Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

14 January 2019

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 8 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 an additional allocation 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 £5.7m 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 07 £'000	Committee	Annual Budget £'000	Actual to Period 08 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
5,937	Children & Young People's	122,039	83,990	128,436	6,397
(260)	Adult Social Care & Public Health	207,068	127,880	206,620	(448)
1,034	Communities & Place	123,593	94,029	124,914	1,321
(603)	Policy	35,355	28,809	34,802	(553)
(337)	Finance & Major Contracts Management	3,172	2,471	2,838	(334)
155	Governance & Ethics	7,285	4,686	7,344	59
193	Personnel	15,053	12,318	15,103	50
6,119	**Net Committee (under)/overspend**	**513,565**	**354,183**	**520,057**	**6,492**
(1,919)	Central items	(16,192)	(31,976)	(18,113)	(1,921)
-	Schools Expenditure	149	-	149	-
(200)	Contribution to/(from) Traders	698	928	498	(200)
4,000	**Forecast prior to use of reserves**	**498,220**	**323,135**	**502,591**	**4,371**
747	Transfer to / (from) Corporate Reserves	(7,215)	-	(6,468)	747
1,017	Transfer to / (from) Departmental Reserves	(8,246)	(564)	(7,671)	575
-	Transfer to / (from) General Fund	(1,529)	-	(1,529)	-
5,764	**Net County Council Budget Requirement**	**481,230**	**322,571**	**486,923**	**5,693**

Committee and Central Items

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

Children & Young People's (£6.4m overspend, 5.2% 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 large 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 Looked After Children (LAC) are forecast to overspend by £5.0m, of which £2.0m 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 £2.7m Residential and £0.9m on semi-independent spot placements. This is partially offset by a contribution from the Troubled Families Reserve of £0.6m. Over the past 12 months the number of children in care has risen by approximately 12%, from 790 to 884. The average cost of a looked after child is £62,500 with some placements being significantly more. The budget construction for the LAC placement budget was predicated on stability of the LAC numbers at 790 and as a result the budget has overspent. Additional cost is also being incurred as a result of price rises in the care market as demand outstrips supply. Considerable work has been undertaken to better predict future need and to construct appropriate budgets, although the situation will remain volatile.

- There is a forecast underspend of £0.2m on Supported Accommodation due to the decommissioning of one supplier contract.

- There is a forecast underspend of £0.4m in Early Help Services due to increased income generated by outdoor education in accordance with their commercial development, together with underspends in the Family Service.

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 £1.3m overspend, 1.1% of annual budget)

10. There is currently a forecast overspend of £1.7m 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 and 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 highways retained client budget is forecast to underspend by £0.1m due mainly to additional income on residential parking permits.

13. The Waste Retained Client budget is forecast to overspend by £0.2m due to reduced levels of trade waste income, together with increased costs of recycling credits to the district councils.

Policy (forecast £0.6m underspend, 1.6% of annual budget)

14. The committee is reporting a forecast underspending of £0.6m. This mainly relates to:

- An underspend of £0.3m due predominantly to less use of external legal advisers during the IICSA than originally anticipated, whose work was focussed on the public hearing process, rather than the preparation of the corporate witness statement(s), which was led by the Council. The IICSA team budget is funded from a corporate reserve, so there is a corresponding overspend to reflect a reduced drawdown.
- Vacancies savings of £0.2m within the ICT Helpdesk and associated with the move to the Cloud Project, together with vacancy savings of £0.1m in the property commissioning team.

Trading Services

15. 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.

16. The anticipated draw-down from Cleaning, Catering and Landscapes Services Reserves to fund deficits/savings is £1.0m, from current Reserve balances of £1.1m, meaning any similar losses in 2019/20 would be largely unfunded. This does not include potential redundancy costs resulting from any future restructure.

17. The remaining trading services are predicting a surplus of £0.7m which will be transferred to reserves to fund capital projects or smooth future losses.

Central Items (forecast £1.9m underspend)

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

19. At the time of setting the 2018/19 budget, several funding allocations had not been announced, specifically with regard to the impact of business rates revaluations 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 additional grant of £2.8m will be received in 2018/19.

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 £0.9m. There is a net £0.2m underspend across the other central items.

