

12 October 2015**Agenda Item: 4****REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT
FINANCIAL MONITORING REPORT: PERIOD 5 2015/2016****Purpose of the Report**

1. To provide a summary of the revenue position of the County Council for the year to date with year-end forecasts.
2. Request approval for an additional contingency request.
3. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
4. To inform Members of the Council's Balance Sheet transactions.

Information and Advice**Background**

5. The Council approved the 2015/16 budget at its meeting on 26 February 2015. As with previous financial years, progress updates will be closely monitored and reported to both management and Committee on a monthly basis.

Summary Revenue Position

6. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. An overspend of £1.3m is currently predicted. In light of the Council's continuing financial challenges, the key message to effectively manage budgets and wherever possible deliver in-year savings is being reinforced.

Table 1 – Revenue Expenditure and Forecasts as at Period 5

Forecast Variance as at Period 4 £'000	Committee	Annual Budget £'000	Actual to Period 5 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
3,596	Children & Young People	136,428	48,046	139,777	3,349
(1,720)	Adult Social Care & Health	207,872	68,176	204,898	(2,974)
655	Transport & Highways	58,312	15,258	58,746	434
4	Environment & Sustainability	30,813	9,260	30,561	(252)
239	Community Safety	2,993	319	3,228	235
(67)	Culture	13,264	6,695	13,220	(44)
(480)	Policy	25,388	9,386	25,104	(284)
(820)	Finance & Property	33,662	16,317	32,902	(760)
(186)	Personnel	3,219	886	3,052	(167)
12	Economic Development	1,527	163	1,530	3
29	Public Health *	5,217	1,286	4,671	(546)
1,262	Net Committee (under)/overspend	518,695	175,792	517,689	(1,006)
-	- Central items	(4,585)	165	(4,585)	-
-	- Schools Expenditure	86	86	86	-
18	Contribution to/(from) Traders	(520)	2,333	(502)	18
1,280	Forecast prior to use of reserves	513,676	178,376	512,688	(988)
-	- Transfer to / (from) Corporate Reserves	(6,363)	-	(6,363)	-
930	- Transfer to / (from) Departmental Reserves	(14,050)	-	(11,783)	2,267
-	- Transfer to / (from) General Fund	(6,038)	-	(6,038)	-
2,210	Net County Council Budget Requirement	487,225	178,376	488,504	1,279

* The actual net expenditure for Public Health is skewed depending upon the timing of the receipt of grant.

Committee and Central Items

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

Children & Young People (forecast £3.3m overspend)

8. The underlying overspend is £2.8m (after planned use of grant reserves and excluding redundancy costs). This is a decrease of £0.3m compared with period 4 mainly due to a decrease in the number of residential placements, Independent Fostering Agency placements and semi-independent living placements expected between now and the end of the financial year. There is a range of mitigating actions being developed and pursued which has included a letter from the Acting Corporate Director to restrict all non-essential spend and to adhere to vacancy control procedures as part of budget control measures. All agency posts require the explicit approval of the Service Director Children's Social Care. There is already a base budget review in process for high spending services within the department and meetings in place to identify other options.

9. The Children's Social Care Division is reporting a forecast net overspend of £2.9m (£2.6m after the planned use of grant reserves), the major contributing variances being:

- £1.6m overspend on staffing due to the continued use of agency staff to cover vacancies in social work and safeguarding teams. This is an increase of £0.1m due to extension of agency contracts
- £0.4m overspend on Provider Services (Looked After Children placements) due to the difficulty in moving children to lower cost in-house placements. This is a decrease of £0.3m due to a decrease in all external placements. There is also a continuing overspend in the Fostering Service due to the growth of Fostering Futures carers
- £0.1m overspend on transport, as demand continues to exceed the budget
- £0.1m underspend on Children's Disability Service (CDS) Residential Homes due to £0.3m vacancies offset by a £0.2m overspend for the under achievement of the income target
- £0.2m overspend on the rest of CDS mainly due to flexible and targeted short breaks and associated childcare
- £0.4m overspend on the social work practice pilot which includes a forecast extension to the original timescale of 6 months to 31 March 2016. A bid has been made for £0.2m from the Strategic Development Fund towards this
- £0.1m overspend on Child Arrangement and Special Guardianship Orders due to continuing growth and the longevity of this financial commitment
- £0.2m net underspend on all other budgets mainly due to vacancies within the Family Assessment and Family Resource Service

10. The Education Standards and Inclusion Division is reporting a forecast overspend of £0.6m, mainly due to an overspend on Special Educational Needs and Disability Policy and Provision. There is a continued demand for home to school transport in excess of the budget.

