Nottinghamshire County Council

Report to Finance and Property Committee

25 January 2016

Agenda Item: 5

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 8 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. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
3. To inform Members of the Council's Balance Sheet transactions.

Information and Advice

Background

4. 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

5. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. A £4.2m underspend position 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 8

Forecast Variance as at Period 7 £'000	Committee	Annual Budget £'000	Actual to Period 8 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
2,447	Children & Young People	137,575	95,561	139,297	1,722
(4,825)	Adult Social Care & Health	207,991	121,339	202,291	(5,700)
(3)	Transport & Highways	59,681	43,779	59,643	(38)
(327)	Environment & Sustainability	31,262	18,767	30,968	(294)
210	Community Safety	3,007	892	3,235	228
(163)	Culture	13,370	9,356	13,175	(195)
(968)	Policy	25,368	16,087	24,181	(1,187)
(749)	Finance & Property	34,675	25,962	33,890	(785)
(522)	Personnel	3,218	1,948	2,682	(536)
2	Economic Development	1,524	329	1,535	11
(1,595)	Public Health *	5,217	(2,334)	3,319	(1,898)
(6,493)	**Net Committee (under)/overspend**	**522,888**	**331,686**	**514,216**	**(8,672)**
807	Central items	(8,008)	(34,824)	(7,632)	376
-	Schools Expenditure	143	143	143	-
514	Contribution to/(from) Traders	(281)	2,743	(194)	87
(5,172)	**Forecast prior to use of reserves**	**514,742**	**299,748**	**506,533**	**(8,209)**
395	Transfer to / (from) Corporate Reserves	(6,363)	-	(5,679)	684
2,841	Transfer to / (from) Departmental Reserves	(15,115)	(1,060)	(11,802)	3,313
-	Transfer to / (from) General Fund	(6,038)	-	(6,038)	-
(1,936)	**Net County Council Budget Requirement**	**487,226**	**298,688**	**483,014**	**(4,212)**

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

Committee and Central Items

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

Children & Young People (forecast £1.7m overspend)

7. The underlying overspend is £1.4m (after planned use of grant reserves and excluding redundancy costs). This is a decrease of £0.5m compared with period 7 mainly due to additional grant income for inter-agency adoption fees and vacancies. A range of mitigating actions have been developed and pursued which has included a letter from the Corporate Director to restrict all non-essential spend and to adhere to vacancy control procedures as part of budget control measures. The recruitment of all agency staff requires the explicit approval of the Service Director Children's Social Care.

8. The Children's Social Care Division is reporting a forecast net overspend of £2.3m (£2.1m after the planned use of grant reserves), the major contributing variances being:

- £1.5m overspend on staffing due to the continued use of agency staff to cover vacancies in social work and safeguarding teams
- £0.2m underspend on Provider Services (Looked after Children placements) due to an increase in grant income for interagency adoption fees and adjustments to continuing health care income
- £0.1m overspend on transport, as demand continues to exceed the budget
- £0.3m overspend on the rest of Children's Disability Services (CDS) mainly due to flexible and targeted short breaks and associated childcare
- £0.2m overspend on the social work practice pilot which includes a forecast extension to the original timescale of 6 months to 31 March 2016. This includes the successful bid of £0.2m from the Strategic Development Fund
- £0.2m net overspend on all other budgets mainly due to Child Arrangement and Special Guardianship Orders.

9. The Education Standards and Inclusion Division is reporting a forecast overspend of £0.8m, 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.

10. The Youth, Families and Culture Division is forecasting an underspend of £1.2m mainly due to an underspend on Early Years and Early Intervention relating to contract savings and pension refunds.

11. 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.

12. There is also an underspend of £0.6m in Business Support which relates to savings associated to the part year effect of fixed term contracts and holding vacancies in anticipation of future year's savings.

Adult Social Care & Health (forecast £5.7m underspend)

13. The underlying forecast position is an underspend of £4.0m (after the planned use of reserves and excluding redundancy costs).

14. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a net underspend of £1.0m (£0.8m underspend after the use of reserves). The main variances are:

- Client Contribution income is forecasting a shortfall of £1.1m. This is a reduction in the shortfall of £0.3m since period 7. This improved position is partly due to a general increase in Residential income
- Supporting People are forecasting a £1.6m underspend due to a reduction on the LD Contract spend
- There remains an underspend of £0.2m on software costs within the Framework Team and the Market Development Team

- Business Support are showing an underspend of £0.4m against various non-staffing budgets.

15. The North Nottinghamshire Division is currently forecasting a net underspend of £1.5m (£1.2m underspend after the use of reserves) against the budget. This is comprised of the following:

- Residential Services are now forecasting an underspend of £0.3m. This is primarily due to an underspend on staffing in the Care and Support Centres. It is still 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 £1.3m. This is comprised of a £1.7m underspend on staffing within Day Services and Supported Employment partly offset by £0.4m overspend on Transport Services
- Bassetlaw Community Care are forecasting an overspend of £0.4m due to overspends in Younger Adults.
- There are other minor underspends totalling £0.3m in this division.

16. The Mid and South Divisions are currently forecasting a £1.0m underspend (a net breakeven position after use of reserves). This is a reduction in commitment of £0.6m since Period 7 and is primarily due to additional confirmed Continuing Healthcare income. There is still a significant waiting list of assessments which may further increase commitments when these are completed.

17. Across Mid, South and North Nottinghamshire the major variances on care package costs are:

- Older Adults across the County are currently reporting an underspend of £3.4m; this is a net decrease in commitment of £1.5m since last month
- Younger Adults across the County are reporting an overspend of £2.5m which is a decrease of £0.1m since last month, primarily due to an increase in income. £1.2m of the overspend relates to the additional costs of Transforming Care and £0.3m relates to the shortfall on ILF in year
- Expenditure under the remit of Service Directors and the Principal Social Worker are reporting an overspend of £0.2m.

18. Throughout the County, the service continues to experience difficulties recruiting to vacancies. This is having an impact on the number of assessments and reviews waiting to be done.

19. The Transformation Division is currently forecasting an underspend of £2.1m against the budget. This is due to the announcement that the County Council will not be required to repay the funding provided by the Government for Part 2 of the Care Act.

Policy (forecast £1.2m underspend)

20. This forecast underspend is due to:

- £0.3m underspend in Legal Services due mainly to continuing improvements in electronic and digital working and an ongoing efficiency programme reducing operating costs where possible
- £0.1m underspend relating to running costs in Democratic Services

- £0.2m reduction in running costs at the Customer Services Centre, together with an increase in income resulting from a small increase in blue badge applications
- £0.4m resulting from a detailed review of expenditure relating to the Programme and Project Team, this is matched by a reduction in the use of corporate reserves.
- £0.2m underspend against the Ways of Working Programme budget

Finance & Property (forecast £0.9m underspend)

21. This forecast underspend is due to:

- £0.5m 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;
- £0.2m underspend within Finance and Procurement relating to staff vacancies in advance of saving requirements in 2016/17.

Personnel (forecast £0.5m underspend)

22. This forecast net underspend is due to vacancy savings across the Health and Safety Group and the Workforce Planning and Organisational Development Group, together with savings on running costs and additional income generation.

Public Health (forecast £1.9m underspend)

23. 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 and an underspending against the Smoking and Tobacco Programme.

24. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

25. The Department of Health has confirmed the Government's initial proposal to reduce local authority public health allocations for 2015/16 by 6.2%. It is anticipated that the funding shortfall will be met by in-year underspends and from reserves.

Central Items (forecast £0.4m overspend)

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

27. 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 £0.6m.

28. At the time of setting the 2015/16 budget, several funding allocations had not been announced 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 £0.4m will be received in 2015/16.

29. 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 (£2.5m) being removed from Departmental budgets and contingency requests (£4.5m) approved at previous Finance and Property Committees, the remaining contingency balance stands at £3.1m. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.

30. Following the announcement of the section 188 notice on 1st December 2015 there is some work to be done to assess the impact of the provision created at the end of the last financial year, in year redundancies and the provision required for 2015/16.

Transfer to / (from) reserves

31. 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.

32. As reported under Policy Committee, there is slippage in the Programme and Projects Team and Ways of Working which are funded by Corporate Reserves. To match the slippage there is a corresponding reduction in the use of reserves.