21. Employer's pension contributions are currently predicted to over-recover (£0.5m) the amount required by the actuary to fund the deficit. As per previous practice, the final surplus amount will be transferred to the pension's surplus reserve to cover potential under-recoveries in the future.

22. In-year capital expenditure and capital receipt forecasts continue to be monitored and an assessment to agree a prudent Minimum Revenue Provision (MRP) charge will be made as part of the final accounts process.

23. 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.

24. 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.

25. To date the Section 151 Officer has approved release of £0.7m to fund pressures that have now materialised, leaving £3.4m left in the additional contingency budget. This will continue to be assessed throughout the year.

26. 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 has meant an additional payment of £3.5m. This has now been incorporated within the Adult and Social Care Committee budget.

Requests for Contingency

27. A £163,663 request for contingency was submitted to Policy Committee in December 2018 to fund the cost of proposed work to complete the Property Transformation Programme.

28. A further contingency request was submitted to Policy Committee in December 2018 to provide the resources required to deliver and assure major projects within the Place Department. The contingency requested was for £100,000 in 2018/19 and up to £650,000 per annum in 2019/20 and 2020/21.

Progress with savings and risks to the forecast

29. 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 7 January 2019.

30. The Improvement and Change Sub-Committee has approved the following change requests to existing savings, these will be factored into the MTFS :-

- A reduction in the achievability of the contracts review saving in Children and Young People's Committee by £160,000.

- An acceleration of the Targeted Reviews saving moving £2.0m from 2020/21 into 2019/20 within Adult Social Care and Public Health Committee.

- An overall write off of £97,000 relating to Statutory School Transport within Community and Place Committee.

31. 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

32. 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

33. 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	2018/19 £'000
Approved per Council (Budget Report 2018/19)		112,771
Variations funded from County Council Allocations :		
Net slippage from 2017/18 and financing adjustments	15,367	
		15,367
Variations funded from other sources :		
Net variation from 2017/18 and financing adjustments	(3,422)	
		(3,422)
Revised Gross Capital Programme		**124,716**

34. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 8.

Table 3 – Capital Expenditure and Forecasts as at Period 8

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 8 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	40,333	12,715	23,961	(16,372)
Adult Social Care & Public Health	4,592	726	3,523	(1,069)
Communities & Place	58,189	22,858	49,525	(8,664)
Policy	20,651	6,897	18,487	(2,164)
Finance & Major Contracts Mngt	180	23	180	-
Personnel	256	-	7	(249)
Contingency	515	-	515	-
Total	**124,716**	**43,219**	**96,198**	**(28,518)**

Children & Young People's

35. In the Children and Young People's Committee capital programme, a forecast underspend of £16.4m has been identified. This is mainly due to £9.3m 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.

36. Also in the Children and Young People's Committee, a forecast underspend of £4.7m has been identified against the School Building Improvement Programme. There were initial delays to commissioning the programme as a result of late notification of grant amounts. All schemes are now commissioned and will progress in this financial year but are likely to complete in 2019/20.

37. 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.

Adult Social Care & Public Health

38. In the Adult Social Care and Health capital programme a forecast underspend of £1.1m has been identified. This is mainly due to £0.8m slippage against the Supported Living programme as every effort has been made to achieve the objectives of this programme without the requirement to use borrowing. Slippage of £0.3m has also been experienced against the County Horticulture project.

It is proposed that the Adult Social Care and Public Health capital programme is varied to reflect the slippage against the Supported Living and County Horticulture projects.

Communities & Place

39. In the Communities and Place Committee capital programme, a forecast underspend of £8.7m has been identified. This mainly relates to a re-profiling of the Gedling Access Road (GAR) project (£10.5m). 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.

40. This underspend is offset by a forecast £2.1m overspend against the Road Maintenance and Renewals Programme. This as a result of the Authority being successful in accelerating delivery of the programme to further improve the condition of roads across the county.

41. Also in the Communities and Place Committee capital programme, a variation to the capital programme is required to reflect the £1.6m additional Department for Transport (DfT) capital grant previously received to fund pothole action and flood resilience in the current financial year.

It is proposed that the Communities and Place capital programme is varied to reflect the additional DfT capital grant received.

Policy

42. In the Policy Committee capital programme a forecast underspend of £2.2m has been identified. This is mainly due to a £1.0m forecast slippage against the Land Release Fund project in Eastwood as work continues to ensure that the Council generates best value from the grant. In addition, a £1.5m forecast re-profiling against the Journey to the Cloud project has been identified.