11. The Youth, Families and Culture Division is forecasting an underspend of £0.5m (£0.7m underspend after the planned use of grant reserves) mainly due to an underspend on Early Years and Early Intervention relating to contract savings and pension refunds

12. The Capital and Central Charges area is forecasting a £0.3m overspend due to insurance charges in excess of the budget allocated for this purpose which is the additional cost of premiums for historic abuse cases.

Adult Social Care & Health (forecast £3.0m underspend)

13. The underlying forecast position is an underspend of £0.9m (after the planned use of reserves and excluding redundancy costs).

14. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a net overspend of £0.1m (£0.3m overspend after the use of reserves). The main variances are:

- Client Contribution income is forecasting a shortfall of £1.5m. This is due to a general decline in personal budget income
- Supporting People are now forecasting a £1.1m underspend due to a reduction on the LD Contract spend of £0.9m

- Use of reserves in the division is £0.2m less than budget due to delays in getting project staffing within Framework and Commissioning.
15. The North Nottinghamshire Division is currently forecasting a net underspend of £1.6m (£1.2m underspend after the use of reserves) against the budget. This is a reduction of £0.1m since period 4. It is comprised of the following:
- Residential Services are still forecasting an underspend of £1.3m. This is primarily due to an underspend on staffing in the Care and Support Centres. It is envisaged the refurbishment of James Hince Court could be met from within the service budget rather than from the use of reserves
 - Day Services and Employment are forecasting an underspend of £1.0m. This is comprised of £0.8m underspend within Day Services and a £0.2m underspend across Supported Employment. These are primarily due to staffing underspends and additional income offsetting an overspend on Transport Services
 - Bassetlaw Community Care are forecasting an overspend of £0.7m due to overspends in Younger Adults
16. The Mid and South Nottinghamshire Divisions are currently forecasting a net combined underspend of £1.1m (£0.4m overspend after the use of reserves). Across Mid, South and North Nottinghamshire (including the £0.7m overspend from Bassetlaw) the major variances on care package costs are:
- Older Adults across the County are currently reporting an underspend of £2.9m; this is a reduction in commitment of £1.3m since last month
 - Younger Adults across the County are reporting an overspend of £3.2m which is an increase of £1.3m since last month. Of this, £0.9m relates to the difference in budget required from Supporting People to cover the LD contract spend
 - Expenditure under the remit of Service Directors and the Principal Social Worker are reporting an underspend of £0.7m due mainly to delays in recruitment
17. There are minor underspends of £0.4m in the Transformation Division.

Finance & Property (forecast £0.8m underspend)

18. This forecast underspend is due to:

- £0.4m underspend in Property due to a staffing rationalisation and savings on county office building maintenance in advance of saving requirements in 2016/17, together with additional Estates income
- £0.2m underspend on county offices and facilities management due to reduced business rates payable on county offices
- £0.1m underspend within Finance and Procurement relating to staff vacancies in advance of saving requirements in 2016/17
- £0.1m underspend on business support

Public Health (forecast £0.5m underspend)

19. This forecast underspend is due mainly to contract savings against the Sexual Health and Domestic Violence and Abuse Programmes, together with lower than anticipated employee costs against the Public Health Directorate budget.
20. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

Central Items (nil variance)

21. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
22. The Council's original budget included a contingency of £5.1m to cover redundancy costs, slippage of savings and unforeseen events. Following base budget adjustments (£2.4m) being removed from Departmental budgets and contingency requests (£1.7m) approved at previous Finance and Property Committees, the remaining contingency balance stands at £5.8m. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.

