,536	26,486	817	5,401	50,240
Adult Social Care & Health	4,833	800	45	35	5,713
Transport & Highways	14,549	23,469	47	1,142	39,207
Environment & Sustainability	1,187	729	500	-	2,416
Community Safety	-	-	-	-	-
Culture	1,232	70	-	230	1,532
Policy	1,406	-	-	4	1,410
Finance & Property	13,348	50	-	1,939	15,337
Personnel	-	118	-	180	298
Economic Development	4,109	3,445	-	-	7,554
Contingency	738	-	-	-	738
<b>Total</b>	<b>58,938</b>	<b>55,167</b>	<b>1,409</b>	<b>8,931</b>	<b>124,445</b>

43. It is anticipated that borrowing in 2015/16 will decrease by £5.0m from the forecast in the Budget Report 2015/16 (Council 26/02/2015). This decrease is primarily a consequence of:

- £8.9m of net slippage from 2014/15 to 2015/16 and financing adjustments funded by capital allocations.
- Variations to the 2015/16 capital programme funded from capital allocations totalling £5.4m as approved to the October 2015 Finance and Property Committee.
- Net slippage in 2015/16 of £8.5m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

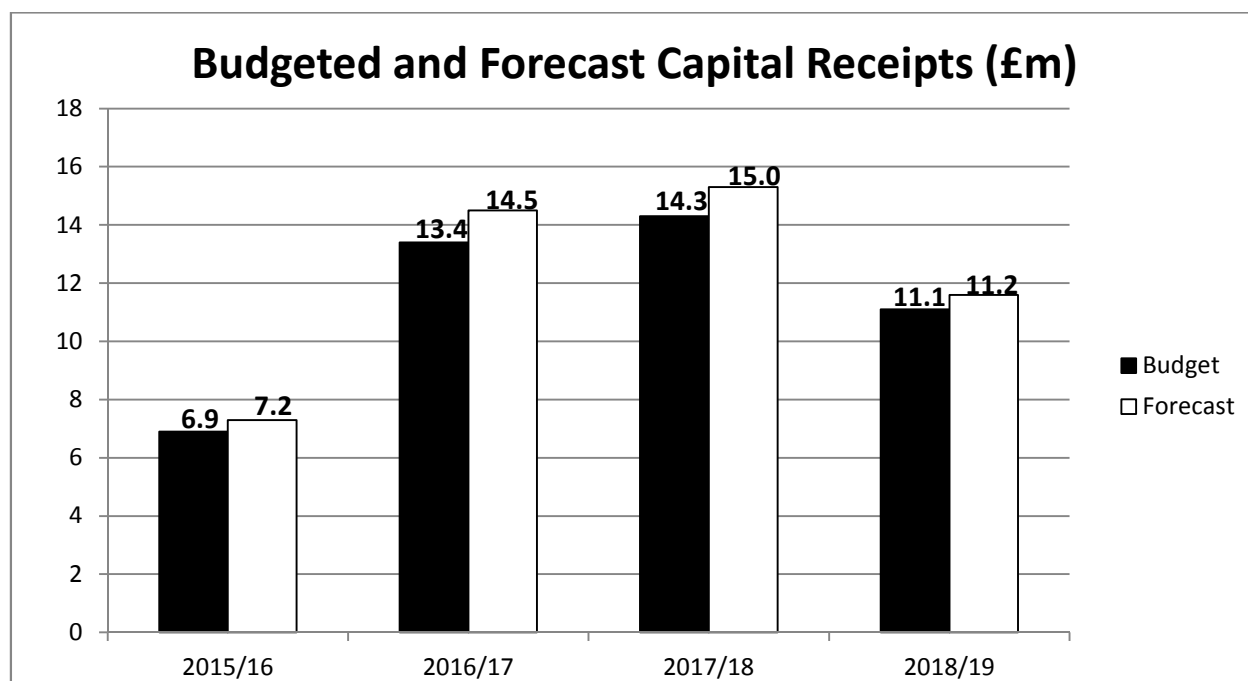
### **Prudential Indicator Monitoring**

44. 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**

45. 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.