It is proposed that the Communities and Place capital programme is varied to reflect the re-profiling of the Land Release Fund and Journey to the Cloud projects.

Financing the Approved Capital Programme

43. 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	24,306	15,763	125	139	40,333
Adult Social Care & Public Health	3,268	1,324	-	-	4,592
Communities & Place	17,263	38,613	1,501	812	58,189
Policy	19,401	1,214	-	36	20,651
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	515	-	-	-	515
Total	**65,009**	**56,914**	**1,626**	**1,167**	**124,716**

44. 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:

- £15.4m of net slippage from 2017/18 to 2018/19 and financing adjustments funded by capital allocations.
- Net slippage in 2018/19 of £14.9m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

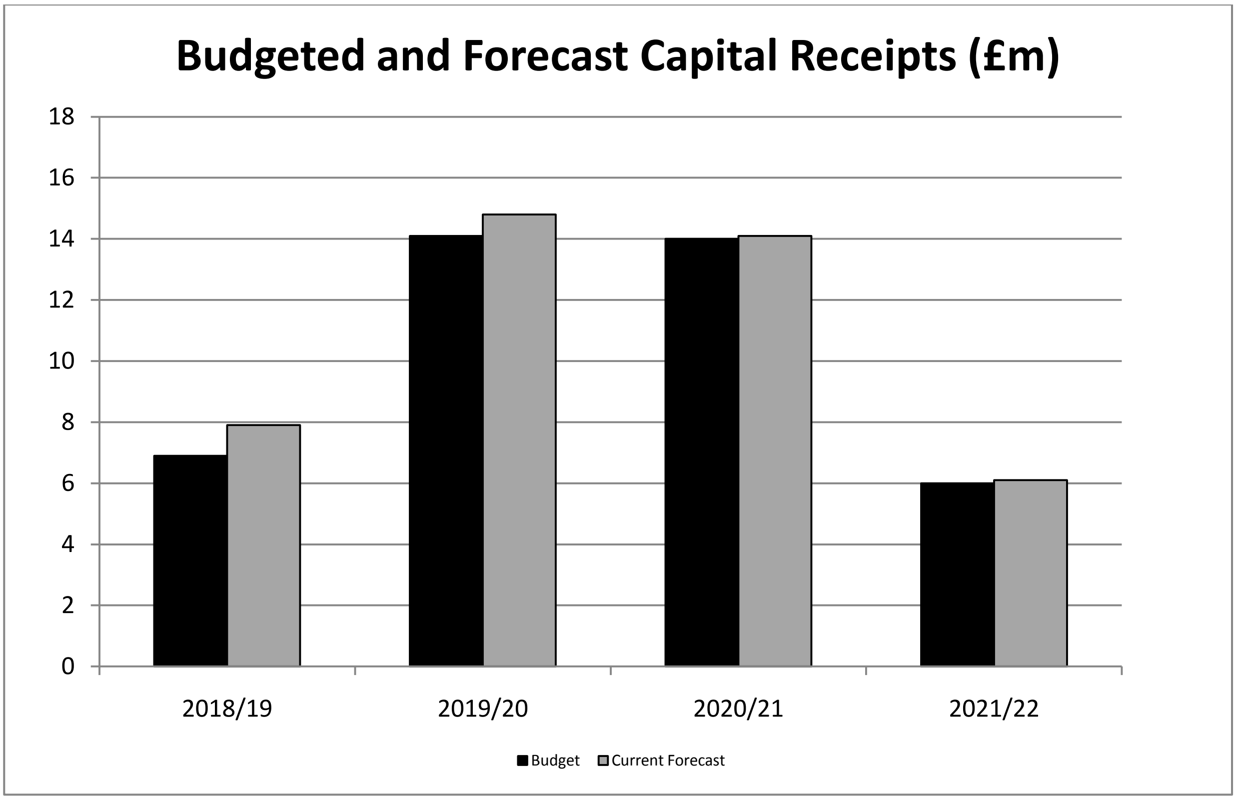
Prudential Indicator Monitoring

45. 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

46. 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.

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



48. 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.

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

50. 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.