Request for contingency

23. On 22 February 2007, the County Council agreed to fund 50% of the financial assistance package created to support traders affected by the construction of the tram route. Claims for this assistance continue to be received and a contingency allocation of £0.5m is requested to fund these committed costs.

Transfer to / (from) reserves

24. A review of reserves has been undertaken to identify surplus departmental reserves that may be released to support the budget. The outcome of this review resulted in £3.6m of departmental reserves being transferred to corporate reserves as part of the overall budget strategy.

Progress with savings (forecast shortfall £2.2m in 2015/16)

25. Given the continued financial challenge that the Council is facing, savings schemes were approved as part of the 2015/16 budget process.
26. Savings options experiencing slippage or non-deliverability issues have been reported to Finance and Committee previously. In addition, a full review of the Business Support Service Review saving identified potential operational risks and implications associated with further business support reductions prior to changes in working practices. It was concluded that plans to drive out further business support savings should be developed within a new project aligned to plans developed by operational managers under the 'Redefining Your Council' framework. As a result, £1.4m will be slipped from 2015/16 with £0.5m re-profiled into 2016/17, £0.4m into 2017/18 and £0.4m into 2018/19.

27. The recent review of Redefining Your Council (considered by Policy Committee in July 2015) noted that transformation is inherently risky to deliver and that the task of achieving significant budget savings becomes increasingly difficult over time, as change is overlaid upon change. Considerable lessons have been learned from savings projects which have been approved and delivered to date. Whilst programme and project management arrangements have been effective, a stronger approach to the identification and management of the assumptions which underpin projects is being put in place to ensure that they are evidenced and challenged prior to full implementation.

Capital Programme

28. Table 2 summarises changes in the gross Capital Programme for 2015/16 since approval of the original programme in the Budget Report (Council 26/02/15):

Table 2 – Revised Capital Programme for 2015/16

	2015/16	
	£'000	£'000
Approved per Council (Budget Report 2015/16)		112,039
Variations funded from County Council Allocations : Net slippage from 2014/15 and financing adjustments	6,886	
		6,886
Variations funded from other sources : Net slippage from 2014/15 and financing adjustments	8,873	
		8,873
Revised Gross Capital Programme		127,798

29. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 5.

Table 3 – Capital Expenditure and Forecasts as at Period 5

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 5 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	50,240	7,532	44,922	(5,318)
Adult Social Care & Health	7,613	1,371	5,713	(1,900)
Transport & Highways	40,660	15,065	40,278	(382)
Environment & Sustainability	2,416	189	2,516	100
Community Safety	-	-	-	-
Culture	1,532	622	1,359	(173)
Policy	1,410	805	1,425	15
Finance & Property	15,337	3,928	15,081	(256)
Personnel	298	20	298	-
Economic Development	7,554	2,544	7,554	-
Contingency	738	-	738	-
Total	127,798	32,076	119,884	(7,914)

30. In the Children and Young People's Committee, there is a total forecast underspend of £5.3m. This is as a result of slippage against the School Places programme (£4.6m) and savings identified against the School Capital Refurbishment programme (£0.7m).

31. In the Adult, Social Care and Health Committee, there is a total forecast underspend of £1.9m. This is as a result of lower forecast expenditure against the Supported Living programme as initial objectives of the programme have been met with lower than expected capital spend.

It is proposed that the Adult Social Care and Health capital programme is varied to reflect the underspend identified against the Supported Living capital programme.

32. In the Transport and Highways Committee, a forecast underspend of £0.4m has been identified. This is mainly as a result of a £1.5m forecast underspend against the Rolls Royce Development project as planning issues have delayed the start of this project.

It is proposed that the Transport and Highways capital programme is varied to reflect the slippage identified against the Rolls Royce Development programme.

33. This is offset by a £1.1m over-programming against the Road Maintenance and Renewal and Integrated Transport Measures programmes. Work is on-going to drive this forecast overspend down and to manage within the approved budget.

