

16 July 2018**Agenda Item: 4****REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE
AND IMPROVEMENT****FINANCIAL MONITORING REPORT: PERIOD 02 2018/19****Purpose of the Report**

1. To provide a summary of the Committee revenue budgets for 2018/19.
2. To request approval for an additional contingency application.
3. To provide a summary of capital programme expenditure to date, year-end forecasts and approve the variations to the capital programme.
4. To inform Members of the Council's Balance Sheet transactions.

Information**Background**

5. The Council approved the 2018/19 budget at its meeting on 28 February 2018. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

Summary Revenue Position

6. The table below summarises the revenue budgets for each Committee for the current financial year. A £2.0m net overspend 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 01 £'000	Committee	Annual Budget £'000	Actual to Period 02 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
	- Children & Young People's	118,013	8,939	119,019	1,006
	- Adult Social Care & Public Health	210,444	19,221	210,955	511
	- Communities & Place	121,953	10,796	122,824	871
	- Policy	33,042	8,857	32,780	(262)
	- Finance & Major Contracts Management	3,172	562	2,914	(258)
	- Governance & Ethics	7,170	955	7,004	(166)
	- Personnel	15,277	2,164	15,206	(71)
	- Net Committee (under)/overspend	509,071	51,494	510,702	1,631
	- Central items	(3,287)	(5,766)	(3,993)	(706)
	- Schools Expenditure	19	-	19	-
	- Contribution to/(from) Traders	384	1,604	635	251
	- Forecast prior to use of reserves	506,187	47,332	507,363	1,176
	- Transfer to / (from) Corporate Reserves	(14,316)	-	(14,316)	-
	- Transfer to / (from) Departmental Reserves	(9,112)	(697)	(8,327)	785
	- Transfer to / (from) General Fund	(1,529)	-	(1,529)	-
	- Net County Council Budget Requirement	481,230	46,635	483,191	1,961

Committee and Central Items

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

Children & Young People's (£1.0m overspend, 0.9% of annual budget)

7. The Youth, Families and Social Work Division is reporting a forecast £0.3m overspend. The major contributing variances are:

- £0.5m overspend on staffing in hard to recruit to teams. The overspend has arisen due to a combination of staffing changes including permanent recruitment to vacancies, additional capacity staff to respond to workload issues which includes the increase in the Looked After Children population and agency workers. All agency posts continue to require the explicit approval of the Service Director Youth, Families and Social Work and are subject to scrutiny by the quarterly Agency Challenge Panel.
- £0.6m underspend on the Children with Disabilities Homes due to vacancies at Minster View and Caudwell House as a result of low occupancy, together with lower running costs across the homes and income above the income targets.
- £0.4m net overspend on all other budgets mainly due to payments in respect of children in need (Section 17), family support, specialist assessments and team running expenses.

8. The Education, Learning and Skills Division is reporting a forecast £0.1m underspend mainly due to historic ongoing pension enhancements for schools based staff and vacancies.

9. The Commissioning and Resources Division is forecasting an overspend of £0.8m which includes the following variances:

- £1.0m overspend on external placements for looked after children (LAC) due to a steady rise in the number of Independent Fostering Agency placements since October 2017 from 196 to the current 231. There is a risk that this high level of placements will continue throughout the year due to the increasing LAC population and lack of internal fostering capacity which may impact on the financial position in future months.
- £0.2m underspend on Supported Accommodation due to decommissioning of one provider contract.

10. A number of budget control measures are in place across the Children and Young People's Committee as follows:

- The Transitional Personal Advisor pilot which undertakes intensive work with a small number of young people to support them to move safely into semi-independent accommodation.
- The progression of a major recruitment campaign for foster carers to reduce the need for more expensive external provision. This will have a long lead in time to allow for the recruitment, assessment, training and the child matching process.
- A communication has been issued to all Group Managers to scrutinise and restrict all non-essential spend.

