

18 November 2019

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 6 2019/20

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2019/20.
2. To provide a summary of capital programme expenditure to date and year-end forecasts.
3. To request approval for an additional contingency application.
4. To inform Members of the Council's Balance Sheet transactions.

Information Background

5. The Council approved the 2019/20 budget at its meeting on 28 February 2019. 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 £1.6m 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 5 £'000	Committee	Annual Budget £'000	Actual to Period 6 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
8,330	Children & Young People's	127,539	65,807	136,444	8,905
(1,459)	Adult Social Care & Public Health	211,003	101,978	208,249	(2,754)
1,929	Communities & Place	123,780	78,503	125,938	2,158
209	Policy	34,456	26,557	34,471	15
(96)	Finance & Major Contracts Management	2,856	1,637	2,784	(72)
143	Governance & Ethics	7,305	3,504	7,439	134
(40)	Personnel	14,987	9,645	14,862	(125)
9,016	Net Committee (under)/overspend	521,926	287,631	530,187	8,261
(7,899)	Central items	(17,321)	(46,249)	(25,705)	(8,384)
-	- Schools Expenditure	110	-	110	-
575	Contribution to/(from) Traders	719	2,359	1,289	570
1,692	Forecast prior to use of reserves	505,434	243,741	505,881	447
-	- Transfer to / (from) Corporate Reserves	577	-	577	-
592	- Transfer to / (from) Departmental Reserves	(16,484)	(254)	(15,311)	1,173
-	- Transfer to / (from) General Fund	(2,099)	-	(2,099)	-
2,284	Net County Council Budget Requirement	487,428	243,487	489,048	1,620

Committee and Central Items

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

Children & Young People's (£8.9m overspend, 7.0% of annual budget)

- The Youth, Families and Social Work Division is reporting a forecast £0.9m overspend. The major contributing factor is a £1.2m overspend on social work staffing, offset by net underspends in other areas. The overspend has arisen due to a combination of staffing changes including permanent recruitment to vacancies, additional capacity staff to respond to continuing increased workload and maintain manageable caseloads; 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.
- The Commissioning and Resources Division is forecasting an overspend of £8.0m of which £1.8m is attributable to growth in number of Independent Fostering Agency (IFA) placements, £3.9m residential and £2.3m on semi-independent placements. External placements increased by a net of 19 during September, which is 6 more than predicted (although overall numbers to date are still tracking the trend that is built into the forecasts). Residential placements alone increased by 4 more than expected in the month. Complex requirements also resulted in these individual placement costs ranging from £4,500 to £10,700 per week (compared with an average cost of £3,400). Similarly, there was also a £3,500 increase in the weekly cost of one

existing semi-independent spot placement due to increased staffing requirements. These costlier placements account for the increased forecast overspend.

9. As reported at the Finance and Major Contracts Management Committee on 16 September 2019, in addition to existing high-level budget control actions a more detailed Action and Recovery Plan has been prepared and will continue to be monitored over the coming months.
10. In addition to the cost pressures being experienced in the Children and Families Local Authority budget there is also significant pressure on the Authority's High Needs Block which is funded from Department for Education grant. Although this does not impact on local authority budgets, the increase in numbers of pupils requiring Special Educational Needs and Disabilities (SEND) support, alternative provision and a range of SEND services has an impact on transport costs and this is referred to in paragraph 15.

Adult Social Care & Public Health (forecast £2.8m underspend, 1.3% of annual budget)

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

- Older Adults across the County are forecasting an underspend of £0.2m with underspends on Direct Payments, Employee costs and over achievement of Joint Healthcare funding more than offsetting overspends on Long term Care and Homecare.
- Younger Adults across the County are forecast to be in line with budget.
- Other budgets are forecasting an overspend of £0.4m, mainly due to a forecast overspend on reablement.

12. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.9m made up of a net increase of £1.2m in Service User Contributions, due mainly to increases in Residential and Nursing income and in Personal Budget income, £0.9m additional savings being released from the closure of the Care and Support Centres due to fewer long-term residents. There is a forecast overspend of £0.2m in agency costs within the mosaic team due to delays in the systems review.

