Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

29 April 2019

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 11 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 and year-end forecasts.
3. To inform Members of an allocation from the 2019/20 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 £5.5m 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 10 £'000	Committee	Annual Budget £'000	Actual to Period 11 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
6,577	Children & Young People's	121,389	113,436	127,755	6,366
(1,248)	Adult Social Care & Public Health	202,866	174,162	200,831	(2,035)
853	Communities & Place	123,840	109,935	124,564	724
(510)	Policy	35,121	38,263	34,672	(449)
(355)	Finance & Major Contracts Management	3,172	3,423	2,830	(342)
95	Governance & Ethics	7,285	6,659	7,344	59
(17)	Personnel	15,054	16,255	14,828	(226)
5,395	**Net Committee (under)/overspend**	**508,727**	**462,133**	**512,824**	**4,097**
(1,533)	Central items	(14,060)	(29,596)	(15,396)	(1,336)
-	Schools Expenditure	335	-	335	-
(194)	Contribution to/(from) Traders	766	741	572	(194)
3,668	**Forecast prior to use of reserves**	**495,768**	**433,278**	**498,335**	**2,567**
746	Transfer to / (from) Corporate Reserves	(9,347)	(2,132)	(8,597)	750
1,268	Transfer to / (from) Departmental Reserves	(3,662)	124	(1,453)	2,209
-	Transfer to / (from) General Fund	(1,529)	-	(1,529)	-
5,682	**Net County Council Budget Requirement**	**481,230**	**431,270**	**486,756**	**5,526**

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 £1.8m 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 £5.5m, of which £2.2m 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 £3.1m Residential and £0.8m on semi-independent spot placements. This is partially offset by a contribution from the Troubled Families Reserve of £0.6m. Overall external

placements increased by a net of 8 in the month, whereas numbers were expected to reduce slightly (taking into account scheduled leavers and new growth). 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 £0.5m 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.
- There is a net £0.4m underspend across a range of other budgets

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).

Adult Social Care & Public Health (forecast £2.0m underspend, 1.0% of annual budget)

10. The increase in the forecast underspend this month is primarily due to forecast underspends on external contracts in Public Health and Deprivation of Liberty Safeguards (DoLs).

11. Despite early and overachievement of savings, the major variances on care packages are as follows :

- Older Adults across the County are forecasting an overspend of £0.5m, largely in the areas of long term residential and nursing care and homecare.
- Younger Adults across the County are forecast to overspend by £0.4m, largely in the areas of long term residential and nursing care and supported living despite increased Section 28a income from Health.
- These will be offset by underspends in the Improved Better Care Fund as the department has specifically held vacancies to mitigate the pressure of care package demand in year.

12. Direct Services are forecasting a combined net underspend of £0.5m which is offsetting an overspend of £0.3m on Reablement due to increased demand.

13. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.5m due to increased service user contributions (£1.0m) and additional Appointeeship and Deputyship income (£0.2m) as a result of increased packages and lower in-year costs relating to the advocacy contract (£0.3m).

14. DoLS are now forecasting an underspend of £0.3m, which is a forecast reduction of £0.5m due to reduced agency activity in the last quarter of the year.

15. The forecast includes an early estimate of £1.0m in respect of redundancy costs associated with the closure of the remaining care and support centres.

16. Public Health is currently forecasting an underspend of £0.9m, mainly due to slippage in the PHN 0-19 contract which has arisen and will be carried forward in the contract for next year. There are other small underspends on Directorate staffing, the Substance Misuse and Obesity Programmes, partially offset by an overspend against the Sexual Health Programme. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Communities & Place (forecast £0.7m overspend, 0.6% of annual budget)

17. There is currently a forecast overspend of £1.5m 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 the results of this exercise will be reported in due course.

18. The budget for concessionary fares is forecast to underspend by £0.5m following favourable contract settlement values with transport operators.

19. The highways retained client budget is forecast to underspend by £0.3m due mainly to an underspend on electricity and signals.

Trading Services

20. 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.

21. 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 includes current redundancy costs resulting from the recent restructure.

22. 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 £1.3m underspend)

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

24. 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.

25. 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 £0.8m. There is a net £0.2m underspend across the other central items.

26. 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 workforce reserve to cover potential under-recoveries in the future.

27. 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.

28. 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.

29. 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.

30. 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.

