

**REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND  
IMPROVEMENT****FINANCIAL MONITORING REPORT: PERIOD 2 2023/2024****Purpose of the Report**

1. To provide the Cabinet with a summary of the budget monitoring position as at Period 2.

**Information and Advice****Background**

2. The Council approved the 2023/24 budget at its meeting on 9 February 2023. As with previous financial years, progress updates will be closely monitored and reported to management, the Cabinet Member for Finance or Cabinet each month.

**Summary Revenue Position**

3. The table below summarises the revenue budgets for each Portfolio for the forthcoming financial year. A balanced position is currently projected against the budget approved by Full Council in February 2023. There remain significant levels of uncertainty and 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**

Portfolio	Annual Budget £'000	Actual to Period 2 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000	Percentage Variance to Annual Budget
Children & Young People	180,888	23,709	181,062	174	0.10%
Adult Social Care & Public Health	263,002	19,657	262,623	(379)	(0.14%)
Transport & Environment	119,931	2,807	124,362	4,431	3.69%
Communities	19,475	356	20,054	579	2.97%
Economic Development & Asset Management	26,238	6,428	25,882	(356)	(1.36%)
Deputy Leader & Transformation	4,798	709	4,478	(320)	(6.67%)
Finance	18,820	2,328	18,622	(198)	(1.05%)
Personnel	27,471	4,337	27,495	24	0.09%
<b>Net Committee (under)/overspend</b>	<b>660,623</b>	<b>60,331</b>	<b>664,578</b>	<b>3,955</b>	
Central items	(58,379)	(7,761)	(62,379)	(4,000)	
Schools Expenditure	10	-	10	-	
Contribution to/(from) Traders	309	(20)	2,403	2,094	
<b>Forecast prior to use of reserves</b>	<b>602,563</b>	<b>52,550</b>	<b>604,612</b>	<b>2,049</b>	
Transfer to / (from) Corporate Reserves	(4,340)	-	(6,340)	(2,000)	
Transfer to / (from) Departmental Reserves	(6,592)	94	(6,606)	(14)	
Transfer to / (from) General Fund	-	-	-	-	
<b>Net County Council Budget Requirement</b>	<b>591,631</b>	<b>52,644</b>	<b>591,666</b>	<b>35</b>	

## Portfolio Variations

### Transport & Environment (£4.4m overspend, 3.69% of net portfolio budget)

- The Transport and Environment portfolio is currently reporting a forecast overspend of £4.4m. This is mainly due to overspends in the Home to School and SEND Transport budgets.
- There is a forecast overspend of £1.6m against Home to School Transport budgets. This is due primarily to a forecast overspend of £1.4m on mainstream activity caused by significantly increased demand for the service as the number of pupils travelling has risen along with the distances they need to travel. In addition, the service has experienced increased contract inflation over and above that anticipated in the budget.
- There is also a forecast overspend of £2.8m on SEND Transport. SEND pre-16 Transport is forecast to be £2.5m above budget after allowing for the award of a 2% inflationary increase to providers. This area has seen significant growth in pupil numbers resulting from Education Healthcare Plans and the number of medical needs which are now included in the assessment. Post-16 Transport is forecast to be £0.4m over budget due to similar increases in growth and support for young people.

### **Communities (£0.6m overspend, 2.97% of net portfolio budget)**

7. The Communities portfolio is currently reporting a forecast overspend of £0.6m. This is mainly due to an overspend of £0.4m on the County Enterprise Food budget as a result of increased expenditure on food, equipment and transport costs alongside under-recovery of income. This position will be further reviewed once the proposed Charging Strategy report to the Cabinet Member for Communities has been considered. In addition, a £0.2m forecast overspend against the Libraries and Learning budget has been reported.