13. Public Health is currently forecasting an underspend of £1.1m, due to a contract variation on the Public Health Nursing 0-19 years contract which has reduced the spend in year by £1.4m offset by small increased spend on Sexual Health, Domestic Violence, Future in mind (FIM), Academic Resilience and Substance Abuse. Any net underspend will be added to reserves at year end and therefore reduce the net use of reserves.

14. Included within the forecast underspend are several grants totalling circa £1m from central government which have previously been received in the early summer, but which have not yet been paid. There is no indication that these amounts will not be received in 2019/20, however relevant contacts have been unable to confirm when these will be paid.

Communities & Place (forecast £2.2m overspend, 1.7% of annual budget)

15. Transport is forecasting an overspend of £1.8m. The major contributing variances are:

- There are additional SEND Home to School (HtS) costs of £1.1m caused by an increase in pupil numbers in line with expectations. The costs are SEND Pre-16 HtS transport £0.7m; SEND Post 16 Transport £0.2m; and EOTAS (education other than at school) of £0.2m. The SEND and HtS forecasts are based on current known pressures. A more accurate year-end forecast will be available once the new academic year intake of pupils and re-tendering of contracts is confirmed.
- There is an overspend on Mainstream Home to School transport of £0.4m. This is due to the increase in pupil numbers and capacity limits at the closest designated school, necessitating transport to alternative educational establishments either by bus or taxi.
- There is a forecast overspend on Concessionary Fares of £0.2m due to increased costs for a new service which has taken over commercial routes previously provided under a fixed rate deal by Trent Barton.
- There is a forecast overspend on Local Bus Services of £0.1m caused by ongoing pressure on provision of services, especially when commercial operators withdraw from a particular route and inflationary increases.

16. The Coroners budget is forecasting an overspend of £0.5m based on advice from Nottingham City Council (who manage the service) and is due to an anticipated increase in the annual cost of mortuary services.

17. Other budgets are forecasting an underspend of £0.1m, mainly due to staffing savings that have arisen due to the restructure of the Community Safety and the Community and Voluntary Sector Teams.

Trading Services

18. County Supplies are forecasting a deficit of £0.3m, this is attributed to trading activity prior to transfer to Hertfordshire County Council, including costs for legacy staffing, legal and IT costs. There is no reserve to fund this overspend.

19. Catering, Cleaning and Landscapes are forecasting a deficit prior to use of Reserves of £0.7m. This is to be funded partly from Traded Services Reserves of (£0.4m), the result being a forecast overspend of £0.3m. There is no reserve to fund this overspend.

20. Clayfields is currently forecasting a shortfall against its income target of £0.9m. This is due to a decision by the Children and Families senior leadership team to limit the number of beds available for occupancy because of staffing issues. These issues are currently being addressed and the income forecast assumes that all beds will be fully occupied by February 2020. The shortfall will be met from Clayfields trading reserve.

Central Items (forecast £8.4m underspend)

21. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
22. At the time of setting the 2019/20 budget, several funding allocations had not been announced, specifically regarding 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 £3.1m will be received in 2019/20.
23. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net overspend on interest of £0.5m. There is a net £0.6m underspend across the other central items.
24. Finance and Major Contracts Management Committees in September and October 2019 approved that the contingency budget would be increased by £1.0m and £4.2m respectively to reflect a reduction to a budget pressure in the Adult Social Care and Public Health Committee. It is forecast that this additional contingency budget will not be spent thereby resulting in a £5.2m underspend.
25. The Council's budget includes a main contingency budget of £4.6m to cover redundancy costs, slippage of savings and unforeseen events. Contingency requests approved previously total £1.1m. Table 1 assumes that the remaining contingency budget will be used for future requests.

Contingency Budget

26. A request for contingency of up to £70,000 has been submitted by Policy Committee (16 October 2019) for the 75th anniversary of VE Day commemorations planned and delivered in May 2020. In preparation of the events, an initial estimate of £20,000 will be allocated from contingency in 2019-20 and the rest in 2020-21. Suitable adjustments will be made at year-end to reflect the actual year-end position.