46. The chart below shows the budgeted and forecast capital receipts for the four years to 2018/19.



47. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2015/16 (Council 26/02/2015). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

48. The capital receipt forecast for 2015/16 is £7.2m. To date in 2015/16, capital receipts totalling £5.1m have been received.

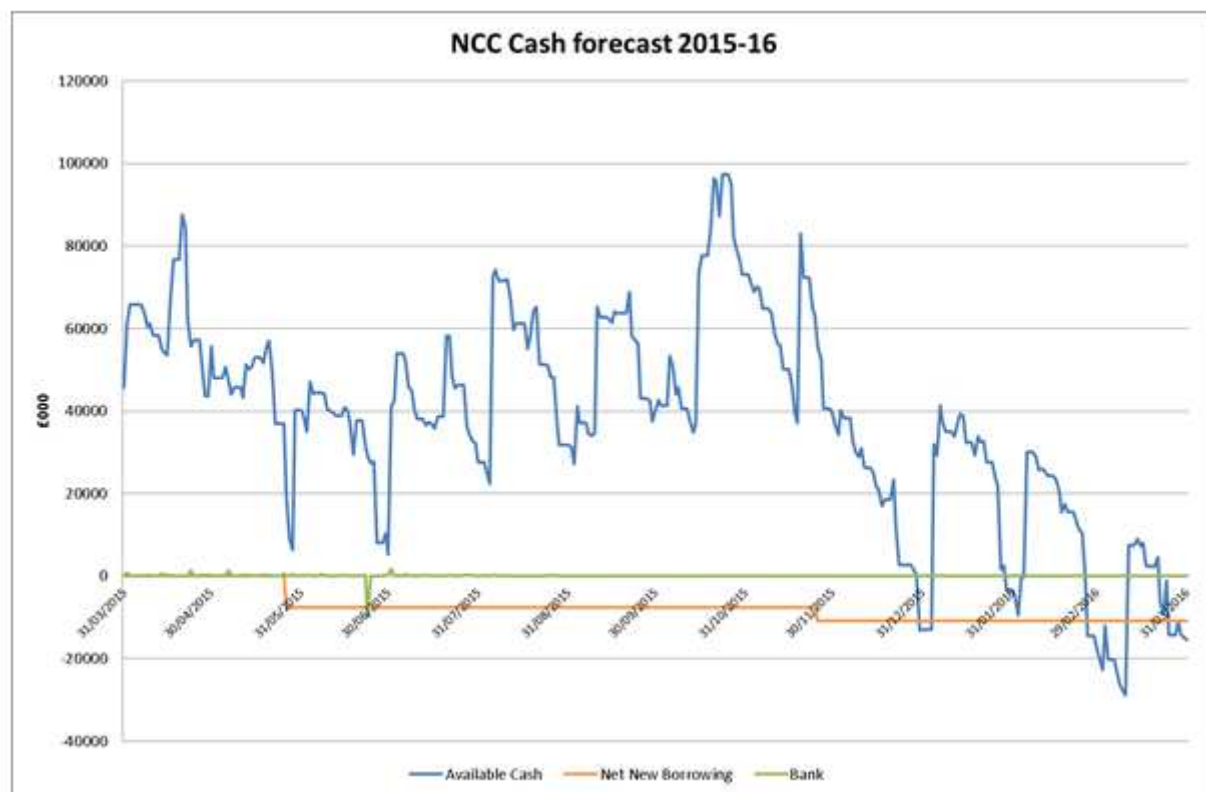
49. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

50. Current Council policy (Budget Report 2015/16) 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

51. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The following chart shows the actual cash flow position to date and forecasts for the remainder of the year. 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.

52. The forecast below shows a need to borrow before the end of the financial year, possibly as soon as Dec-Jan. Based on the most recent capital monitoring and reserves forecasts it is estimated that approximately £47m will be required, although no forecast borrowing has been included in the chart.