### **Traded Services (£2.1m overspend)**

8. As set out in the Period 1 Financial Monitoring Report, traded services were adversely affected in 2022/23 by the impact of the pay award, the revised living wage and by significant inflation, particularly on food costs. These pressures continue into 2023/24 and a forecast overspend of £2.1m is currently being reported against the Schools Catering Service. The price charged per meal is currently insufficient to recover full costs. This budget position will be further reviewed once the proposed Charging Strategy report to the Cabinet Member for Communities has been considered. It should be noted that this position could worsen depending on inflation and the final 2023/24 pay award.
9. Whilst the Schools Catering Service aims to mitigate inflationary pressures and moves towards a balanced budget, it is unlikely to recover all indirect expenditure which will result in some costs having to be met by the Council. A Traders Resilience Reserve has been established to mitigate these pressures and is available to meet these expected costs.

### **Central Items (£4.0m underspend)**

10. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
11. Interest projections (both payable and receivable) fluctuate depending on expectations in relation to future rates and anticipated slippage on the capital programme. The current forecast prudently suggests a net underspend on interest of £4.0m. However, latest Treasury Management insight suggests that, with the prevailing inflationary economic climate, further increases in interest rates are likely which will in turn generate further returns on deposits. As such, there is potential for this underspend to increase as we progress through the financial year.
12. The Council's budget includes a base contingency budget of £5.0m to cover redundancy costs, slippage of savings and other potential unforeseen events. Also, further demand and inflationary pressures have been identified that have a degree of uncertainty with regard to likelihood, value and profiling. Foremost amongst these items is the unsettled Pay Award for 2023/24 and an additional provision of £11.0m has been made within contingency to fund these pressures. The Cabinet, Cabinet Member for Finance or the Section 151 Officer are required to approve the release of contingency funds.

## **Requests for Contingency**

13. There has already been a call on the 2023/24 contingency budget from requests that have been approved which total £0.3m. In addition, further requests have been approved by the Section 151 Officer. These are as follows: -

- Inspire – Contract variation pressure – Communities Portfolio - £446,000
- Strategic Commissioning Framework Training – Finance Portfolio - £50,000
- Legal Staffing – Personnel Portfolio - £64,000

Table 1 assumes that the remaining contingency budget will be utilised in full for future requests.

## **Corporate Reserves (£2.0m underspend)**

14. The annual budget approved in February 2023 included the use of £4.3m of Corporate reserves. The Management Accounts report presented to this meeting outlined the creation of a Traders Resilience Reserve totalling £4.0m to mitigate the expected cost pressures in both this year and future years as work progresses on reviewing traded services. Based on the latest traded services projections detailed above, it is forecast that £2.0m of this reserve will be utilised in 2023/24.

## **Progress with Savings**

15. Council on 9 February 2023 approved savings of £8.7m for delivery in 2023/24, with further savings identified for the period 2024-26. The progress of the Council's current savings programme, alongside mitigations against pressures, will be monitored regularly. Officers will continue to monitor the deliverability of individual schemes and targets as part of the budget monitoring process and any variation to the achievability of savings will be reported for approval as part of monthly financial monitoring reports.

## **Main Areas of Risk within the 2023/24 budget**

16. There are two areas that have been highlighted at this early stage of the 2023/24 financial year as risks to the budget as follows:-

- Traded Services – Traded services were impacted by the impact of the 2022/23 pay award, the revised living wage and by significant inflation in the later part of the year, particularly on food costs. The Council will continue to support these services as the expected pressures continue. A Traders Resilience Reserve has been set up to help mitigate the expected increase in traded service costs in both this year and future years as work progresses on reviewing the services.
- Home to School / SEND Transport – Both areas saw increases in demand for their services in 2022/23 as well as increased contract price inflation over and above that anticipated in the budget. It is expected that these services will come under pressure once again in 2023/24.

17. To mitigate the impact of overspends on the two areas highlighted above it is expected that significant underspends will be realised on both interest payable and interest receivable. As

set out in the 2022/23 Annual Budget Report, a decision was taken to limit borrowing to what was already approved in the capital programme as well as using capital receipts to repay prior year debt. This, alongside the maximised use of capital grants, has resulted in a forecast saving against interest payable budgets. In addition, the Council is receiving a higher rate of interest on short term investments than budgeted.