Progress with savings and risks to the forecast

27. Council on 28 February 2019 approved savings proposals of £15.2m for delivery in 2019/20, with further savings identified for the period 2020-23. 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. The latest report to Improvement and Change Sub-Committee on 23 September 2019 highlighted that the following savings projects are at risk – Development of Shared Lives, New Ways of Working for Carers and the Social Impact Bond. If any savings options are written off they will be reported to this Committee at the earliest opportunity.

Balance Sheet

General Fund Balance

28. Members approved the 2018/19 closing General Fund Balance of £24.1m at Full Council on 11 July 2019. The 2019/20 budget approves utilisation of £2.1m of balances which will result in a closing balance of £22.0m at the end of the current financial year. This is 4.5% of the budget requirement.

Capital Programme

29. Table 2 summarises changes in the gross Capital Programme for 2019/20 since approval of the original Programme in the Budget Report (Council 28/02/19):

Table 2 – Revised Capital Programme for 2019/20

	2019/20	
	£'000	£'000
Approved per Council (Budget Report 2019/20)		116,375
Variations funded from County Council Allocations :		
Net slippage from 2018/19 and financing adjustments	22,112	
		22,112
Variations funded from other sources :		
Net variation from 2018/19 and financing adjustments	(1,568)	
		(1,568)
Revised Gross Capital Programme		136,919

30. 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	51,568	14,912	31,516	(20,052)
Adult Social Care & Public Health	3,467	460	3,569	102
Communities & Place	62,148	15,611	58,520	(3,628)
Policy	19,300	3,538	15,942	(3,358)
Finance & Major Contracts Mngt	180	14	150	(30)
Personnel	256	-	249	(7)
Contingency	-	-	-	-
Total	136,919	34,535	109,946	(26,973)

Children & Young People's

31. In the Children and Young People's Committee an underspend of £20.0m has been identified. This mainly relates to underspends against the School Places Programme, the Orchard Special School and the Sharphill School.
32. In the School Places Programme an underspend of £10.6m has been identified. Although this programme is fully committed, significant sums have been committed to provide additional secondary school places in Gedling and West Bridgford. This funding is now not envisaged to be transferred to the relevant Academy Trusts until future financial years.
33. An in-year underspend of £7.0m has been identified against the Orchard Special School project. This underspend does not reflect any delay to the delivery of the new school and day centre but merely represents a more accurate forecast of cash flow for the programme.
34. An in-year underspend of £2.2m has been identified against the Sharphill School project. This reflects a re-profiling of the project now that the start on site date of October 2019 is known.

Communities & Place

35. In the Communities and Place Committee an underspend of £3.6m has been identified. This relates to underspends against the Harworth Access Link project, the Rushcliffe Recycling centre projects, Flood Alleviation and Drainage programme and the Local Improvement Scheme. These underspends are offset by acceleration of the Road Maintenance and Renewals programme.
36. This £2.6m Harworth Access Link externally funded project is not now expected to take place. Bassetlaw District Council are no longer planning on progressing this delivery and as such the funding for this project has never been passed on to Nottinghamshire County Council. It is proposed that this line in the capital programme will be removed as part of the 2020/21 Budget Report to Full Council in February.
37. On the Rushcliffe Recycling Centre project, slippage of £2.0m has been identified. This is because of issues encountered with identifying a suitable site for the location of the new facility.

It is proposed that the Communities and Place capital programme is varied to reflect the £2.0m slippage identified against the Rushcliffe Recycling Centre project.

38. An underspend of £0.5m has been identified against the Flood Alleviation and Drainage programme. This budget is profiled flexibly to enable our contributions to third parties to be made in line with scheme progress and approvals.

It is proposed that the Flood Alleviation and Drainage programme is varied to reflect the re-profiling of £0.5m funding into future financial years.

39. An underspend of £0.4m has been identified against the Local Improvement Scheme capital programme to reflect the allocation of funds that were approved at Communities and Place Committee in July 2019.

It is proposed that the Communities and Place capital programme is varied to reflect the £0.4m slippage identified against the Local Improvement Scheme.

40. A forecast overspend of £1.9m has been identified against the Road Maintenance and Renewals capital programme. The County Council funded element of this programme has progressed more quickly than anticipated in response to requests for additional works.