Financing the Approved Capital Programme

34. Table 4 summarises the financing of the overall approved Capital Programme for 2015/16.

Table 4 – Financing of the Approved Capital Programme for 2015/16

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	17,536	26,486	817	5,401	50,240
Adult Social Care & Health	6,733	800	45	35	7,613
Transport & Highways	16,049	23,469	-	1,142	40,660
Environment & Sustainability	1,187	729	500	-	2,416
Community Safety	-	-	-	-	-
Culture	1,232	70	-	230	1,532
Policy	1,406	-	-	4	1,410
Finance & Property	13,348	50	-	1,939	15,337
Personnel	-	118	-	180	298
Economic Development	4,109	3,445	-	-	7,554
Contingency	738	-	-	-	738
Total	62,338	55,167	1,362	8,931	127,798

35. It is anticipated that borrowing in 2015/16 will decrease by £1.3m from the forecast in the Budget Report 2015/16 (Council 26/02/2015). This decrease is primarily a consequence of:

- £8.9m of net slippage from 2014/15 to 2015/16 and financing adjustments funded by capital allocations.
- Variations to the 2015/16 capital programme funded from capital allocations totalling £2.1m as approved to the September 2015 Finance and Property Committee.
- Net slippage in 2015/16 of £8.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

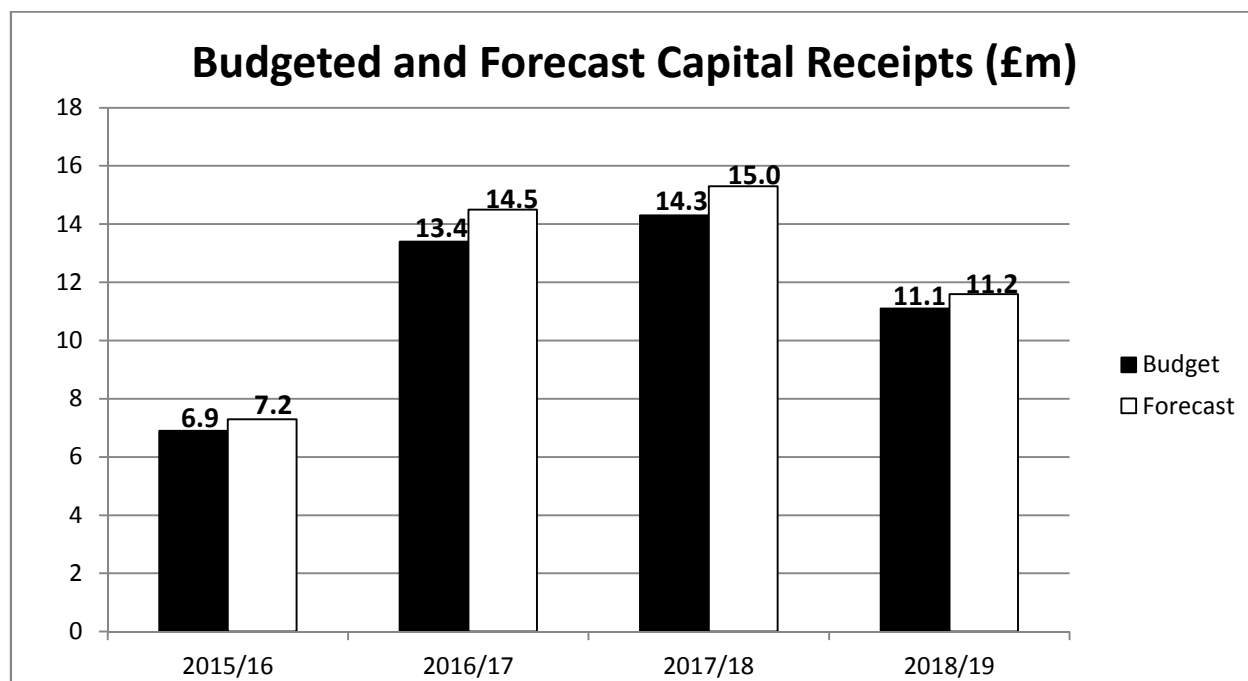
Prudential Indicator Monitoring

36. 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

37. 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.

38. The chart below shows the budgeted and forecast capital receipts for the four years to 2018/19.



39. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2015/16 (Council 26/02/2015). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

40. The capital receipt forecast for 2015/16 is £7.2m. To date in 2015/16, capital receipts totalling £5.1m have been received.