Contingency Budget

31. In February 2019, the Service Director – Finance, Infrastructure and Improvement approved a contingency request for £50,000 (for 2019/20) from the Children and Young People's Service to part fund a programme of work to help prevent young peoples' use of violence and weapon crime in the Gedling area.

Progress with savings and risks to the forecast

32. 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 4 March 2019.

33. 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

34. 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. Factoring in the projected overspend the closing balance is now projected to be £23.8m.

Capital Programme

35. 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	(7,796)	
		(7,796)
Variations funded from other sources :		
Net variation from 2017/18 and financing adjustments	(7,300)	
		(7,300)
Revised Gross Capital Programme		**97,675**

36. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 11.

Table 3 – Capital Expenditure and Forecasts as at Period 11

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 11 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	24,705	16,665	23,444	(1,261)
Adult Social Care & Public Health	3,523	942	2,969	(554)
Communities & Place	54,160	39,115	53,605	(555)
Policy	15,100	9,381	13,315	(1,785)
Finance & Major Contracts Mngt	180	49	193	13
Personnel	7	-	7	-
Contingency	-	-	-	-
Total	**97,675**	**66,152**	**93,533**	**(4,142)**

Children & Young People's

37. In the Children and Young People's Committee capital programme, a forecast underspend of £1.2m has been identified. This is mainly due to £0.9m forecast slippage against the School Places Programme as forecasts have been adjusted to reflect current project profiles.

Adult Social Care & Public Health

38. In the Adult Social Care and Public Health Committee capital programme, a forecast underspend of £0.6m has been identified. This is mainly as a result of a contribution to a project within the Supported Living programme being delayed until the next financial year.

Communities & Place

39. In the Communities and Place capital programme a forecast underspend of £0.6m has been identified. This is mainly as a result of the Clean Bus Vehicle Technology project not progressing as quickly as originally envisaged due to longer lead in times required by CBTF technology partners and uncertainty around the City's Advanced Quality Partnership proposals for the City Centre.'

Policy

40. In the Policy Committee capital programme, a forecast underspend of £1.8m has been identified. This is mainly as a result of a change in the funding of the Better Broadband for Nottinghamshire (BBfN) programme. It was agreed that funding held by the supplier would be used to fund current year rather than future year expenditure. The overall BBfN programme remains unchanged.

Financing the Approved Capital Programme

41. 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	5,389	19,052	125	139	24,705
Adult Social Care & Public Health	2,408	1,115	-	-	3,523
Communities & Place	19,192	32,115	1,501	1,352	54,160
Policy	14,850	214	-	36	15,100
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	7	-	-	-	7
Contingency	-	-	-	-	-
Total	**41,846**	**52,496**	**1,626**	**1,707**	**97,675**

42. It is anticipated that borrowing in 2018/19 will decrease by £11.9m from the forecast in the Budget Report 2018/19 (Council 28/02/2018). This decrease is primarily a consequence of:

- £7.8m of net slippage from 2017/18 to 2018/19 and financing adjustments funded by capital allocations.
- Net slippage in 2018/19 of £4.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