18. As reported previously, there are further significant risks and uncertainties associated with the current environment that local authorities are operating within, both in the short and medium terms. The main financial risks faced by the Council are as follows:-

- The cost pressures factored into the Council's budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to increased demand for Adults and Children's Social Care Services, Transport Services, the impact of the National Living Wage and agreement of the pay award.
- The COVID19 pandemic coupled with the UK leaving the EU has had a significant impact on the availability of staffing resource particularly in the social care sector as recruiting and retaining care staff across social care services remains difficult. Staff shortages have also been experienced in catering, facilities management and waste services.
- Whilst the Council is somewhat protected from immediate inflation on direct energy costs through the advanced purchasing arrangement with Crown Commercial Services (CCS), wider inflationary pressures driven by energy costs could have a detrimental impact across a whole range of service areas.
- Fuel prices are volatile with potential for contracts to become unaffordable for the council or unviable for some service providers.
- The 2023/24 Settlement reflected a one-year settlement only. As a result, estimated future increases in Central Government grants that are set out in the MTFS may not be in line with future announcements.

## Balance Sheet

### General Fund Balance

19. Cabinet will be asked to approve the 2022/23 closing General Fund Balance of £36.8m on 20 July 2023. This balance represents 6.2% of the net budget requirement.

## Capital Programme

20. Table 2 summarises changes to the gross Capital Programme for 2023/24 since approval of the original Programme in the Budget Report (Council 09/02/23):

**Table 2 – Revised Capital Programme for 2023/24**

	2023/24	
	£'000	£'000
Approved per Council (Budget Report 2023/24)		156,217
Variations funded from County Council Allocations : Net slippage from 2022/23 and financing adjustments	19,293	
		19,293
Variations funded from other sources : Net variation from 2022/23 and financing adjustments	(2,797)	
		(2,797)
<b>Revised Gross Capital Programme</b>		<b>172,713</b>

21. Table 3 shows actual capital expenditure to date against the forecast out-turn at Period 2.

Portfolio	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	64,480	7,333	64,480	-
Adult Social Care & Public Health	141	-	141	-
Transport & Environment	70,247	967	66,833	(3,414)
Communities	3,125	193	3,125	-
Economic Devt & Asset Mngt	19,089	970	19,089	-
Finance	12,841	527	12,841	-
Personnel	84	-	42	(42)
Contingency	2,706	-	2,706	-
<b>Total</b>	<b>172,713</b>	<b>9,990</b>	<b>169,257</b>	<b>(3,456)</b>

## **Transport & Environment**

22. In the Transport and Environment portfolio capital programme, a forecast underspend of £3.4m has been identified. This is mainly due to reported slippage of £3.0m against the Transforming Cities Fund programme where project approval and potential design works are still required prior to the delivery stage of the programme. In addition, £0.4m of Trees for Climate funding has been re-profiled into the next financial year.

## **Variations to the Capital Programme**

23. Under the Council's governance arrangements, the Section 151 officer has approved a number of variations to the capital programme as set out in the following paragraphs.

## **Children & Young People (CYPS)**

24. **School Places Programme** - Section 106 contributions totalling £1.3m have been secured by the Authority to fund a capital project to create additional pupil places at Samuel Barlow Primary Academy. The CYPS portfolio capital programme has been varied to reflect the £1.3m Section 106 contributions secured.
25. **School Places Programme** – Section 106 contributions totalling £1.7m have been secured by the Authority to part-fund a capital project to create additional pupil places at South Wolds Academy. The CYPS portfolio capital programme has been varied to reflect the £1.7m S106 contributions secured.
26. **School Places Project** - Section 106 contributions totalling £3.0m have been secured by the Authority to part-fund a capital project to create additional pupil places at Gateford Park Primary School. The CYPS portfolio capital programme has been varied to reflect the £3.0m S106 contributions secured.

## **Transport and Environment (T&E)**

27. **Externally Funded Bus Improvement Programme** – The Authority has been successful in securing £201k of Section 106 contributions to carry out further improvements to the Bus Service. It is proposed that the T&E portfolio capital programme is varied by £201k to reflect the additional external funding secured.

## **Communities**

28. **Stapleford Library** – In January 2023, the Cabinet Member for EDAM, approved the acceptance of a £0.7m Town Deal bid to fund improvement works at Stapleford library. The Communities portfolio capital programme has been varied to reflect the £0.7m grant award secured.

