

19 November 2018

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 6 2018/19

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2018/19.
2. To provide a summary of capital programme expenditure to date, year-end forecasts and approve variations to the capital programme.
3. To request approval for additional allocations from the contingency budget.
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 £5.0m net overspend is currently predicted. As a consequence of the in-year overspend and the significant 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 05 £'000	Committee	Annual Budget £'000	Actual to Period 06 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
5,686	Children & Young People's	122,067	63,959	127,753	5,686
656	Adult Social Care & Public Health	209,501	101,166	209,061	(440)
1,047	Communities & Place	123,188	72,335	124,059	871
(374)	Policy	35,470	24,100	35,187	(283)
(298)	Finance & Major Contracts Management	3,172	1,872	2,883	(289)
36	Governance & Ethics	7,285	3,438	7,349	64
209	Personnel	15,002	9,641	15,255	253
6,962	Net Committee (under)/overspend	515,685	276,511	521,547	5,862
(1,717)	Central items	(16,778)	(40,924)	(18,494)	(1,716)
-	- Schools Expenditure	111	-	111	-
281	Contribution to/(from) Traders	849	2,134	770	(79)
5,526	Forecast prior to use of reserves	499,867	237,721	503,934	4,067
-	- Transfer to / (from) Corporate Reserves	(7,215)	-	(7,215)	-
612	- Transfer to / (from) Departmental Reserves	(9,893)	(566)	(8,933)	960
-	- Transfer to / (from) General Fund	(1,529)	-	(1,529)	-
6,138	Net County Council Budget Requirement	481,230	237,155	486,257	5,027

Committee and Central Items

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

Children & Young People's (£5.7m overspend, 4.7% of annual budget)

7. The overspend has been caused primarily by rapidly increased demand for children's care services. Allied with unavoidably high unit costs this has had a dramatic impact on demand led budgets. Child in Need cases have also increased significantly. This increased demand is also being experienced nationally and consequently adds additional market pressures.

8. The major contributing variances are:

- Staffing in Hard to Recruit Teams (including leaving care, Looked after children (LAC), emergency duty etc.) and other Social Work teams is forecast to overspend by £2.0m due to a combination of staffing changes including permanent recruitment to vacancies, temporary staff to respond to workload issues and agency workers. This includes the Assessment and District Child Protection Teams which continue to have high demand and caseloads. The agency challenge panel continues to approve all usage of agency staff.
- External Placements for LAC are forecast to overspend by £3.9m, of which £1.7m is due to the recent and sustained growth in the number of Independent Fostering Agency (IFA) placements which are not expected to significantly reduce over the year, together with £2.1m Residential and £0.7m on semi-independent spot placements. This is offset by a

contribution from the Troubled Families Reserve of £0.6m. External LAC numbers have increased, with the sustained growth in IFAs starting in the latter part of 2017/18 having an exacerbated impact on 2018/19.

- There is a forecast underspend of £0.2m on Supported Accommodation due to the decommissioning of one supplier contract.
9. A number of budget control measures are in place across the Children and Young People's Committee as follows:
- Instruction to all Group Managers to scrutinise and restrict all non-essential expenditure. This will be followed up with a further "line by line" budget review.
 - Ongoing challenge and development of existing block contracts for residential care.
 - Proposed increased frequency of Agency Worker Challenge Panels.
 - Bringing forward proposals to increase the number of internal foster carers.
 - Various measures will be implemented through the department's Remodelling Practice programme (fieldwork staffing arrangements).

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

10. There is currently a forecast overspend of £1.8m 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 has been undertaken which completed in September 2018. The results of this exercise will be reported in due course.
11. The budget for concessionary fares is forecast to underspend by £0.5m following favourable contract settlement values with transport operators.
12. The waste PFI contract is forecast to underspend by £0.4m due mainly to the low waste tonnage during the hot summer period.

Trading Services

13. County Supplies are forecasting a deficit of £0.5m, £0.3m is associated with trading losses and £0.2m with their recent relocation to Huthwaite. There is no reserve to cover this overspend.
14. The anticipated draw-down from Cleaning, Catering and Landscapes Services Reserves to fund deficits/savings is £1.1m, from current Reserve balances of £1.1m, meaning any losses in 2019/20 would be unfunded. This does not include potential redundancy costs resulting from any future restructure.
15. The remaining trading services are predicting a surplus of £0.6m which will be transferred to reserves to fund capital projects or smooth future losses.