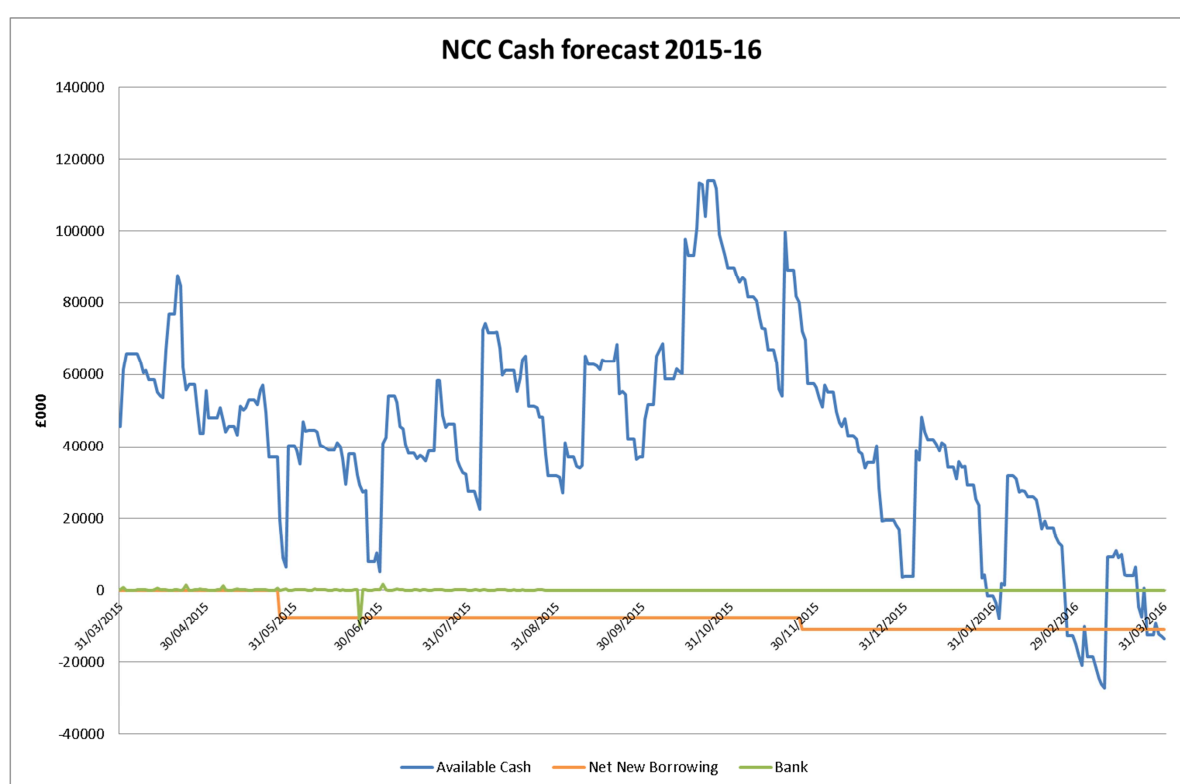
41. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

42. Current Council policy (Budget Report 2015/16) is to set capital receipts 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

43. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The following chart shows the actual cash flow position to date and forecasts for the remainder of the year. 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. However, cash outflows, in particular capital expenditure, tend to increase later in the year.