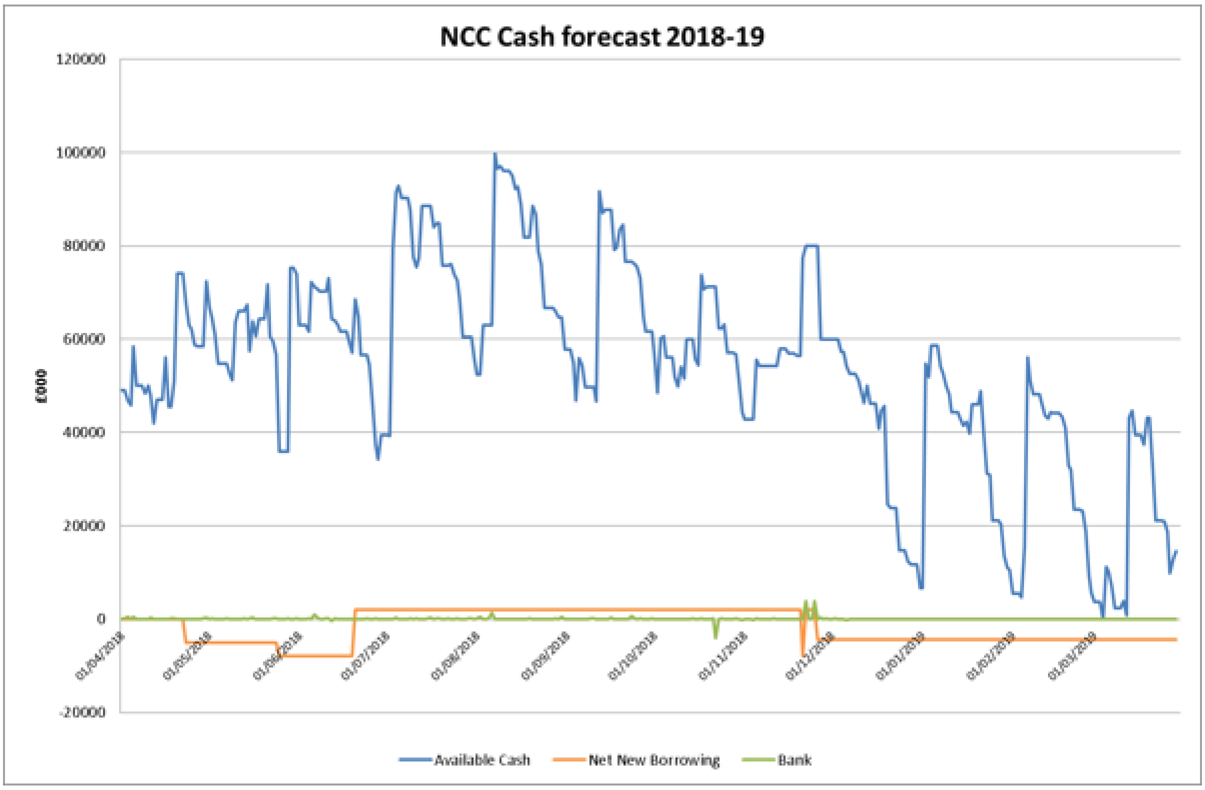
51. Current Council policy (Budget Report 2018/19) is to use the first £5.4m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be set against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be 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

52. 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.