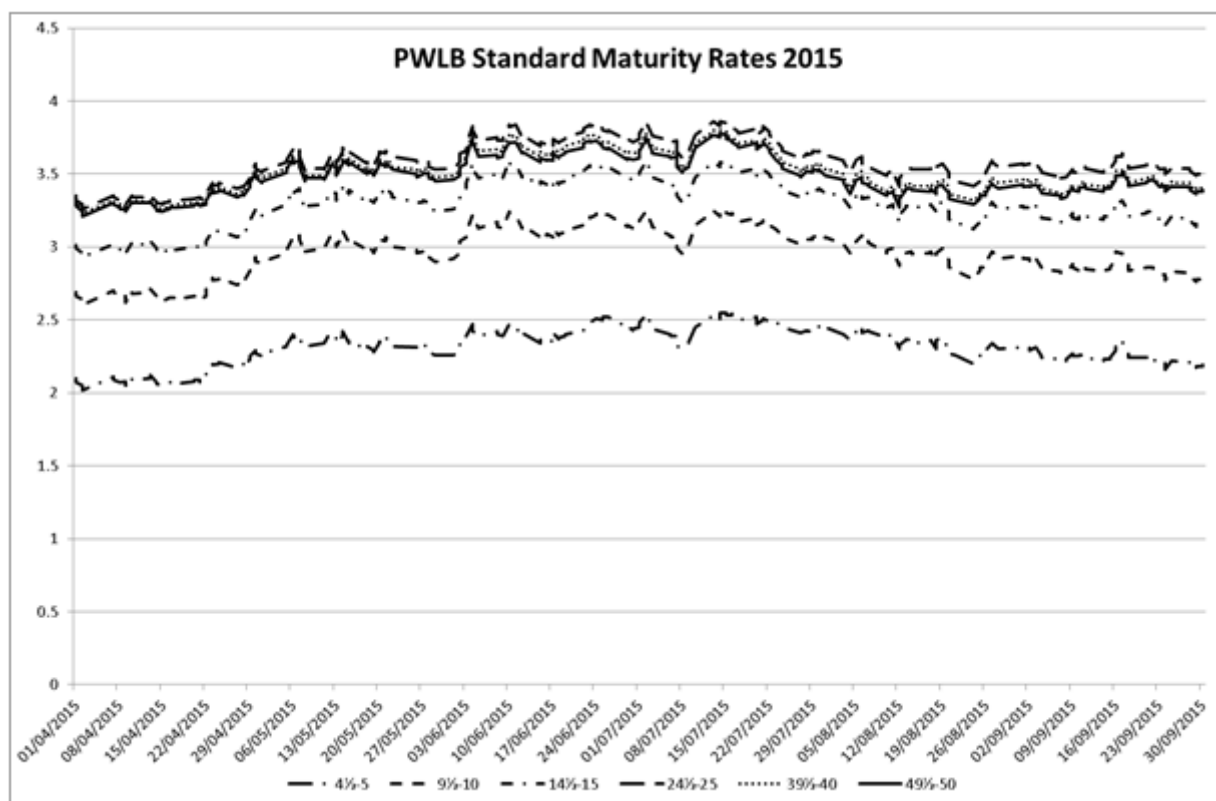


53. The chart above gives the following information:

<b>Available cash</b>	Surplus cash (invested in call accounts or money market funds) or a shortfall of cash indicating a need to borrow.
<b>Net new borrowing</b>	New loans taken during the year net of principal repayments on existing borrowing.
<b>Available cash</b>	That element of surplus cash held in the Council's Barclays Bank account.

54. 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. The net new borrowing will include new loans from PWLB, the market or other local authority, as well as repayments on existing borrowing. To date for 2015/16 there has been no new borrowing.

55. PWLB rates are monitored closely in order to feed into decisions on new borrowing. Longer term rates are currently slightly higher than they were at the beginning of the year although they have dropped off recently. Shorter term rates have drifted up by around 0.2%. 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.