Central Items (forecast £1.7m underspend)

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

17. 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 £0.5m. There is a net £0.2m underspend across the other central items.
18. 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. Following a half yearly review of the commitments made against this contingency, a forecast underspend of £1.0m has been identified. This will continue to be reviewed throughout the year.
19. 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.
20. To date the Section 151 Officer has approved release of £1.3m to fund pressures that have now materialised, leaving £2.8m left in the additional contingency budget. This will continue to be assessed throughout the year.
21. The Government announced at their national conference that there will be an additional emergency payment to Local Authorities of £240m to cover Adult Social Care winter pressures available in 2018/19. For Nottinghamshire, this is expected to mean an additional payment of £3.5m. However, the terms and conditions of the grant are as yet unknown, so this currently isn't factored into Table 1 above.

Request for Contingency

22. A request for contingency for £10,000 has been submitted to Policy Committee (October 2018) to make a contribution towards the Games of Remembrance which is led by the British Army Football Association in collaboration with a number of delivery partners and sponsorship from business and private donors.
23. A request for contingency for up to £175,000 has been submitted by Children and Young People's Committee (October 2018) to fund the full cost of the replacement staffing and investigation costs related to an investigation into care standards at Minster View children's residential home.

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 5 November 2018.

25. Issues associated with the achievement of savings (£0.686m) 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	14,917	
		14,917
Variations funded from other sources : Net variation from 2017/18 and financing adjustments	(4,573)	
		(4,573)
Revised Gross Capital Programme		123,115

29. 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 6 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	39,948	9,272	26,501	(13,447)
Adult Social Care & Public Health	4,592	703	4,592	-
Communities & Place	56,188	17,865	45,527	(10,661)
Policy	20,451	4,454	20,842	391
Finance & Major Contracts Mngt	180	23	180	-
Personnel	256	-	7	(249)
Contingency	1,500	-	1,500	-
Total	123,115	32,317	99,149	(23,966)

Children & Young People's

30. In the Children and Young People's Committee capital programme, a forecast underspend of £13.4m has been identified. This is mainly 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 forecast spend is re-profiled to reflect the proposed delivery of the scheme.
32. Also in the Children and Young People's Committee, section 106 contributions totalling £1.9m have been secured from developers. This funding will be used to create additional school places as a result of local property developments.

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

Communities & Place

33. In the Communities and Place Committee capital programme, a forecast underspend of £10.7m has been identified. This mainly relates to a re-profiling of the Gedling Access Road (GAR) project (£10m). As reported to Communities and Place Committee on 8 November 2018, the GAR funding has been re-profiled to reflect the complexities of delivering a large infrastructure project. The re-profiled funding reflects the current delivery programme.
34. Also in the Communities and Place Committee, it is proposed that further improvement works are undertaken at the A57 / B6041 Gateford Road / Woodsetts Lane roundabout. This junction is a key traffic hotspot on the County Council's Strategic Road Network. The works will remove peak period congestion, improve journey times and support economic growth

objectives in the area. The latest estimated cost of the scheme is £1.78m which will be funded in full from external funding.

It is proposed that the Communities and Place capital programme is varied to reflect the £1.78m external funding to carry out improvements works at the roundabout as set out above.

35. It is proposed that the Communities and Place capital programme is varied to reflect a £0.2m investment in the Depots Environmental Infrastructure Improvement Plan. These works will be undertaken to mitigate a significant risk of environmental pollution at various depots across the County.

It is proposed that the Communities and Place capital programme is varied to reflect the £0.2m investment in Environmental Infrastructure Improvement Plan, funded from capital contingency.

36. A report to Policy Committee in September 2018 approved that a £0.15m working capital budget is made available to advance the necessary design work to ensure major infrastructure improvement schemes are ready for funding opportunities as they arrive.

It is proposed that the Communities and Place capital programme is varied to reflect the £0.15m investment in advanced design work for major infrastructure improvement schemes, funded from capital contingency.