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

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

- Older Adults across the County are forecasting an underspend of £0.3m.
- Younger Adults across the County are forecast to overspend by £2.8m, due to increased commitments in direct payments and supported living.

12. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £0.4m due mainly to lower in-year costs relating to the advocacy contract.

13. Residential Services are forecasting an underspend of £0.2m. This relates mainly to staffing within short breaks units and the reduced use of agency staff.

14. Day Services are forecasting an underspend of £0.4m due to staff vacancies and associated delays in recruitment.

15. Service Director Cost Centres are forecasting an overspend of £1.0m reflecting the expenditure associated with section 256 projects. This is fully funded from section 256 reserves.

16. The Transformation Division is forecasting an underspend of £0.6m mainly on the Improved Better Care Fund, which is experiencing delays in recruitment across divisions.

17. Public Health is currently forecasting an underspend of £1.4m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes and

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

Communities & Place (forecast £0.9m overspend, 0.7% of annual budget)

18. There is currently a forecast overspend of £0.9m against the SEND / home to school transport budget. A review of transport provision is currently taking place with reference to changing demand and the efficiency of routes. A retendering process is also being undertaken which will complete in September 2018.

Central Items (forecast £0.7m underspend)

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

20. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net underspend on interest of £0.6m.

Requests for contingency

21. The Council's budget includes a main contingency budget of £5.5m to cover redundancy costs, slippage of savings, additional requirement for the 2018/19 pay award and unforeseen events.

22. Also, in 2018/19 a number of demand and inflationary pressures have been identified that have a high degree of uncertainty with regard to likelihood, value and profiling. As such, an additional provision of £4.1m has been made within contingency to fund these pressures should they arise. Finance and Major Contracts Management Committee or the Section 151 Officer are required to approve the release of contingency funds.

23. A request for contingency for £136,337 has been submitted by Policy Committee (June 2018) to engage a strategic partner to support the delivery of the property transformation programme.

Progress with savings and risks to the forecast

24. Council on 28 February 2018 approved savings proposals of £15.6m for delivery over the four year period 2018-22. 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 25 June 2018.

25. Issues associated with the achievement of savings relating to Statutory School Transport are being reviewed. The outcome of the review will be reported to the Corporate Leadership Team and subsequently to the Improvement and Change Sub-Committee.

26. The approved 2018/19 budget was set against a background of assumptions and on-going risks, specifically with regard to the demand for Council services in the areas of Children and Adult Social Care where safeguarding takes priority. These high risk areas will continue to be monitored closely during the year through the robust monthly budget management process and reported back to Committee.

Balance Sheet

General Fund Balance

27. Members approved the 2017/18 closing General Fund Balance of £30.9m at Council on 12 July 2018. The 2018/19 budget approves utilisation of £1.6m of balances which will result in a closing balance of £29.3m at the end of the current financial year. This is 6.1% of the budget requirement.

Capital Programme

28. Table 2 summarises changes in the gross Capital Programme for 2018/19 since approval of the original Programme in the Budget Report (Council 28/02/18):

Table 2 – Revised Capital Programme for 2018/19

	2018/19	
	£'000	£'000
Approved per Council (Budget Report 2018/19)		112,771
Variations funded from County Council Allocations : Net slippage from 2017/18 and financing adjustments	18,862	
		18,862
Variations funded from other sources : Net variation from 2017/18 and financing adjustments	(5,101)	
		(5,101)
Revised Gross Capital Programme		126,532

29. 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's	42,379	2,530	26,474	(15,905)
Adult Social Care & Public Health	4,116	(2,772)	3,836	(280)
Communities & Place	58,238	1,673	57,089	(1,149)
Policy	19,863	20	19,759	(104)
Finance & Major Contracts Mngt	180	23	180	-
Personnel	256	-	256	-
Contingency	1,500	-	1,500	-
Total	126,532	1,474	109,094	(17,438)

Children & Young People's

30. In the Children and Young People's Committee capital programme, a forecast underspend of £15.9m has been identified. This is due to £10.7m forecast slippage against the School Places Programme. The majority of existing commitment is for primary education places. Re-profiling of the budget is required as the remaining provision is to be allocated, in the main, to Secondary School pressures in 2019/20. These are currently being assessed as to where the allocation is most required.