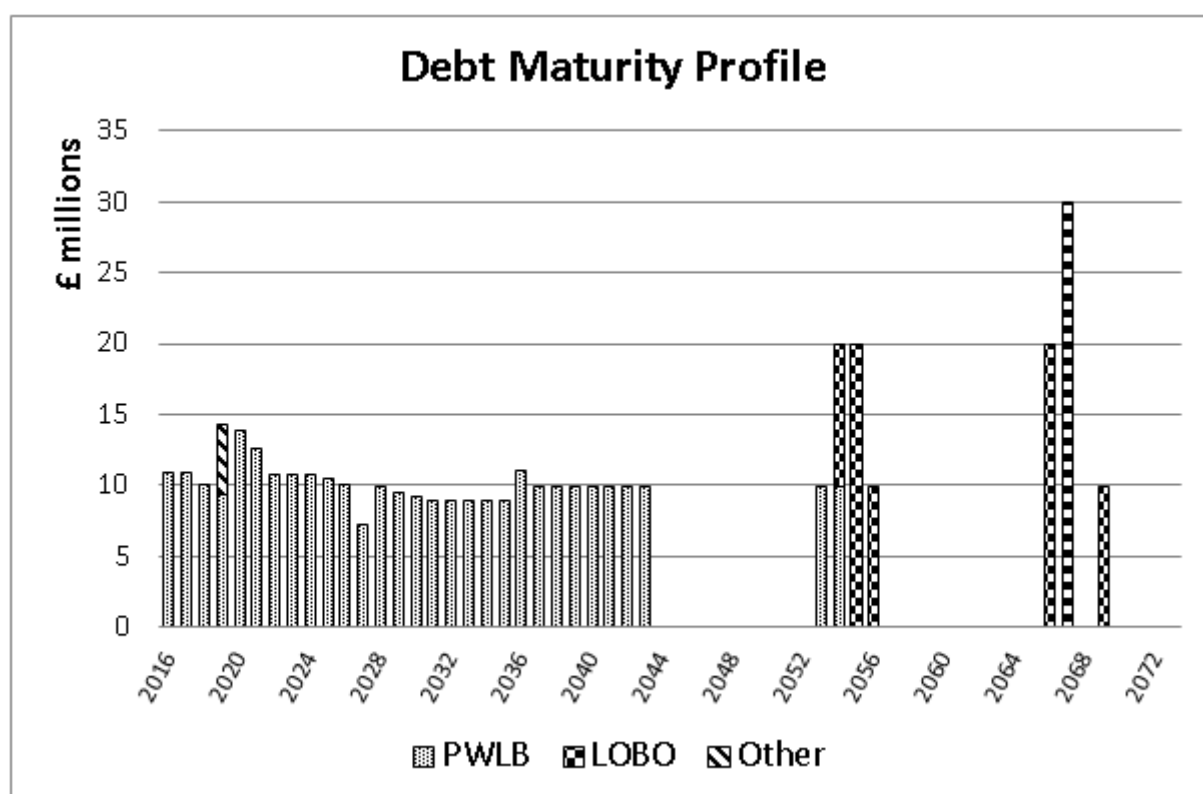


56. The Treasury Management Strategy for 2015/16 identified a need for additional borrowing of £78m to fund the capital programme, replenish internal balances and to replace maturing debt. This has since been adjusted to £47m in light of the most recent forecasts for capital expenditure and use of reserves, and will be refined further in the Mid-year report to Council.