It is proposed that the Communities and Place capital programme is varied to reflect the £1.9m acceleration in the Roads Maintenance and Renewals programme

Policy Committee

41. In the Policy Committee capital programme an underspend of £3.4m has been identified. This relates to underspends identified against the Site Clearance programme and the Top Wighay Farm – Homes England project.
42. A review of the Site Clearance Programme has identified that £3.0m of works associated with this programme will now be undertaken in the next financial year, as the priority premises for demolition have now been identified.
43. Top Wighay Farm – Homes England – A review of this project has identified that £0.9m of costs will now be undertaken in the next financial year. This will not impact upon the ability of the Authority to claim the full Homes England capital grant by 31 March 2021.

It is proposed that the Policy Committee capital programme is varied to reflect the £0.9m slippage identified against the Top Wighay Farm – Home England scheme.

44. Also in the Policy Committee, a capital bid has been submitted to provide £1.9m to further the IT Equipment Replacement Programme which was introduced as part of the Smarter Ways of working programme. This programme enabled the replacement of a significant proportion of the desktop estate. This additional funding will enable all remaining devices to be replaced

It is proposed that the Policy Committee capital programme is varied to reflect the £1.9m funding required to enable all remaining devices to be replaced, funded from borrowing.

Financing the Approved Capital Programme

45. Table 4 summarises the financing of the overall approved Capital Programme for 2019/20.

Table 4 – Financing of the Approved Capital Programme for 2019/20

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	32,287	18,674	-	607	51,568
Adult Social Care & Public Health	2,271	1,196	-	-	3,467
Communities & Place	17,050	43,553	1,128	417	62,148
Policy	15,187	4,091	-	22	19,300
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	-	-	-	-	-
Total	67,051	67,514	1,128	1,226	136,919

46. It is anticipated that borrowing in 2019/20 will decrease by £0.8m from the forecast in the Budget Report 2019/20 (Council 28/02/2019). This decrease is primarily a consequence of:

- £22.1m of net slippage from 2018/19 to 2019/20 and financing adjustments funded by capital allocations.
- Net slippage from 2019/20 of £22.9m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