31. Also in the Children and Young People's Committee, a forecast underspend of £2.7m has been identified against the Bestwood Hawthorne Replacement School project as the spending profile of the scheme is re-profiled to reflect the proposed delivery of the scheme. In addition, a £1.0m forecast underspend has been identified which relates to Early Years match funding that is no longer required.

It is proposed that the Children and Young People's Committee capital programme is varied to reflect the £1.0m adjustment to the Early Years programme.

Adult Social Care & Public Health

32. In the Adult Social Care and Public Health Committee capital programme, the Authority has received a further £0.5m Disabled Facilities Grant which funds the purchase of equipment that can enable adults with special needs to remain in their homes

It is proposed that the Adult Social Care and Public Health Committee capital programme is varied to reflect the £0.5m Disabled Facilities Grant received by the Authority.

Communities & Place

33. In the Communities and Place Committee capital programme a forecast underspend of £1.1m has been identified. This mainly relates to a £1.5m underspend against Rushcliffe Recycling Centre as there have been delays in identifying a suitable site. Works to construct the new site is now likely to slip into the next financial year.

It is proposed that the Communities and Place Committee capital programme is varied to reflect the re-profiling of the Rushcliffe Recycling Centre project.

Financing the Approved Capital Programme

34. Table 4 summarises the financing of the overall approved Capital Programme for 2018/19.

Table 4 – Financing of the Approved Capital Programme for 2018/19

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	25,503	16,612	125	139	42,379
Adult Social Care & Public Health	3,268	848	-	-	4,116
Communities & Place	19,364	37,462	600	812	58,238
Policy	18,613	1,214	-	36	19,863
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	1,500	-	-	-	1,500
Total	68,504	56,136	725	1,167	126,532

35. It is anticipated that borrowing in 2018/19 will increase by £0.5m from the forecast in the Budget Report 2018/19 (Council 28/02/2018). This increase is primarily a consequence of:

- £18.9m of net slippage from 2017/18 to 2018/19 and financing adjustments funded by capital allocations.
- Net slippage in 2018/19 of £18.4m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