## **Economic Development & Asset Management (EDAM)**

29. **Building Works** – A £0.1m revenue contribution to capital outlay adjustment was agreed at the end of the 2022/23 financial year to fund the completion of adaptation works at Basford. The EDAM portfolio capital programme has been varied by £0.1m to reflect the completion of adaptations works at Basford Registration office, funded from reserves.

## Financing of the Approved Capital Programme

30. Table 4 summarises the financing of the overall approved capital programme for 2023/24

**Table 4 – Financing of the Approved Capital Programme for 2023/24**

Portfolio	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	10,140	54,090	200	50	64,480
Adult Social Care & Public Health	43	-	-	98	141
Transport & Environment	18,023	46,566	414	5,244	70,247
Communities	2,928	144	20	33	3,125
Economic Devt & Asset Mngt	15,816	2,947	-	326	19,089
Finance	8,564	-	-	4,277	12,841
Personnel	84	-	-	-	84
Contingency	2,706	-	-	-	2,706
<b>Total</b>	<b>58,304</b>	<b>103,747</b>	<b>634</b>	<b>10,028</b>	<b>172,713</b>

31. It is anticipated that borrowing in 2023/24 will increase by £19.3m from the forecast in the Budget Report 2023/24 (Council 09/02/23). This increase is as a consequence of £19.3m of net slippage of capita allocations from 2022/23 to 2023/24.

## Prudential Indicator Monitoring

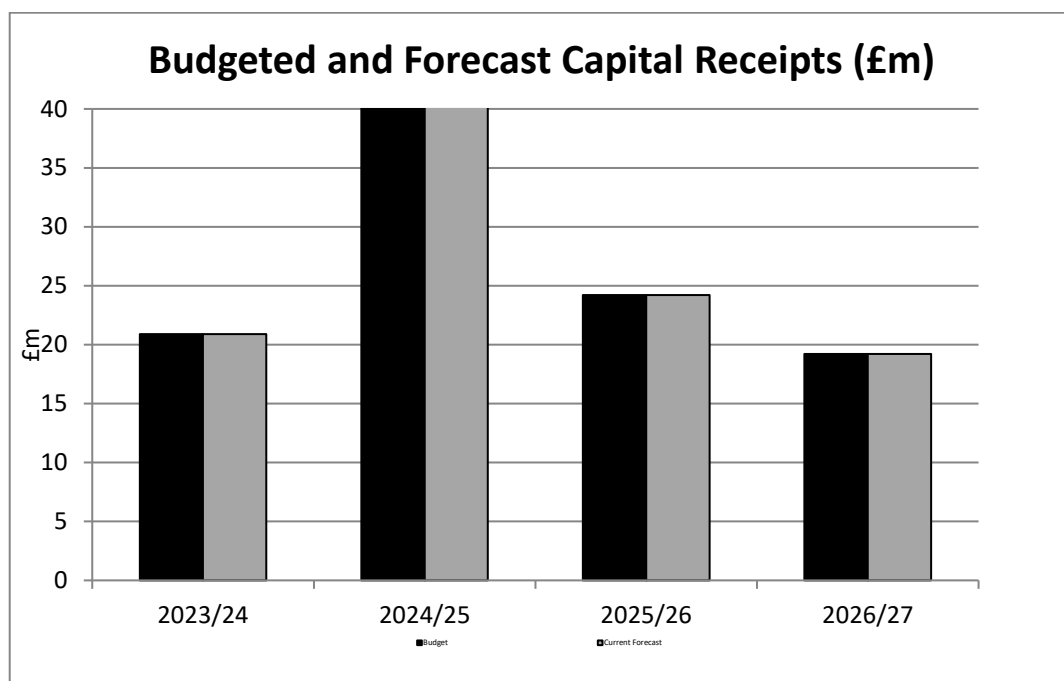
32. Performance against the Council's Prudential Indicators is regularly monitored to ensure that external debt remains within both the operational boundary and the authorised limit.

## Capital Receipts Monitoring

33. 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.