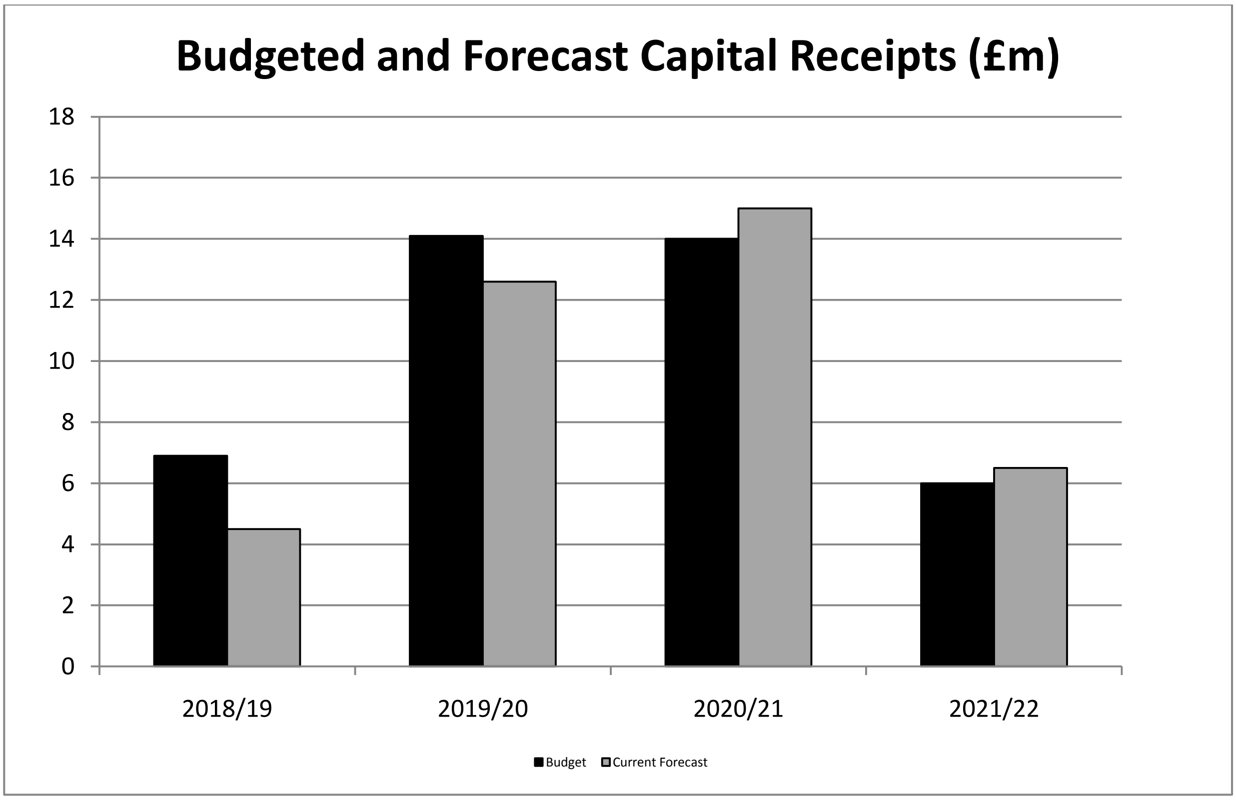
Prudential Indicator Monitoring

43. 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

44. 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.

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