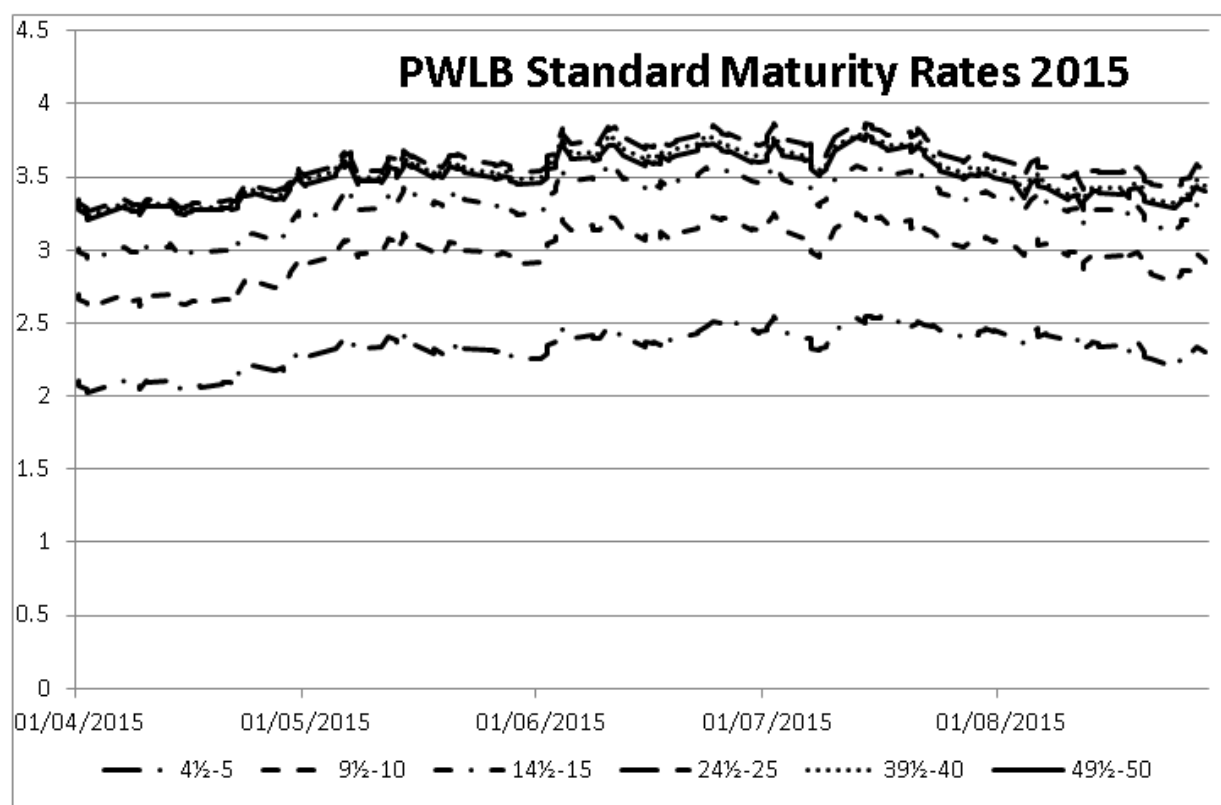
44. The forecast below shows a need to borrow before the end of the financial year, possibly as soon as Dec-Jan. Based on the most recent capital monitoring and reserves forecasts it is estimated that approximately £47m will be required, although no forecast borrowing has been included in the chart.



45. 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.
Available cash	That element of surplus cash held in the Council's Barclays Bank account.

46. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. The net new borrowing will include new loans from PWLB, the market or other local authority, as well as repayments on existing borrowing. To date for 2015/16 there has been no new borrowing.
47. PWLB rates are monitored closely in order to feed into decisions on new borrowing. Longer term rates are currently slightly higher than they were at the beginning of the year although they have dropped off recently. Shorter term rates have drifted up by nearly 0.5%. The Council is 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 during 2015.