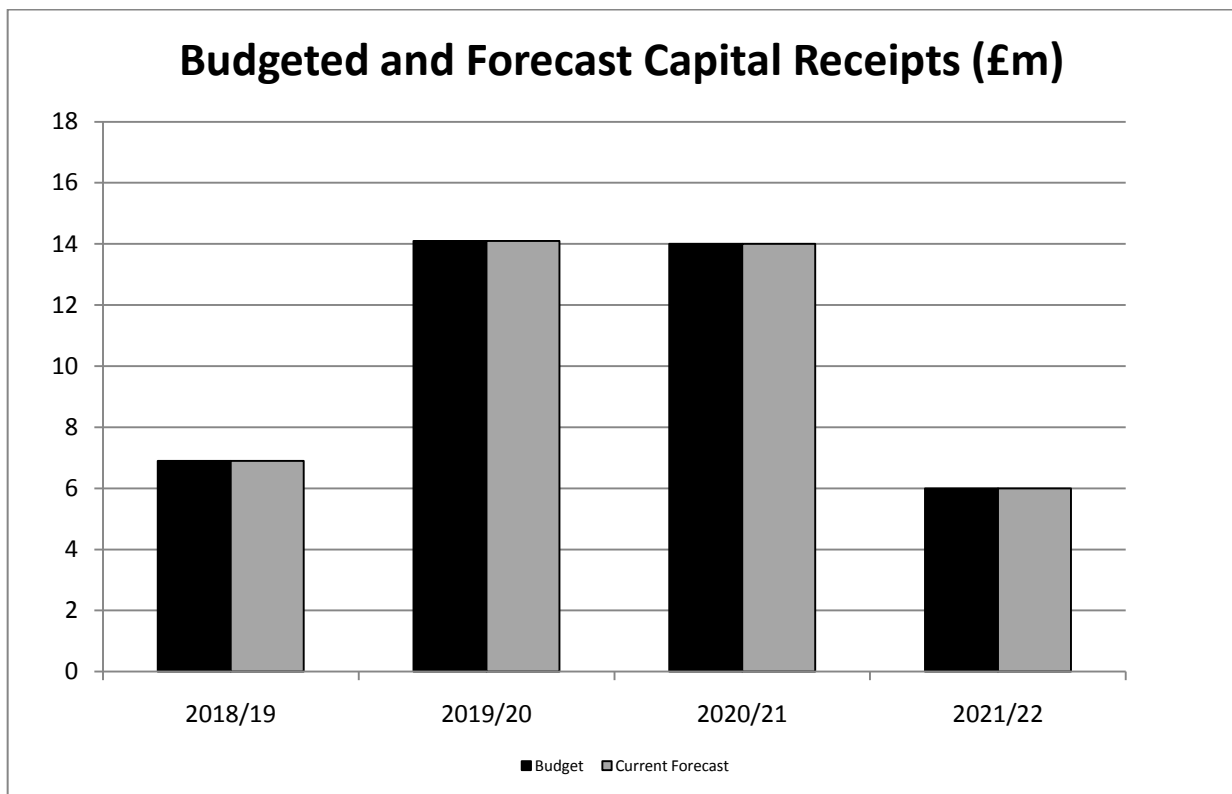
Prudential Indicator Monitoring

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 2021/22.



39. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2018/19 (Council 28/02/2018). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

40. The capital receipt forecast for 2018/19 is £6.9m. To date in 2018/19, capital receipts totalling £0.4m have been received.

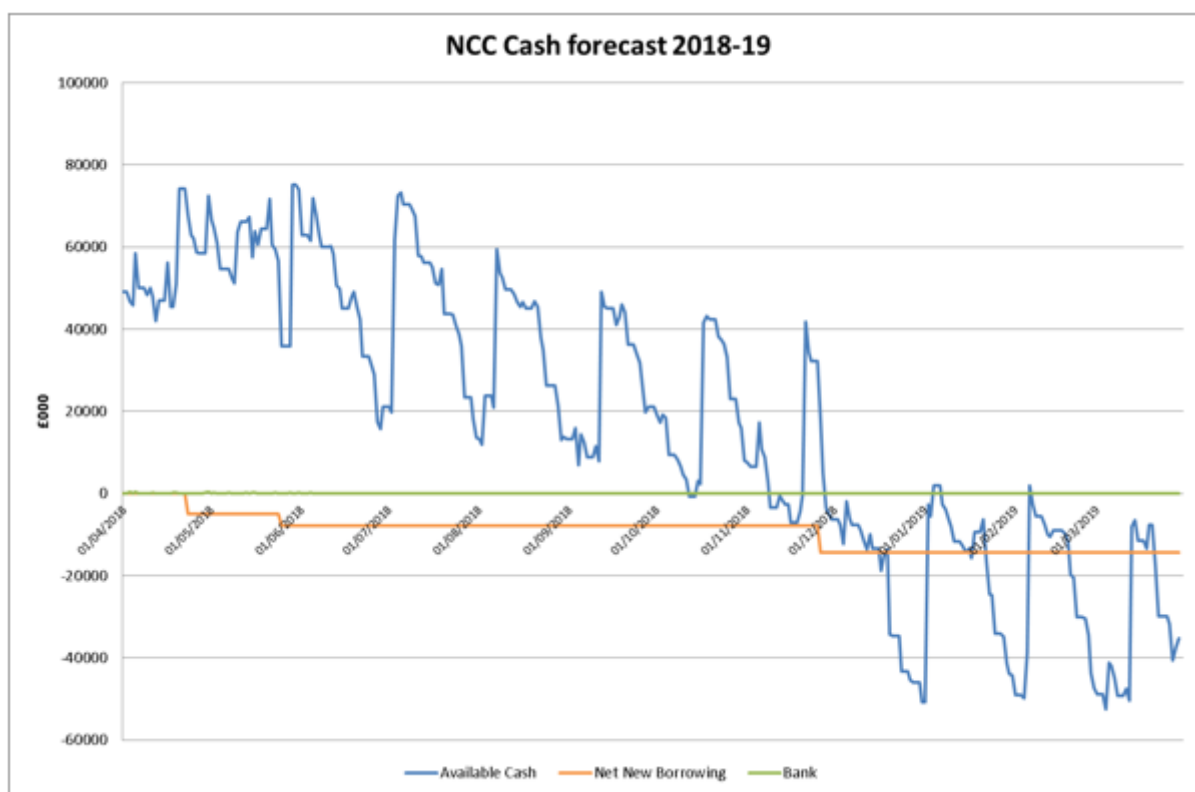
41. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