46. 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.

47. The capital receipt forecast for 2018/19 is £4.5m. To date in 2018/19, capital receipts totalling £4.3m have been received.

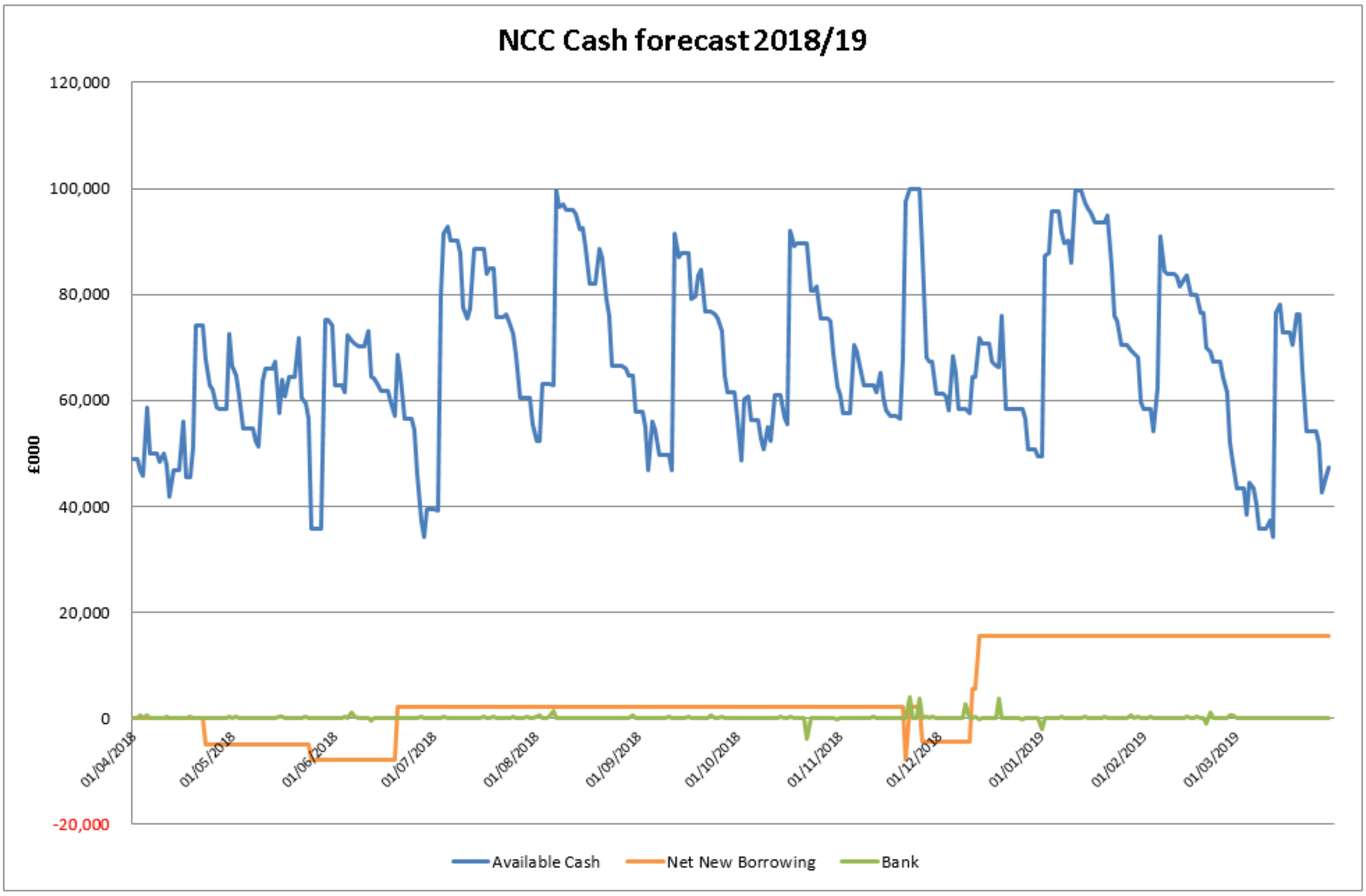
48. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