34. The chart below shows the budgeted and forecast capital receipts for the four years to 2026/27.



35. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2023/24 (Council 09/02/2023). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

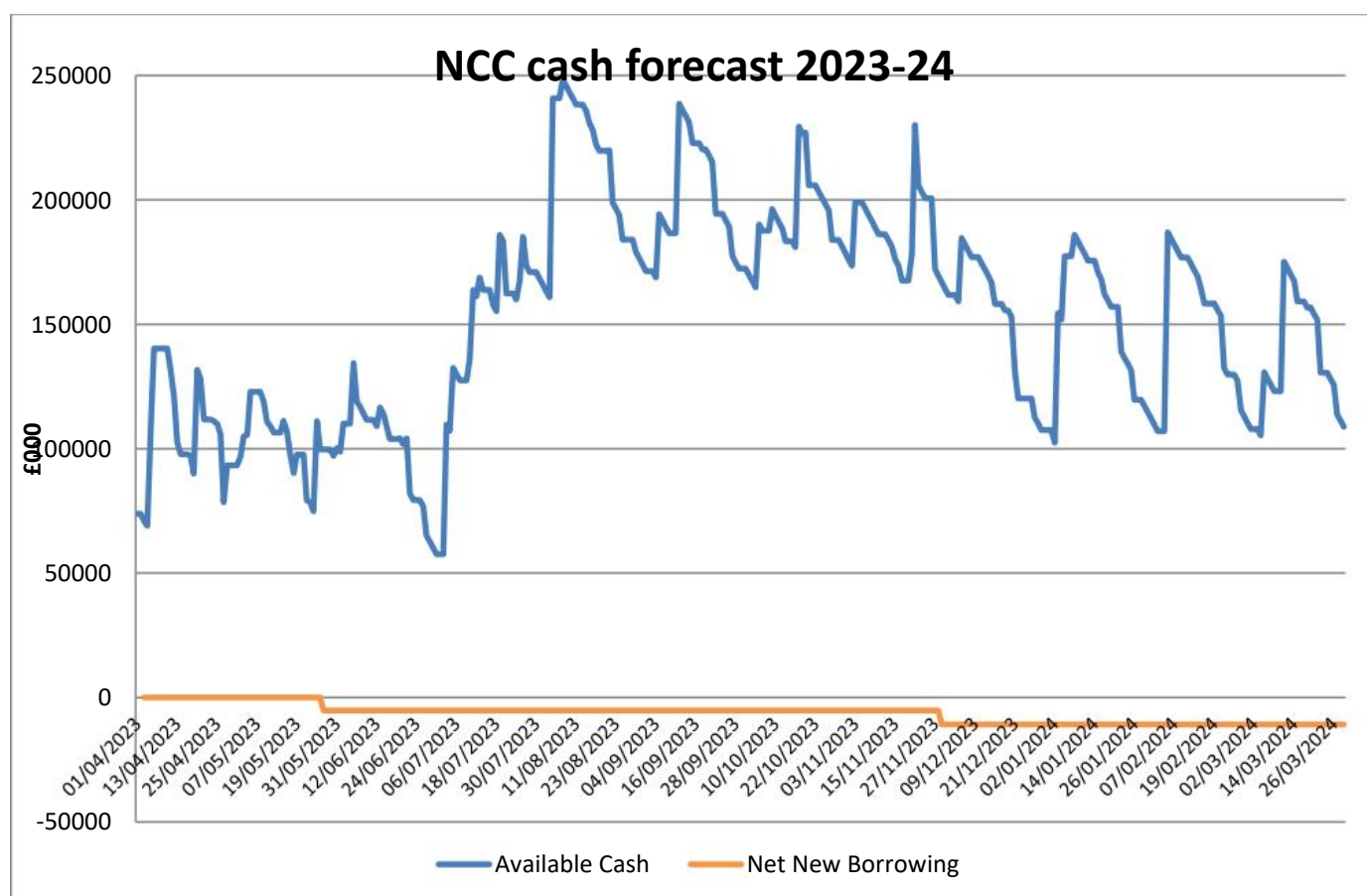
36. The capital receipt forecast for 2023/24 is £20.8m. No capital receipts have been received to date in 2023/24.

37. 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.