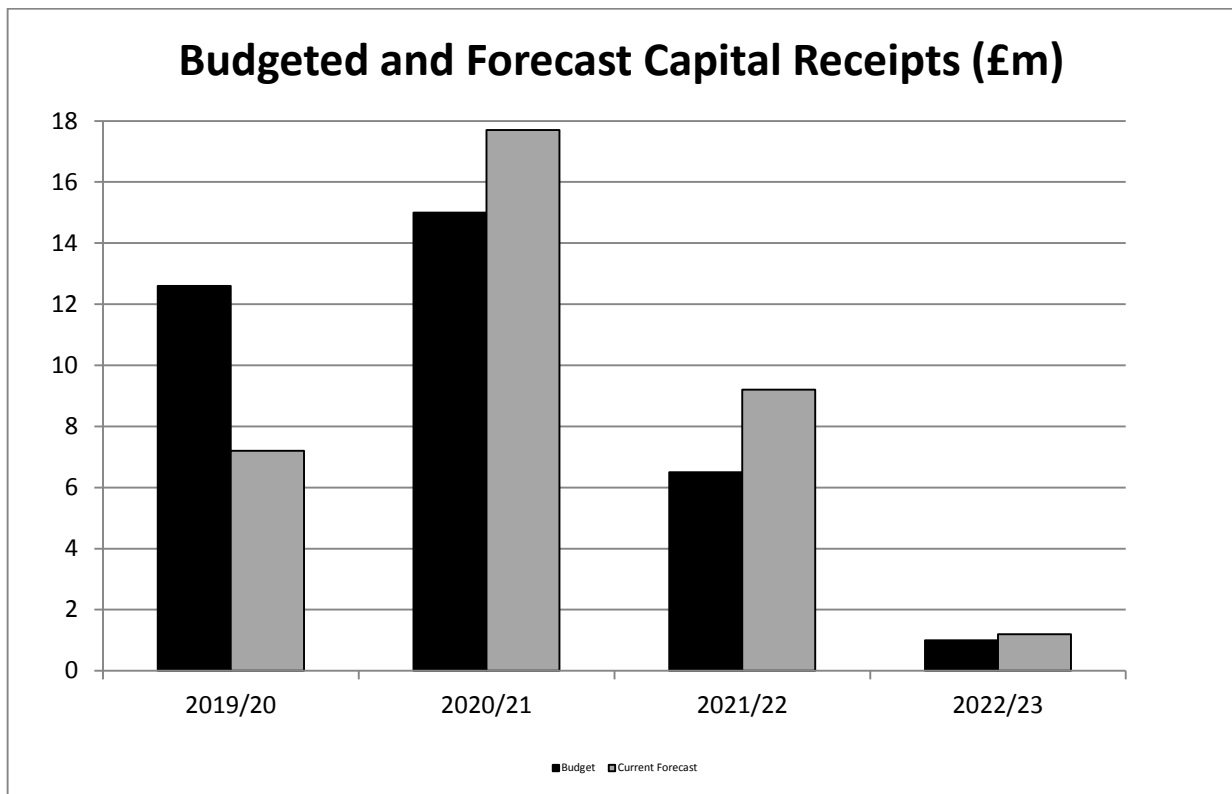
Prudential Indicator Monitoring

47. 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

48. 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.

49. The chart below shows the budgeted and forecast capital receipts for the four years to 2022/23.



50. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2019/20 (Council 28/02/2019). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

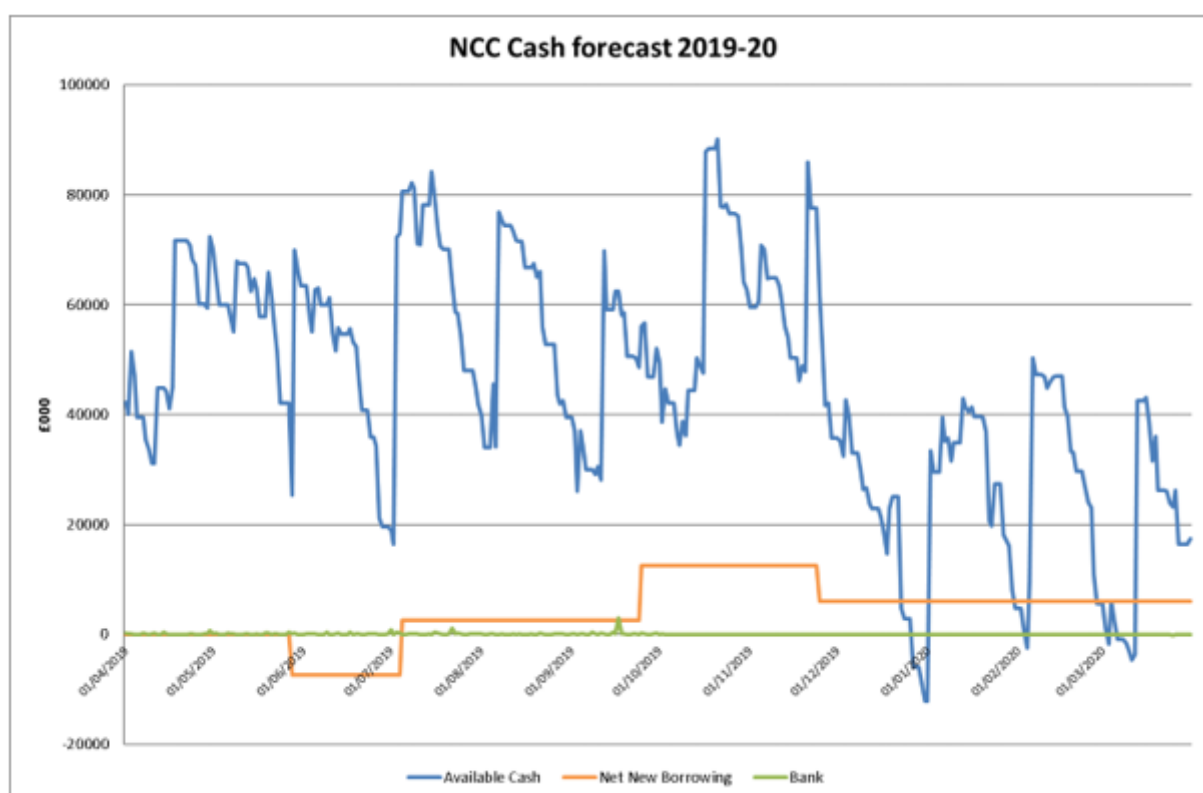
51. The capital receipt forecast for 2019/20 is £7.2m. To date in 2019/20, capital receipts totalling £0.2m have been received.