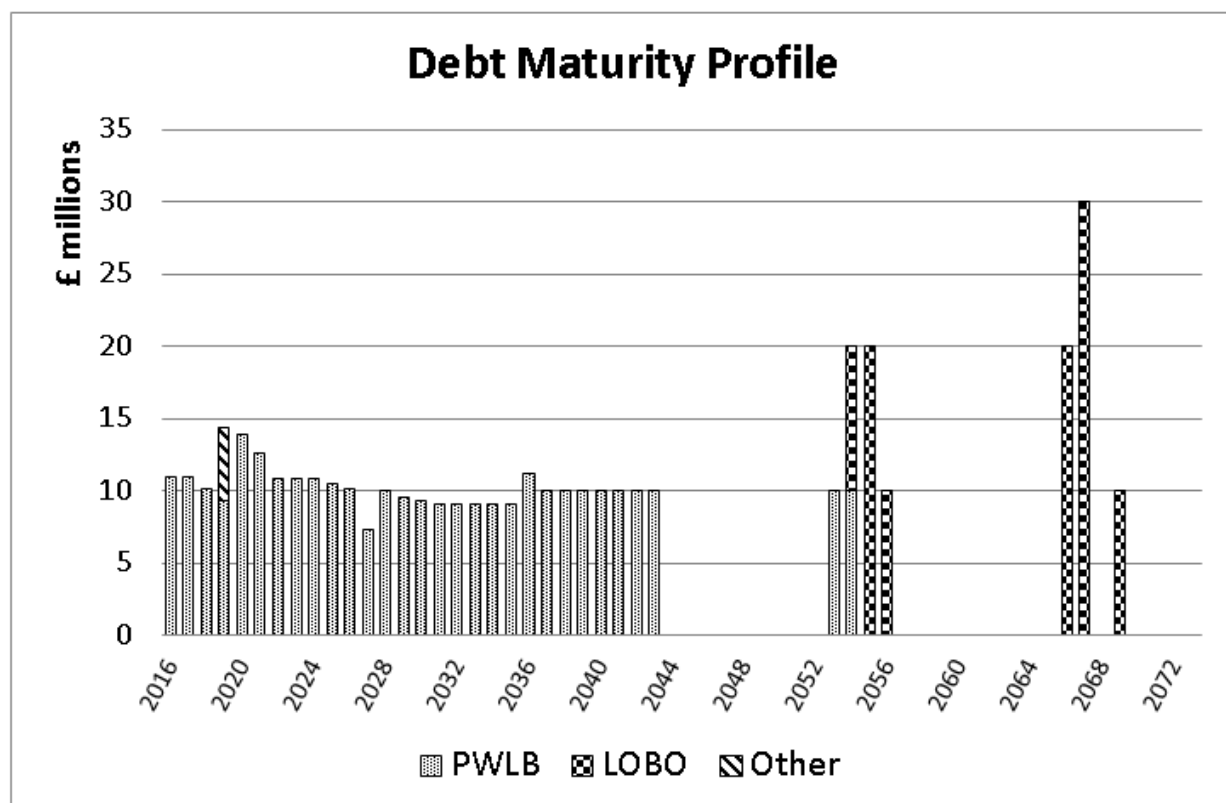


48. The Treasury Management Strategy for 2015/16 identified a need for additional borrowing of £78m to fund the capital programme, replenish internal balances and to replace maturing debt. This has since been adjusted to £47m in light of the most recent forecasts for capital expenditure and use of reserves.