38. Current Council policy (Budget Report 2023/24), to minimise the impact of the cost of borrowing on the revenue budget, is to use capital receipts to the value approved as part of the 2021/22 Budget Report to set against previous years’ borrowing thereby reducing the impact of the Minimum Revenue Provision on the revenue accounts. This will enable excess capital receipts to be used to fund future additional capital investment.

## Treasury Management

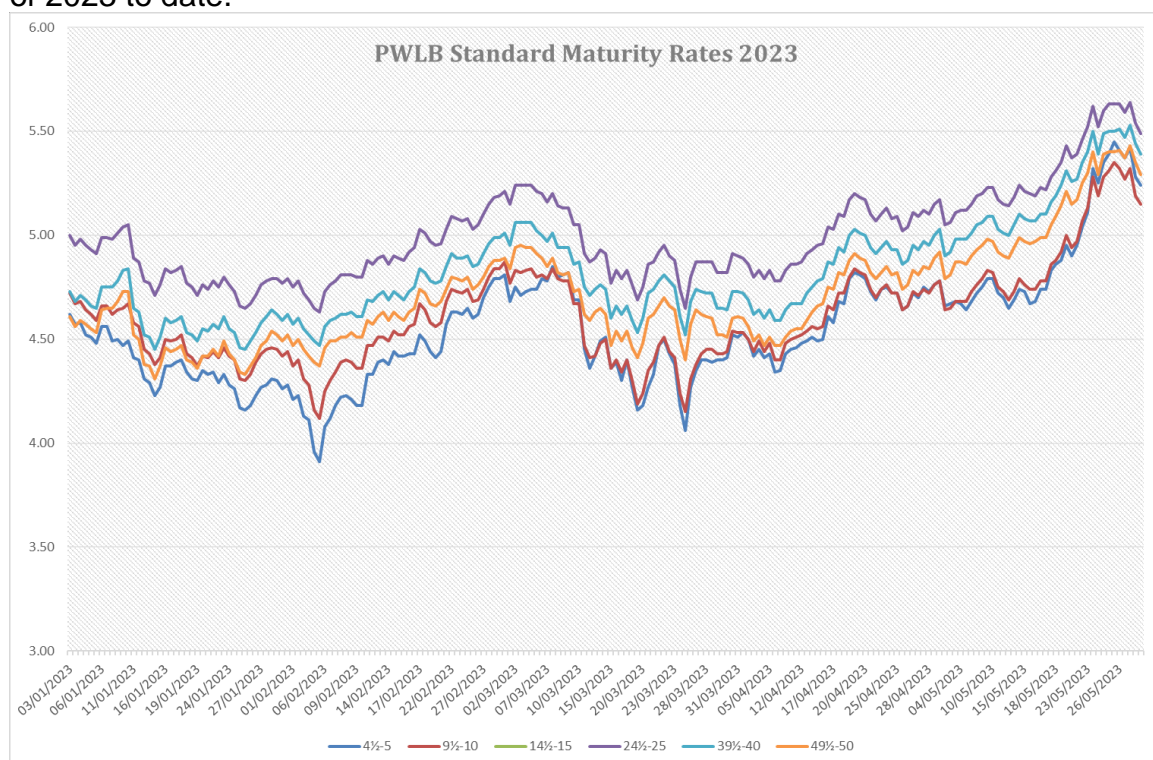
39. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group (TMG).
40. The cash forecast chart below shows the estimated cash flow position for the financial year 2023/24. 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. Also, expected borrowing in support of capital expenditure is not included in the forecast. The chart thereby helps highlight the points in the year when such borrowing will be necessary, and it is monitored daily so that treasury management staff can act comfortably in advance of the cash being required, the aim being to maintain adequate but not excessive liquidity.



41. The chart above gives the following information:

<b>Available cash</b>	Surplus cash (invested in call accounts, money market funds, or held at Barclays Bank) or a shortfall of cash indicating a need to borrow.
<b>Net new borrowing</b>	New loans taken during the year net of principal repayments on existing borrowing.