42. Current Council policy (Budget Report 2018/19) is to use the first £5.4m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be 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

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.

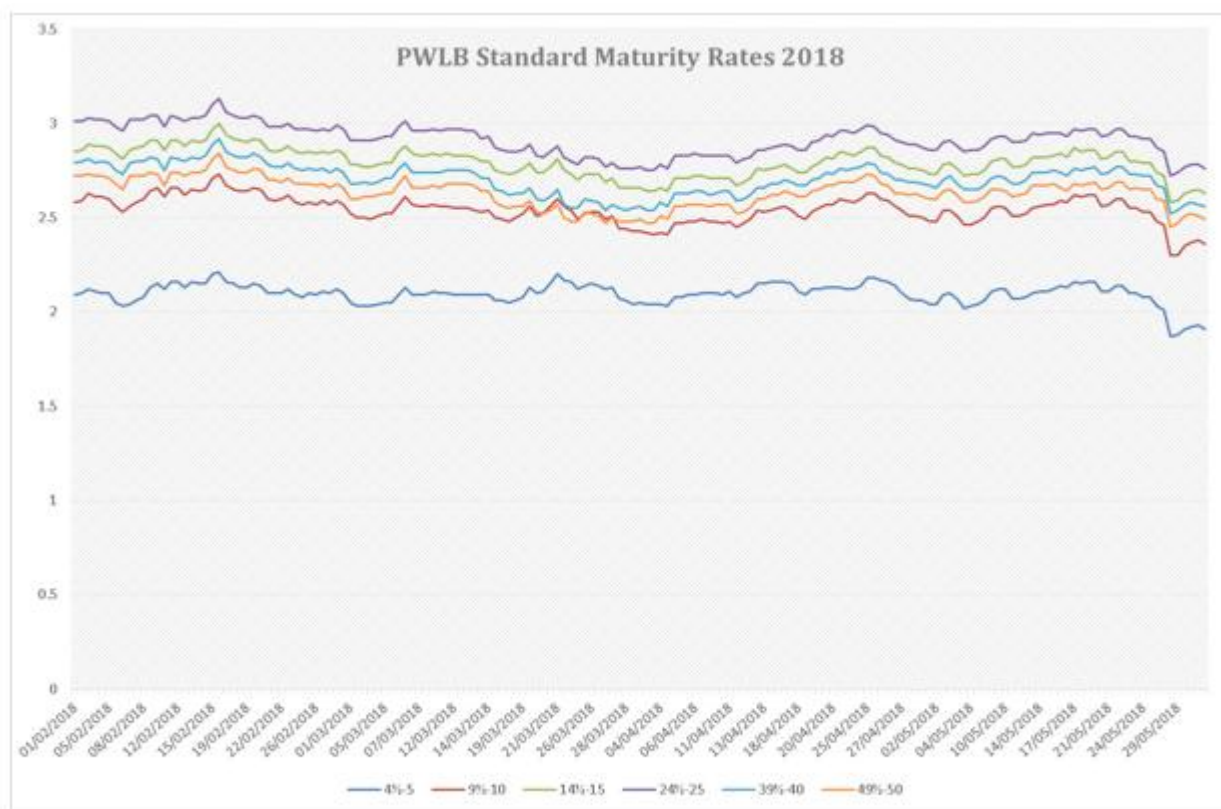
44. The Cash forecast chart below shows the forecast cash flow position for the financial year 2018/19. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, 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.