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

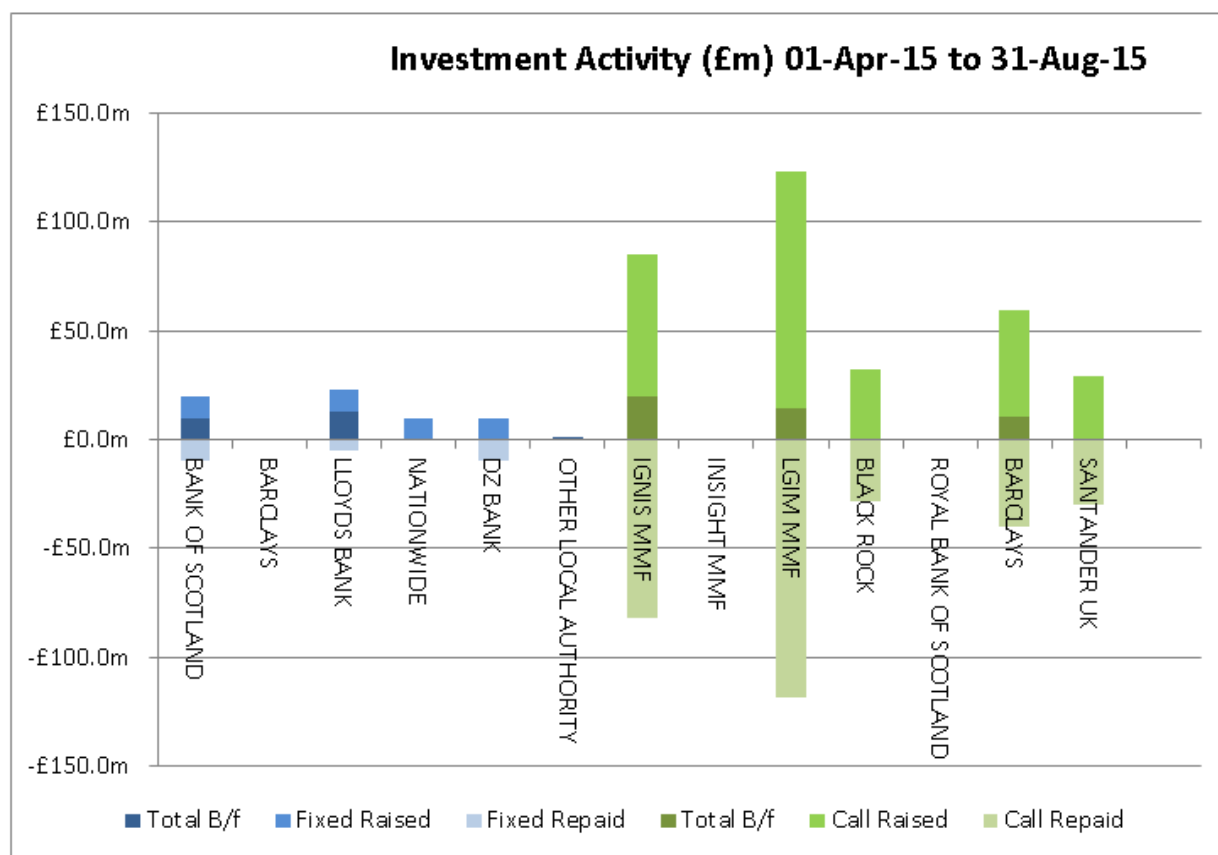
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators

49. As the cashflow forecast above indicates, additional borrowing is likely to be undertaken later in the calendar year, once cash balances start to fall. 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 38 years. Longer-term borrowing (maturities up to 55 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 increases the rate at an option point, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. The 'other' loan denotes more recent borrowing from the money markets where the main objective was to minimise interest costs. Refinancing of these loans has been factored into the Treasury Management Strategy.



50. The investment activity for 2015/16 to the end of August 2015 is summarised in the chart and table below. Outstanding investment balances totalled £70.2m at the start of the year and £71.35m at the end of the period. This is in line with the forecast cash flow profile for the year.

	Total B/f £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	10,000	10,000	(10,000)	10,000
Barclays	-	-	-	-
Lloyds Bank	13,000	10,000	(5,000)	18,000
Nationwide	-	10,000	-	10,000
DZ Bank	-	10,000	(10,000)	-
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	65,450	(81,800)	3,650
Insight MMF	-	-	-	-
LGIM MMF	14,550	108,800	(118,450)	4,900
Black Rock	500	32,050	(28,600)	3,950
Royal Bank of Scotland	-	-	-	-
Barclays	10,650	48,450	(39,750)	19,350
Santander UK	-	29,500	(29,500)	-
Total	70,200	324,250	(323,100)	71,350



Procurement Performance

51. The Procurement Section continues to review the Council's performance on a regular basis. An update on Strategic Performance Information and ongoing developments will be provided for this report to Committee on a quarterly basis with the next update to be included in the Period 7 report.

Debt Recovery and Accounts Payable Performance

52. The debt recovery and accounts payable performance information will continue to be reviewed at an operational level on a fortnightly basis. The strategic performance information will be compiled for this report to Committee on a quarterly basis with the next update to be included in the Period 7 report.

Statutory and Policy Implications

53. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and 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 note the revenue budget expenditure to date and year end forecasts
- 2) To approve the contingency request
- 3) To note the Capital Programme expenditure to date and year end forecasts and approve variances to the Capital Programme
- 4) To note the Council's Balance Sheet transactions

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For any enquiries about this report please contact:

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Simon Cunnington - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (HD 30/09/15)

82. Committee has the authority to determine recommendations within the report.

Financial Comments (GB 22/09/2015)

83. The financial implications are stated within the report itself.

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