42. The Treasury Management Strategy for 2023/24 identified no need to borrow over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. This is because the Council intends to make temporary use of internal borrowing to finance its capital expenditure, so will borrow at a later date. 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, although recent rate rises have somewhat nullified the benefit of this. The chart below shows the movement in standard PWLB maturity rates over the course of 2023 to date.



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

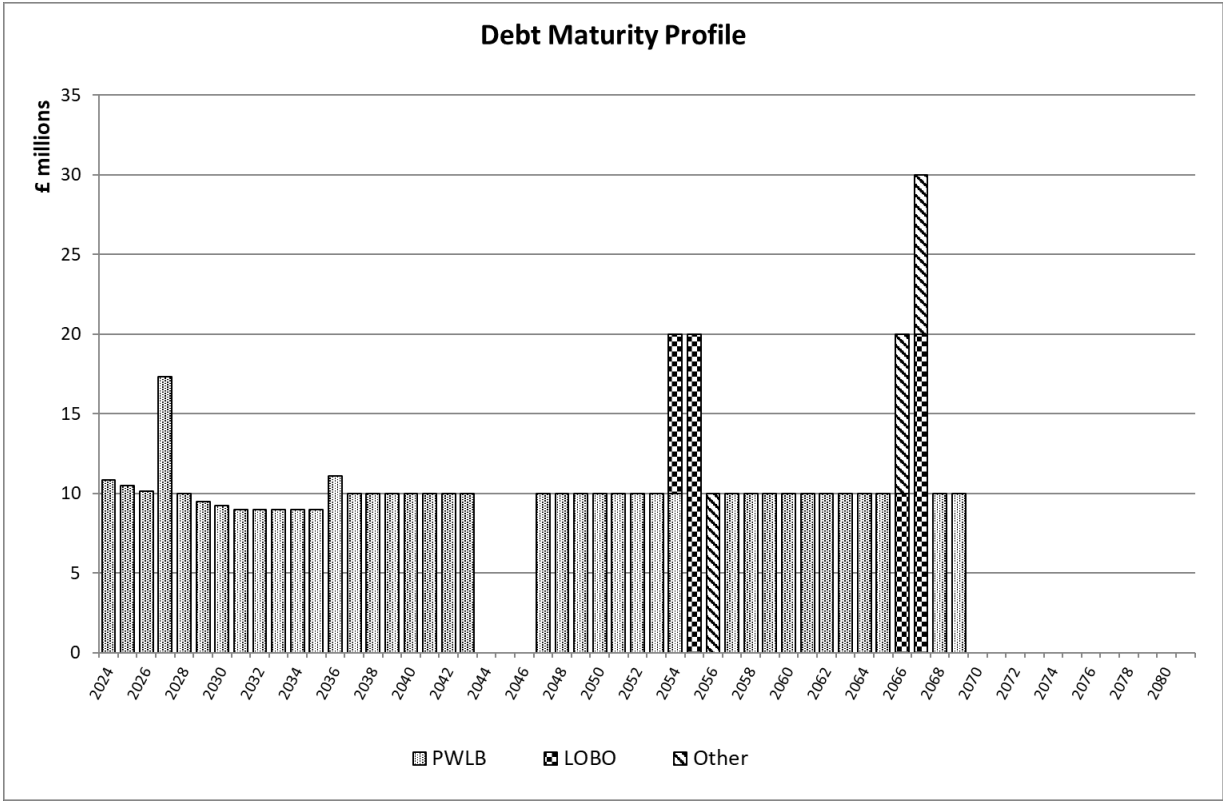
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium-term financial strategy
- the treasury management prudential indicators.

44. 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.