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

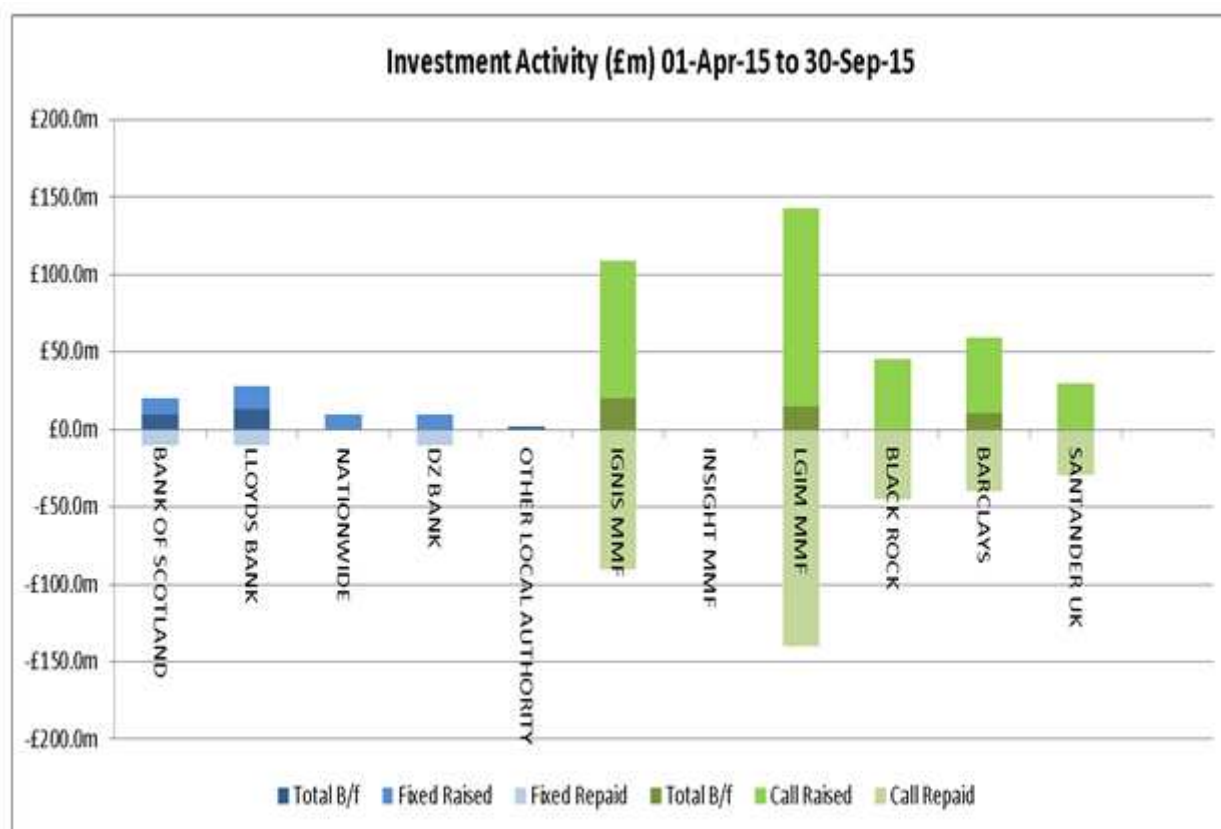
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators

57. As the cashflow forecast above indicates, additional borrowing is likely to be undertaken later in the calendar year, once cash balances start to fall. 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 38 years. Longer-term borrowing (maturities up to 55 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. 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.



58. The investment activity for 2015/16 to the end of September 2015 is summarised in the chart and table below. Outstanding investment balances totalled £70.2m at the start of the year and £79.75m at the end of the period. This is in line with the forecast cash flow profile for the year.

	Total B/ £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	10,000	10,000	(10,000)	10,000
Lloyds Bank	13,000	15,000	(10,000)	18,000
Nationwide	-	10,000	-	10,000
DZ Bank	-	10,000	(10,000)	-
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	88,600	(90,800)	17,800
Insight MMF	-	-	-	-
LGIM MMF	14,550	128,150	(140,250)	2,450
Black Rock	500	44,950	(45,450)	-
Barclays	10,650	49,100	(39,750)	20,000
Santander UK	-	29,500	(29,500)	-
<b>Total</b>	<b>70,200</b>	<b>385,300</b>	<b>(375,750)</b>	<b>79,750</b>



## Procurement Performance

59. The Procurement Section 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 7 report.

## Debt Recovery and Accounts Payable Performance

60. 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 7 report.

## Statutory and Policy Implications

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

**Nigel Stevenson Service Director – Finance, Procurement and Improvement Division**

**For any enquiries about this report please contact:**

Glen Bicknell - Senior Finance Business Partner, Senior Accountant

Simon Cunningham - Senior Accountant, Pensions and Treasury Management

### **Constitutional Comments (HD 28/10/15)**

82. Committee has the authority to determine recommendations within the report.

### **Financial Comments (GB 22/10/2015)**

83. 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'