Financing the Approved Capital Programme

37. 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	23,921	15,763	125	139	39,948
Adult Social Care & Public Health	3,268	1,324	-	-	4,592
Communities & Place	16,413	37,462	1,501	812	56,188
Policy	19,201	1,214	-	36	20,451
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	1,500	-	-	-	1,500
Total	64,559	55,763	1,626	1,167	123,115

38. It is anticipated that borrowing in 2018/19 will increase by £1.8m from the forecast in the Budget Report 2018/19 (Council 28/02/2018). This increase is primarily a consequence of:

- £15.5m of net slippage from 2017/18 to 2018/19 and financing adjustments funded by capital allocations.

- Net slippage in 2018/19 of £13.7m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

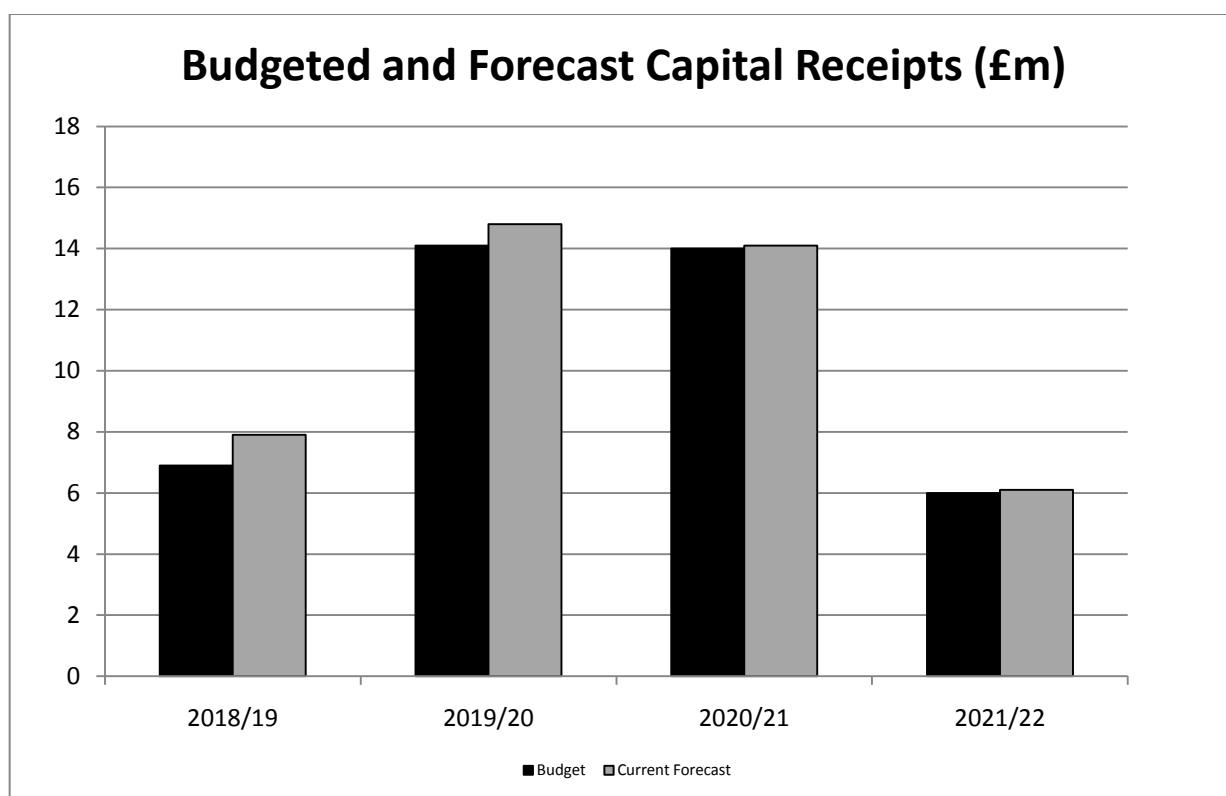
Prudential Indicator Monitoring

39. 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

40. 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.

41. The chart below shows the budgeted and forecast capital receipts for the four years to 2021/22.



42. 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.

43. The capital receipt forecast for 2018/19 is £7.9m. To date in 2018/19, capital receipts totalling £0.5m have been received.