45. 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.

46. The Treasury Management Strategy for 2018/19 identified a need to borrow approximately £45m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. After 2017/18 closure this forecast has been revised to £52m. 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 2018 to date.



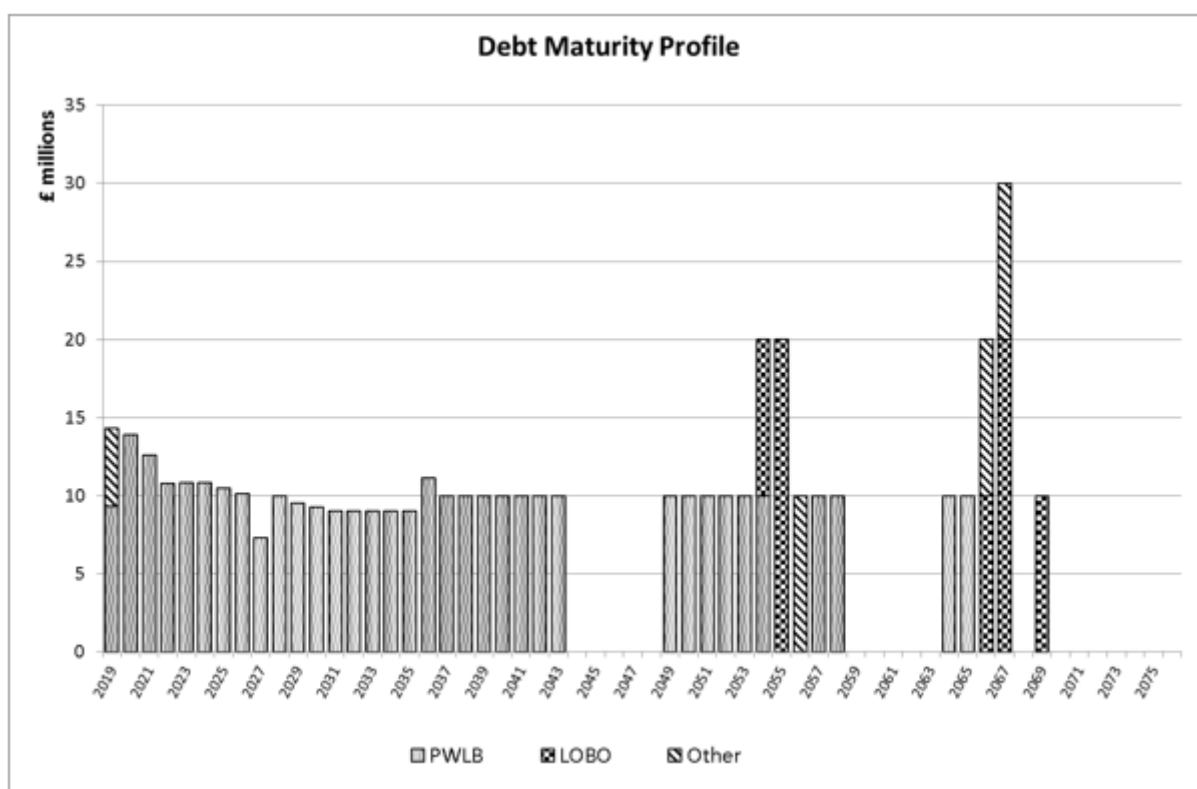
47. Borrowing decisions will take account of a number of factors including:

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

48. 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.