49. Current Council policy (Budget Report 2018/19) is to use the first £3.8m 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

50. 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.

51. 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 below reflects this.

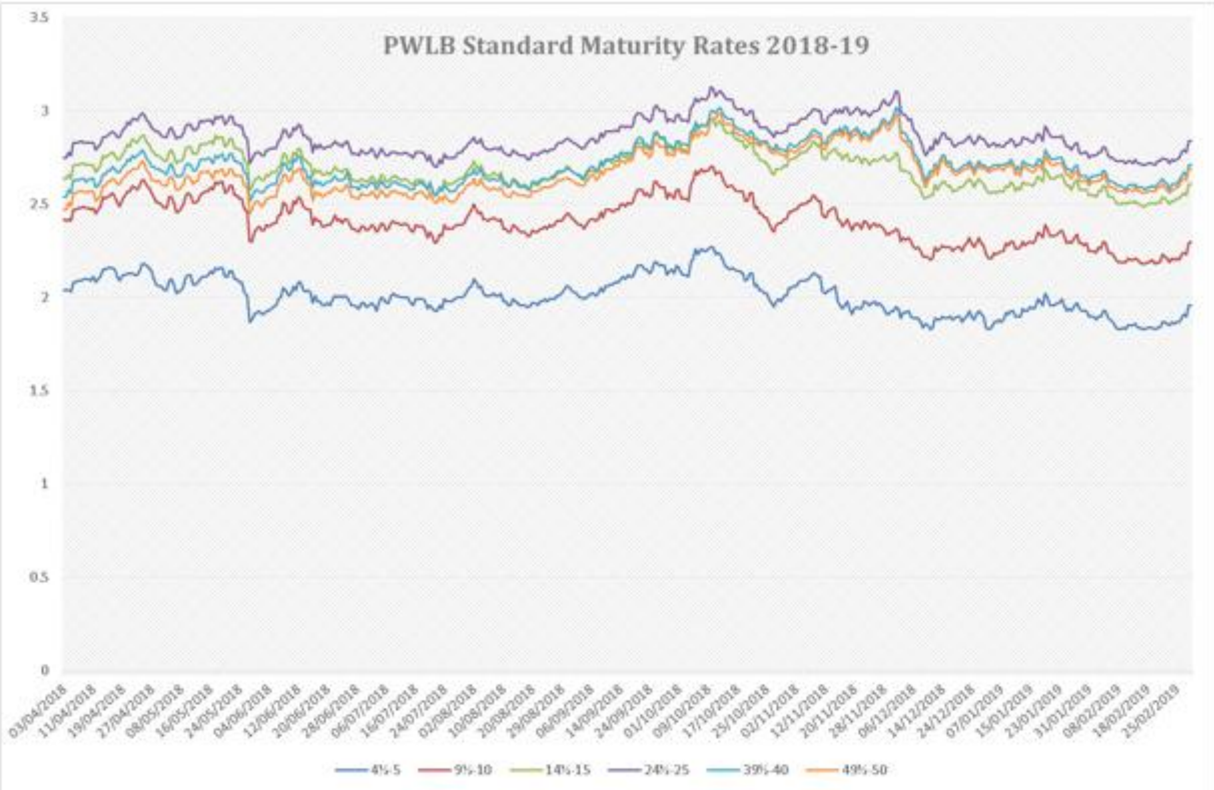


52. The chart above gives the following information:

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.

53. 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, a further £10m in November, and £20m in December. £24.3m of debt has been redeemed over the same period. This includes a £10m Lender's Options, Borrower's Options' loans (LOBOs) from Royal Bank of Scotland (RBS).

54. 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.



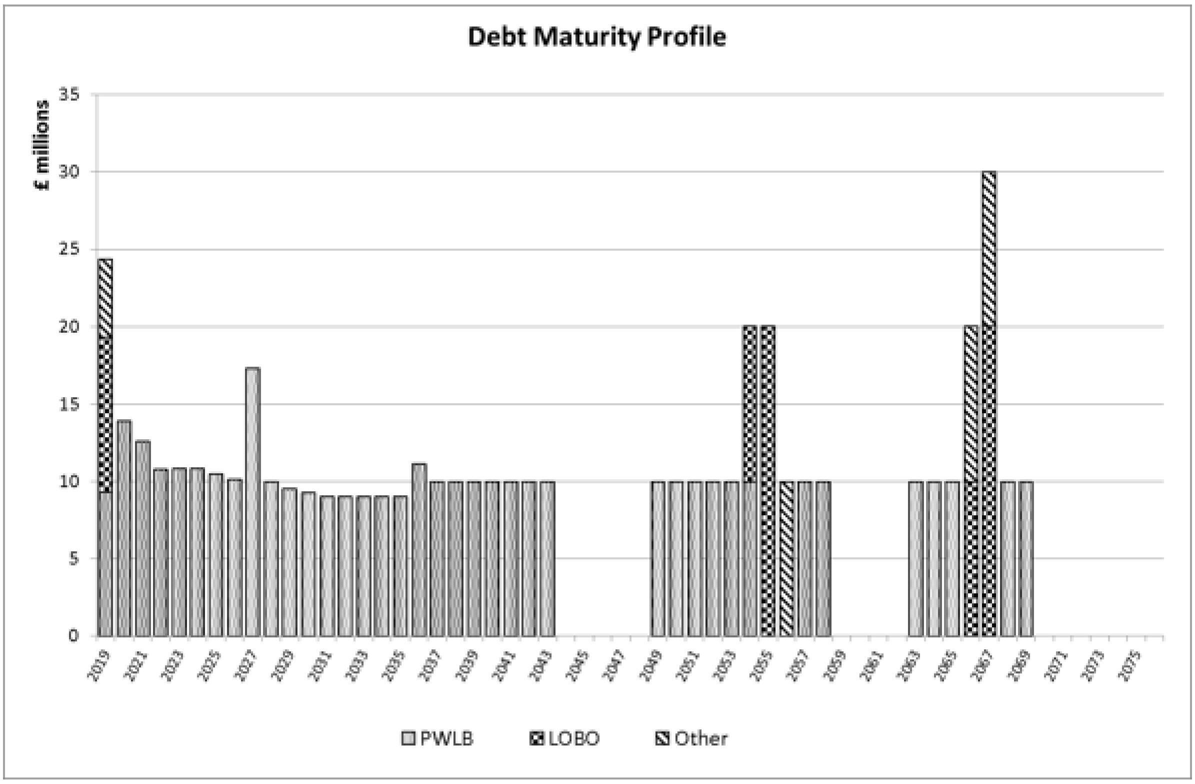
55. Borrowing decisions will take account of a number of factors including:
   - expected movements in interest rates

- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

56. The maturity profile of the Council's debt portfolio is shown in the chart below. The PWLB loans are reasonably well distributed and have a maximum duration of 50 years. When deciding on the lengths of future loans the Council will factor in any gaps in its maturity profile, with a view to minimising interest rate risk, but will consider this alongside other financial factors.