44. 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

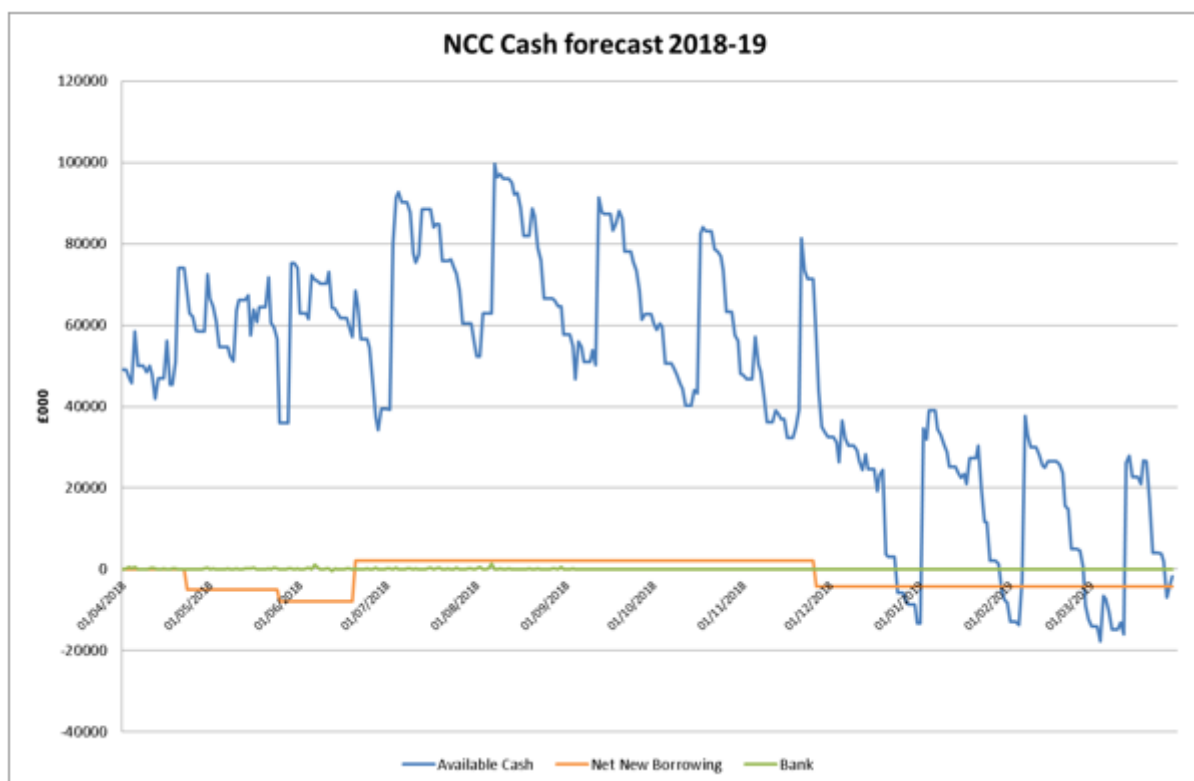
incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales being lower than the forecast.

45. 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

46. 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.