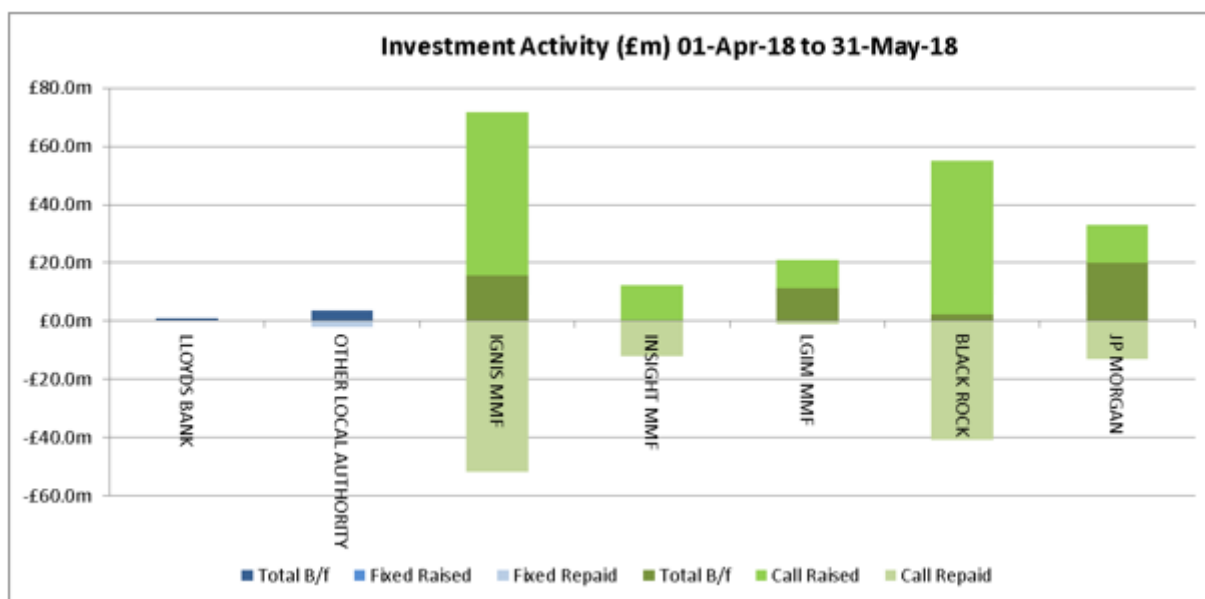
49. Longer-term borrowing (maturities up to 51 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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.

50. 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.



51. The investment activity for 2018/19 is summarised in the chart and table below. Outstanding investment balances totalled £54m at the start of the year and £77m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Lloyds Bank	1,000	-	-	1,000
Other Local Authority	3,500	-	(2,000)	1,500
IGNIS MMF	15,500	56,250	(51,750)	20,000
INSIGHT MMF	-	12,200	(12,200)	-
LGIM MMF	11,400	9,700	(1,100)	20,000
Black Rock	2,150	52,800	(40,900)	14,050
JP Morgan	20,000	13,100	(13,100)	20,000
Total	53,550	144,050	(121,050)	76,550



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

Statutory and Policy Implications

53. 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 approve the contingency request.
- 3) To comment on the capital programme expenditure to date, year-end forecasts and approve the variations to the Capital Programme.
- 4) To comment on the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:

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Constitutional Comments (KK 03/07/2018)

54. 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 (GB 26/06/2018)

55. 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