52. 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.

53. Current Council policy (Budget Report 2019/20) is to use the first £4.9m 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

54. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group.
55. The Cash forecast chart below shows the current cash flow position for the financial year 2019/20. 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.



56. The chart above gives the following information:

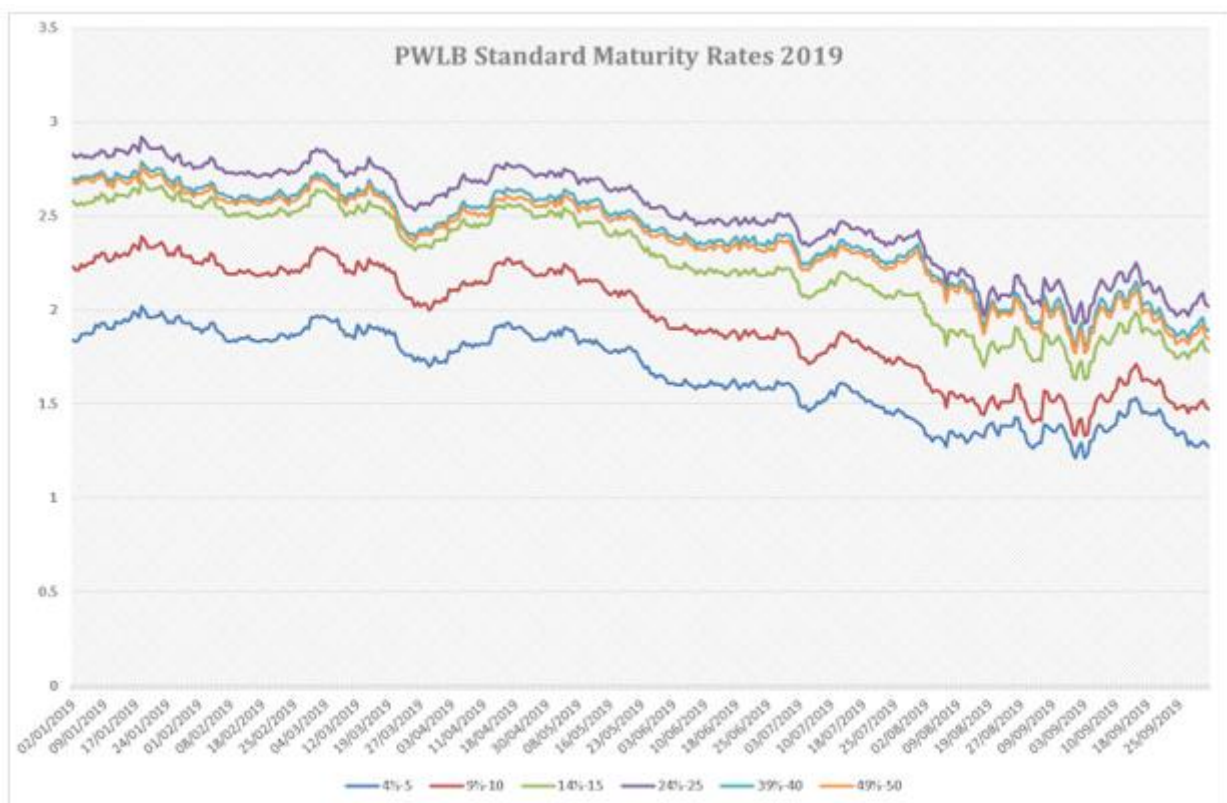
Available cash	Surplus cash (invested in call accounts or money market funds) or a shortfall of cash indicating a need to borrow.
Net new borrowing	New loans taken during the year net of principal repayments on existing borrowing.
Bank	That element of surplus cash held in the Council's Barclays Bank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

57. The Treasury Management Strategy for 2019/20 identified a need to borrow approximately £7m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. After the 2018/19 accounts closure this estimate has been

revised to £30m (and will be revised periodically throughout the year). £10m of this was borrowed from PWLB in July at 2.05%, and a further £10m in September at 1.70%.