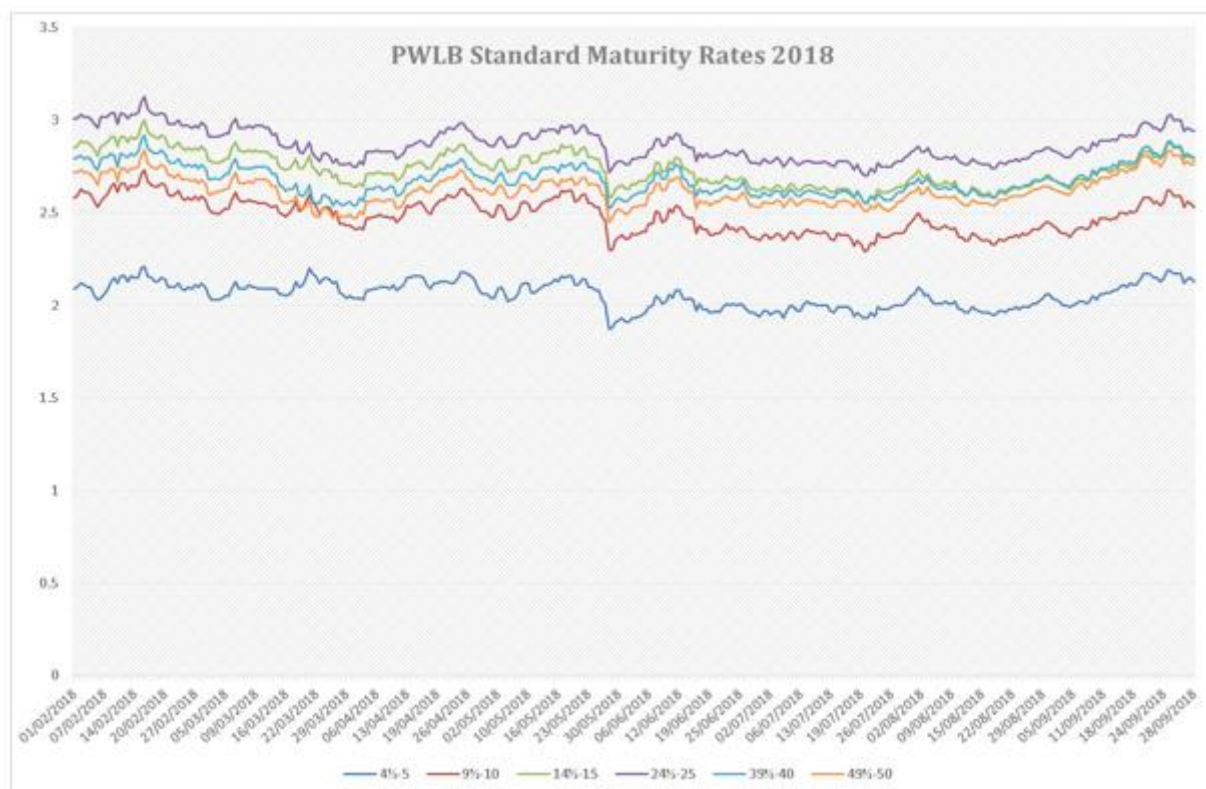
47. The Cash forecast chart below shows the forecast cash flow position for the financial year 2018/19. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure,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



48. 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.

49. 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 the 2017/18 accounts closure this forecast was revised to £52m, and £10m of this was taken in June. 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.



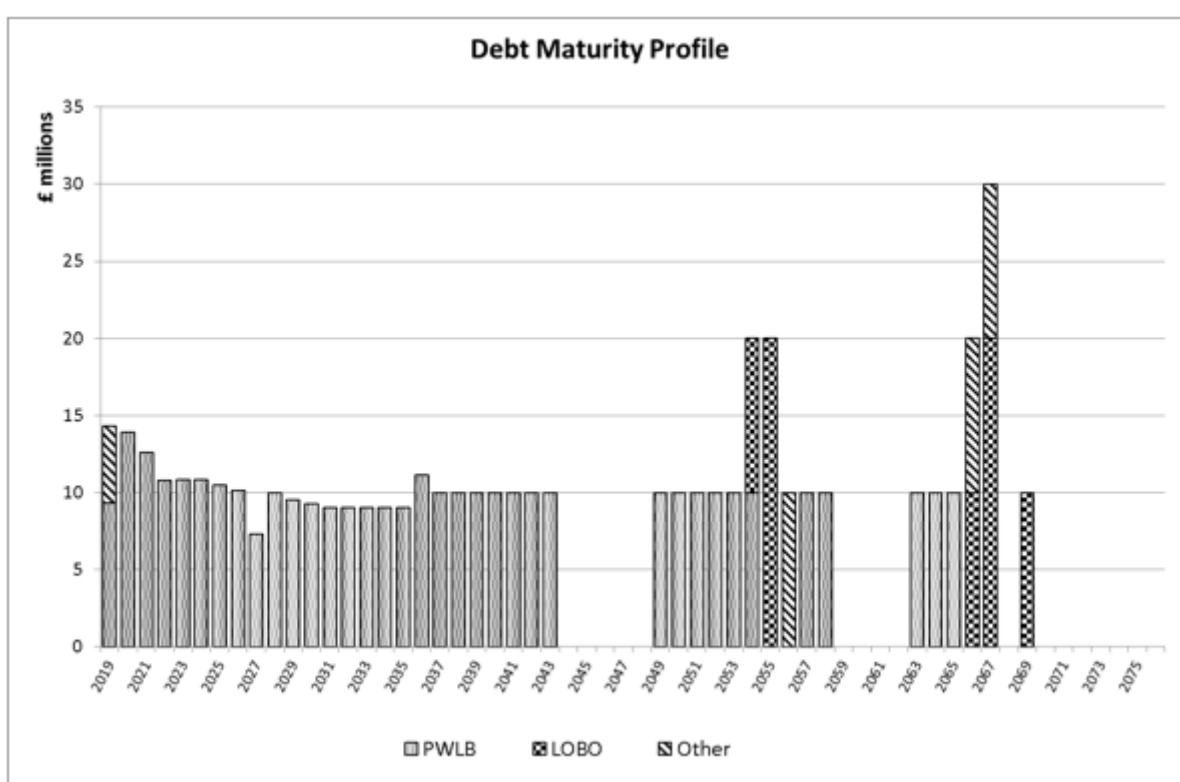
50. Borrowing decisions will take account of a number of factors including:

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

51. 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

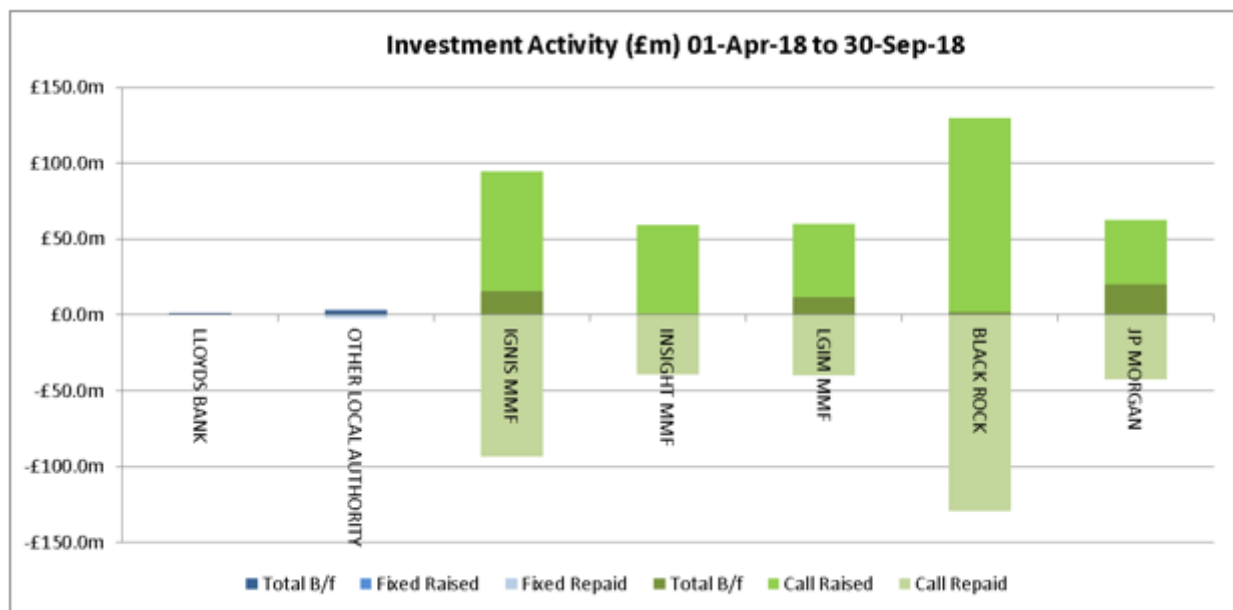
deciding on the lengths of future loans the Council will factor in any gaps in its maturity profile, with a view to minimising interest rate risk, but will consider this alongside other financial factors.

52. 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.
53. 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.



54. 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 £64m 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	-	(2,500)	1,000
IGNIS MMF	15,500	79,150	(93,700)	950
INSIGHT MMF	-	59,450	(39,450)	20,000
LGIM MMF	11,400	48,750	(40,150)	20,000
Black Rock	2,150	127,600	(129,100)	650
JP Morgan	20,000	42,300	(42,300)	20,000
Total	53,550	357,250	(347,200)	63,600



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

Statutory and Policy Implications

56.This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) To comment on the revenue budget expenditure to date and year-end forecasts.
- 2) To comment on the capital programme expenditure to date, year-end forecasts and approve the variations to the capital programme.
- 3) To approve the additional contingency requests.
- 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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Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (KK 02/11/2018)

57. 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 17/10/2018)

58. 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