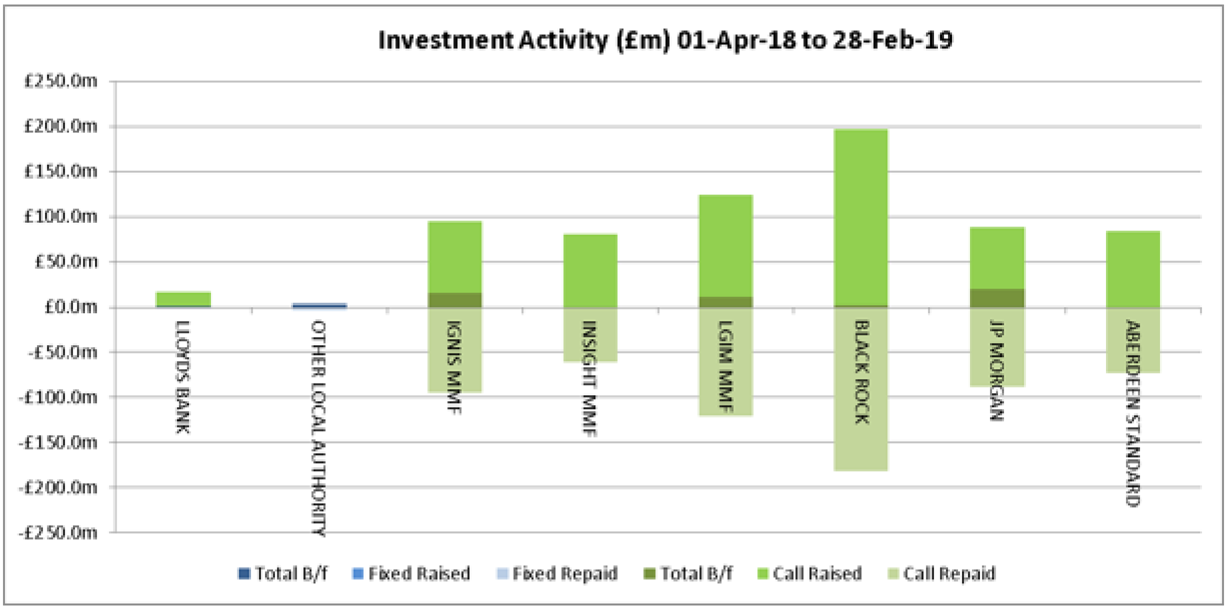
57. Longer-term borrowing (maturities up to 60 years) was obtained from the market some years ago in the form of LOBOs. These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken at rates lower than 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 RBS LOBO was redeemed in November 2018 following an offer from RBS.

58. 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.



59. The investment activity for 2018/19 is summarised in the chart and table below. Outstanding investment balances totalled approximately £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	15,000	(1,000)	15,000
Other Local Authority	3,500	-	(3,500)	-
IGNIS MMF	15,500	79,150	(94,650)	-
INSIGHT MMF	-	80,450	(60,950)	19,500
LGIM MMF	11,400	112,420	(120,720)	3,100
Black Rock	2,150	194,650	(182,050)	14,750
JP Morgan	20,000	68,150	(87,700)	450
Aberdeen Standard	-	83,650	(73,100)	10,550
Total	**53,550**	**633,470**	**(623,670)**	**63,350**



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

61. The Treasury Management team have historically obtained details of counterparty ratings from the Bloomberg system also used for pension fund activities. The move from an in-house portfolio to funds being managed by LGPS Central Ltd has meant that this system is no longer required by the pension fund. In order to maintain access to appropriate risk information the council is in the process of appointing a treasury management advisor. The cost of this will be less than the license fee previously paid.

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 and year-end forecasts.

3) To comment on the approval of the contingency request for 2019/20.

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:
Keith Palframan - Group Manager, Financial Services
Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (KK 26/03/2019)

63. The proposals in this report are within the remit of the Finance and Major Contracts Management Committee

Financial Comments (GB 27/03/2019)

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'