45. 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,

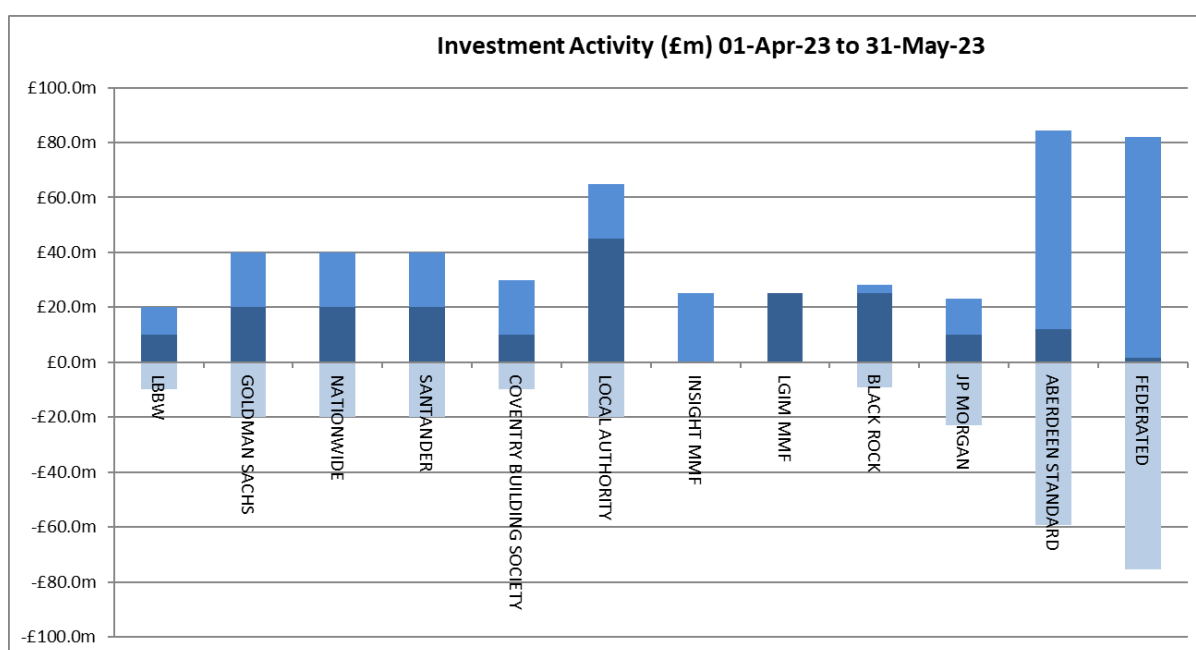
LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

46. The ‘other’ loans shown in the chart consists of fixed-term loans from Barclays Bank.



47. The investment activity for 2023/24 to date is summarised in the chart and table below. Outstanding investment balances totalled approximately £199m at the start of the year and £235m at the end of May.

	Total B/f £000	Total Raised £000	Total Repaid £000	Outstanding £000
LBBW	10,000	10,000	-10,000	10,000
GOLDMAN SACHS	20,000	20,000	-20,000	20,000
NATIONWIDE	20,000	20,000	-20,000	20,000
SANTANDER	20,000	20,000	-20,000	20,000
COVENTRY BUILDING SOCIETY	10,000	20,000	-10,000	20,000
LOCAL AUTHORITY	45,000	20,000	-20,000	45,000
INSIGHT MMF	0	25,000	0	25,000
LGIM MMF	25,000	0	0	25,000
BLACK ROCK	25,000	3,100	-9,250	18,850
JP MORGAN	10,050	13,050	-23,100	0
ABERDEEN STANDARD	12,150	72,150	-59,300	25,000
FEDERATED	1,600	80,250	-75,550	6,300
	198,800	303,550	-267,200	235,150



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

## Statutory and Policy Implications

49. 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.

## **Other Options Considered**

50. To informally brief the Cabinet Member. By noting the latest position as a formal decision, this enables the Council to be more transparent and for all County Councillors and the public to be kept informed of the latest position in a timely manner.

## **Reasons for Recommendations**

51. To enable Cabinet to be fully informed of the latest position with the Council's budget and for that information to be made publicly available.

## **RECOMMENDATIONS**

52. For the Cabinet to:-

- 1) Note the individual Portfolio revenue budgets for 2023/24.
- 2) Note the summary of capital expenditure to date, year-end forecasts and variations to the capital programme
- 3) To note the contingency requests approved by the Section 151 Officer
- 4) To note 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 Strategy and Compliance

Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

## **Constitutional Comments (SSR 29/06/2023)**

53. This report is for noting only and so no decision is being sought.

## **Financial Comments (GB 21/06/2023)**

54. 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'