53. 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

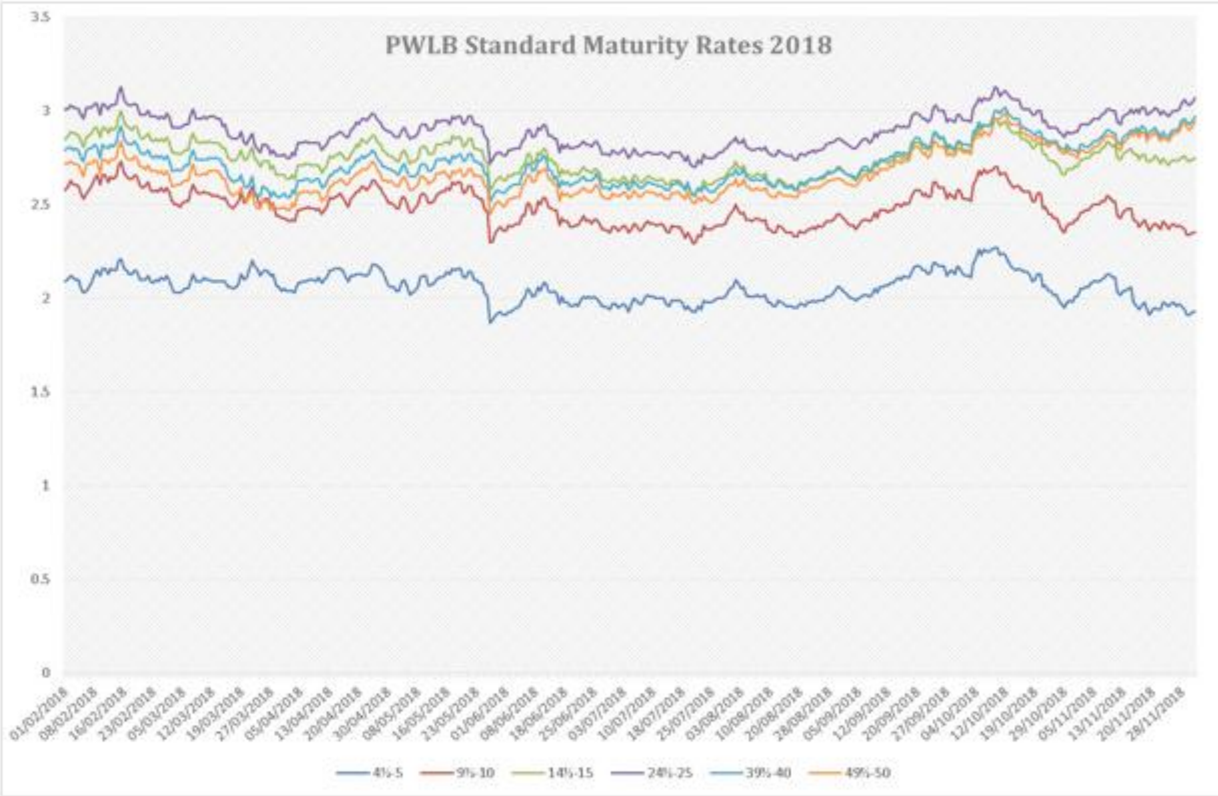
receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year.



54. 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.

55. 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. £10m of this was taken in June and a further £10m in November. £24.3m of debt has been redeemed over the same period. This includes a £10m LOBO from Royal Bank of Scotland (RBS). 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.