58. 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 is still able to access 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 2019 so far.

59. It should be noted that on 9 October the PWLB announced that from that day it would be applying a rate increase of 100 basis points relative to gilts. Borrowing costs for all local authorities will therefore increase by £10,000/year for every £1m borrowed. Currently the Council expects to borrow £90m by the end of 2022/23, so the full year effect of this change will be a £900,000 increase in annual spend. However, it may be possible for the Council to obtain lower rates from the financial markets, and this too will be closely monitored.



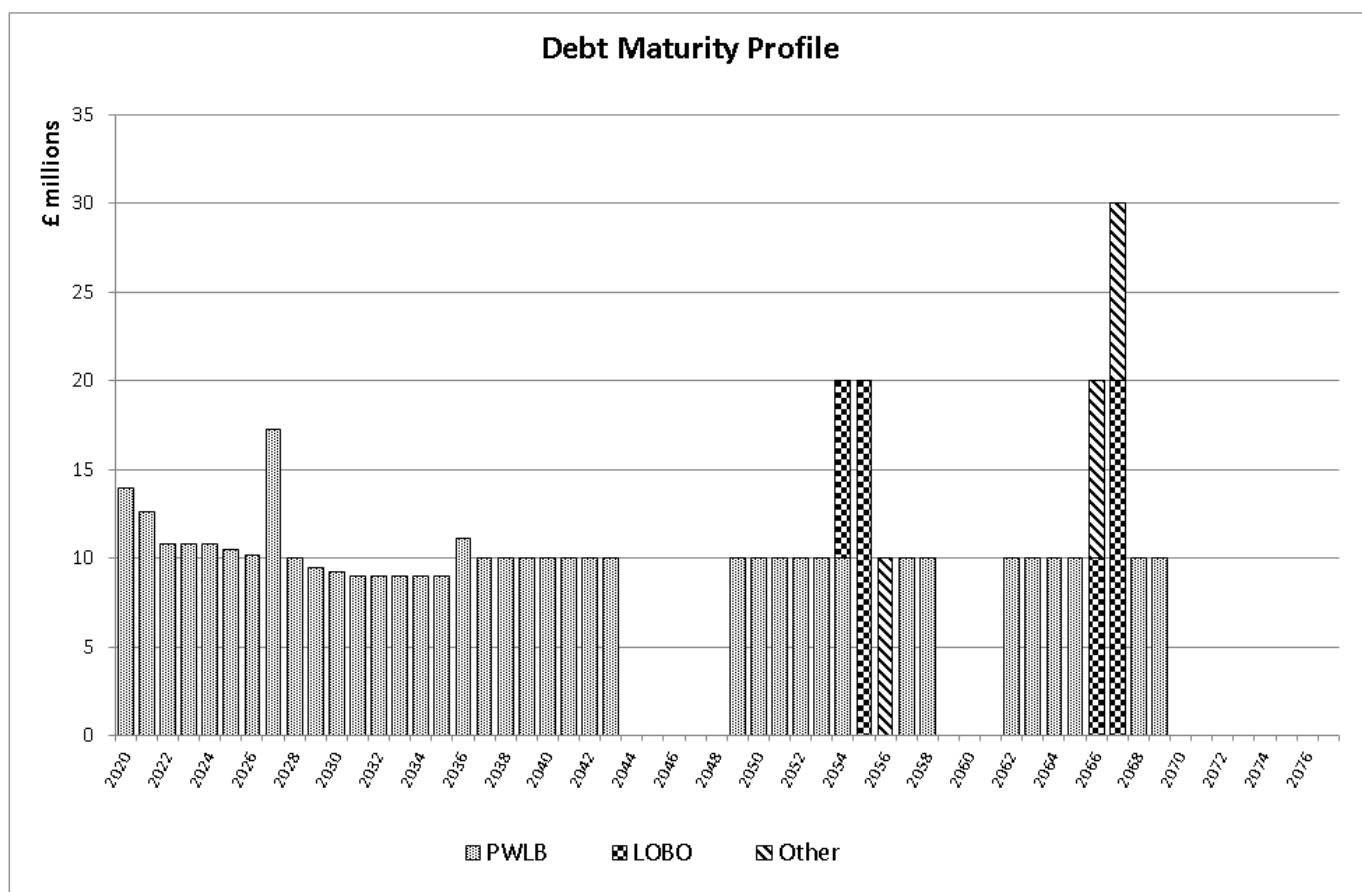
60. Borrowing decisions will take account of a number of factors including:

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

61. 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.

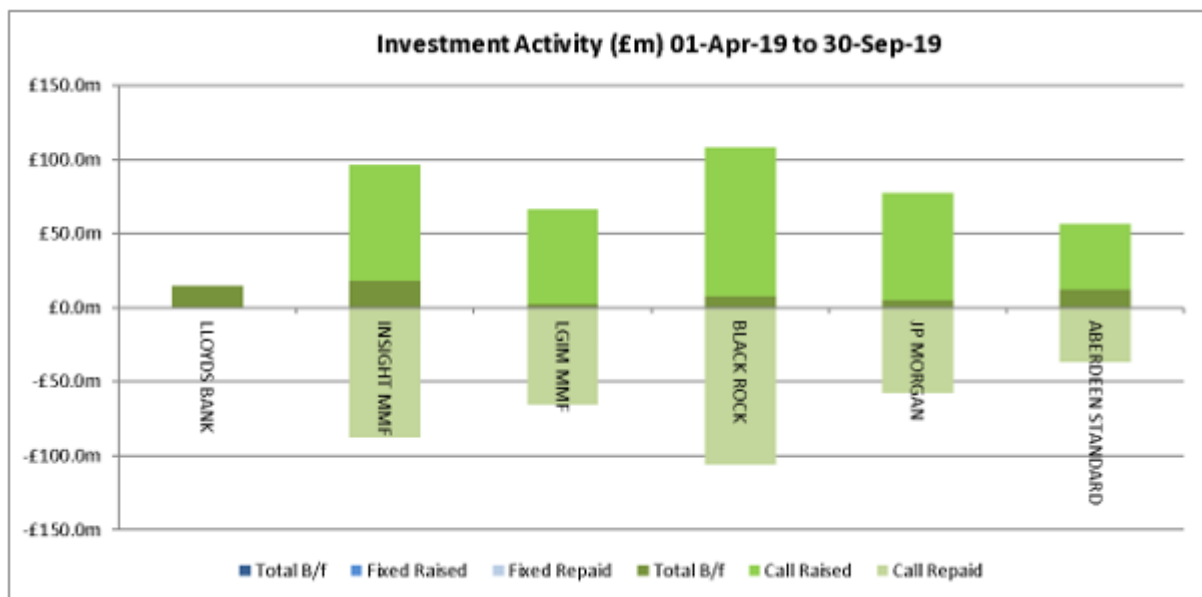
62. Long-term borrowing was also obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken 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.

63. The 'other' loans shown in the chart consists of LOBO loans from Barclays Bank that were converted to standard fixed-term loans in 2016.



64. The investment activity for 2019/20 is summarised in the chart and table below. Outstanding investment balances totalled approximately £60m at the start of the year and £67m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Lloyds Bank	15,000	-	-	15,000
Insight MMF	18,100	78,100	(87,600)	8,600
LGIM MMF	2,200	64,200	(65,400)	1,000
Black Rock	7,600	100,650	(105,850)	2,400
JP Morgan	4,900	72,400	(57,300)	20,000
Aberdeen Standard	12,500	44,100	(36,600)	20,000
Total	60,300	359,450	(352,750)	67,000



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

Statutory and Policy Implications

66. 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 approve the 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:

Keith Palframan - Group Manager, Financial Services

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Constitutional Comments (KK 31/10/2019)

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

Financial Comments (GB 23/10/2019)

68. 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