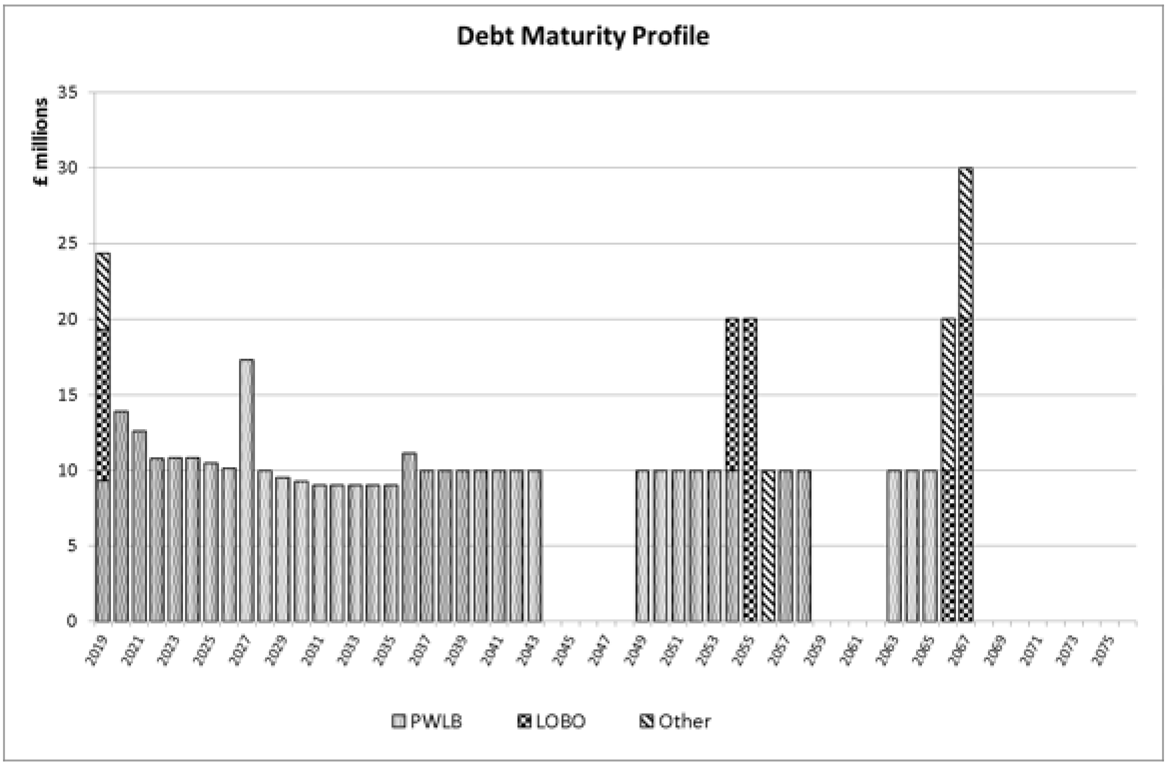


56. Borrowing decisions will take account of a number of factors including:
    - expected movements in interest rates
    - current maturity profile
    - the impact on revenue budgets and the medium term financial strategy
    - the treasury management prudential indicators.

57. 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.

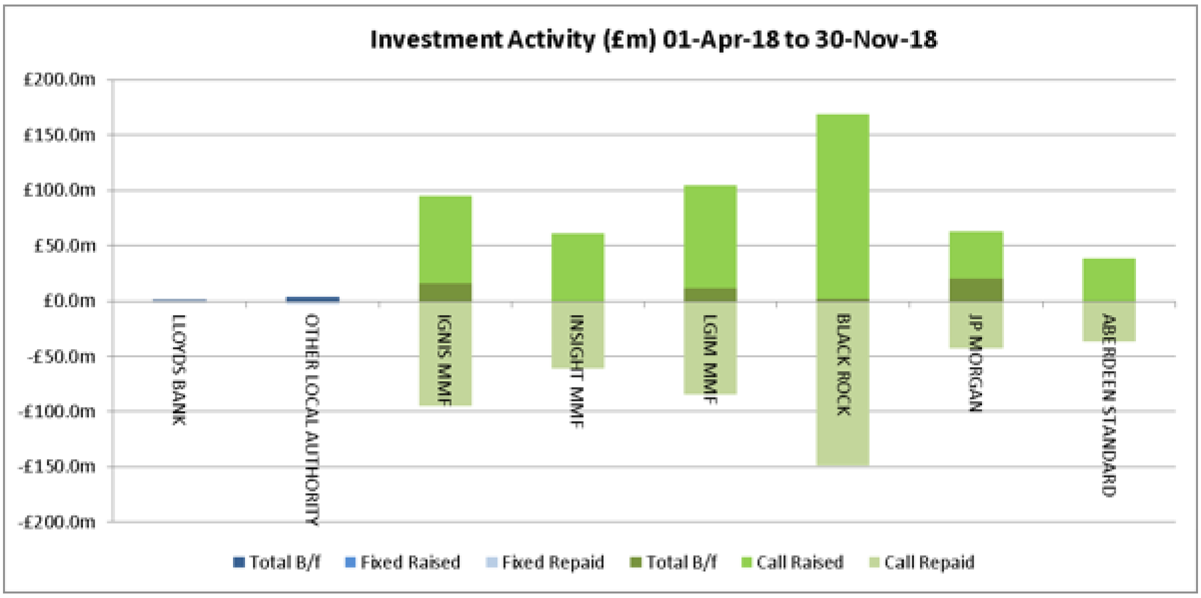
58. Longer-term borrowing (maturities up to 51 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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. A £10m LOBO was redeemed in November 2018 following an offer from RBS.

59. 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.



60. 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 £63m 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	(94,650)	-
INSIGHT MMF	-	60,950	(60,950)	-
LGIM MMF	11,400	93,470	(84,870)	20,000
Black Rock	2,150	166,800	(148,950)	20,000
JP Morgan	20,000	42,300	(42,300)	20,000
Aberdeen Standard	-	38,050	(36,850)	1,200
Total	**53,550**	**480,720**	**(471,070)**	**63,200**



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

Statutory and Policy Implications

62. 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 request.

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 02/01/2019)

63. 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 02/01/2019)

64. 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