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

33 Given the continued financial challenge that the Council is facing, savings schemes were approved as part of the 2015/16 budget process.

34. Savings options experiencing slippage or non-deliverability issues have been reported to Finance and Committee previously. In addition, issues associated with the achievement of savings relating to Provider Services (LAC Placements) and SEND Home to School Transport / Independent Travel Training are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Property Committee.

35. 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

36. 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	2015/16 £'000
Approved per Council (Budget Report 2015/16)		112,039
Variations funded from County Council Allocations :		
Net slippage from 2014/15 and financing adjustments	246	
		246
Variations funded from other sources :		
Net slippage from 2014/15 and financing adjustments	6,836	
		6,836
Revised Gross Capital Programme		**119,121**

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

Table 3 – Capital Expenditure and Forecasts as at Period 8

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 8 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	50,505	15,296	40,248	(10,257)
Adult Social Care & Health	4,933	1,795	5,040	107
Transport & Highways	35,961	22,790	36,650	689
Environment & Sustainability	2,416	559	2,418	2
Community Safety	-	-	-	-
Culture	1,532	734	1,070	(462)
Policy	2,033	1,408	1,979	(54)
Finance & Property	13,359	4,825	10,027	(3,332)
Personnel	298	24	298	-
Economic Development	7,554	4,462	6,691	(863)
Contingency	530	-	530	-
Total	**119,121**	**51,893**	**104,951**	**(14,170)**

38. In the Children and Young People’s Committee, there is a total forecast underspend of £10.3m. This is mainly as a result of slippage against the School Places programme (£8.2m) and savings identified against the School Capital Refurbishment programme (£1.3m).

39. The forecast underspend against the School Places Programme has increased by £3.6m since Period 7. This is mainly as a result of capital contributions to Priority School Building Programme schemes slipping into the 2016/17 financial year.

40. In the Transport and Highways Committee, a forecast overspend of £0.7m has been identified. This is mainly as a result of 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.

41. In the Finance and Property Committee capital programme there is a forecast underspend of £3.3m. This is mainly as a result of underspends against the ICT Strategy (£1.5m), the Lindhurst project (£0.7m) and the Gamston Development (£0.5m).

42. A forecast underspend totalling £1.5m against the ICT Strategy has been identified. This is mainly as a result slippage against the business reporting project and developments associated with the implementation of the Care Act and integration with Health.

    It is proposed that the Finance and Property Committee capital programme is varied to reflect the slippage identified against the ICT Strategy.

43. A forecast underspend totalling £0.7m has been identified against the Lindhurst project. This is as a result of delays to the scheme arising from legal issues, highways discussions and Homes and Communities Agency funding delays.

    It is proposed that the Finance and Property Committee capital programme is varied to reflect the slippage identified against the Lindhurst project.

44. A forecast underspend totalling £0.5m has been identified against the Gamston Development. This is as a result of on-going discussions with key stakeholders that has delayed the requirement for the capital contribution.

    It is proposed that the Finance and Property Committee capital programme is varied to reflect the slippage identified against the Gamston Development.

45. In the Economic Development Committee, a forecast underspend of £0.8m has been identified. This is mainly as a result of slippage identified against the Economic Development Capital Fund (£0.4m) and Superfast Broadband Scheme (£0.5m)

Financing the Approved Capital Programme

46. 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	5,666	50,505
Adult Social Care & Health	4,124	729	45	35	4,933
Transport & Highways	12,703	22,069	47	1,142	35,961
Environment & Sustainability	1,187	729	500	-	2,416
Community Safety	-	-	-	-	-
Culture	1,232	70	-	230	1,532
Policy	2,029	-	-	4	2,033
Finance & Property	12,248	50	-	1,061	13,359
Personnel	-	118	-	180	298
Economic Development	4,109	3,445	-	-	7,554
Contingency	530	-	-	-	530
Total	**55,698**	**53,696**	**1,409**	**8,318**	**119,121**

47. It is anticipated that borrowing in 2015/16 will decrease by £13.4m 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 £8.7m as approved to the December 2015 Finance and Property Committee.
- Net slippage in 2015/16 of £13.6m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

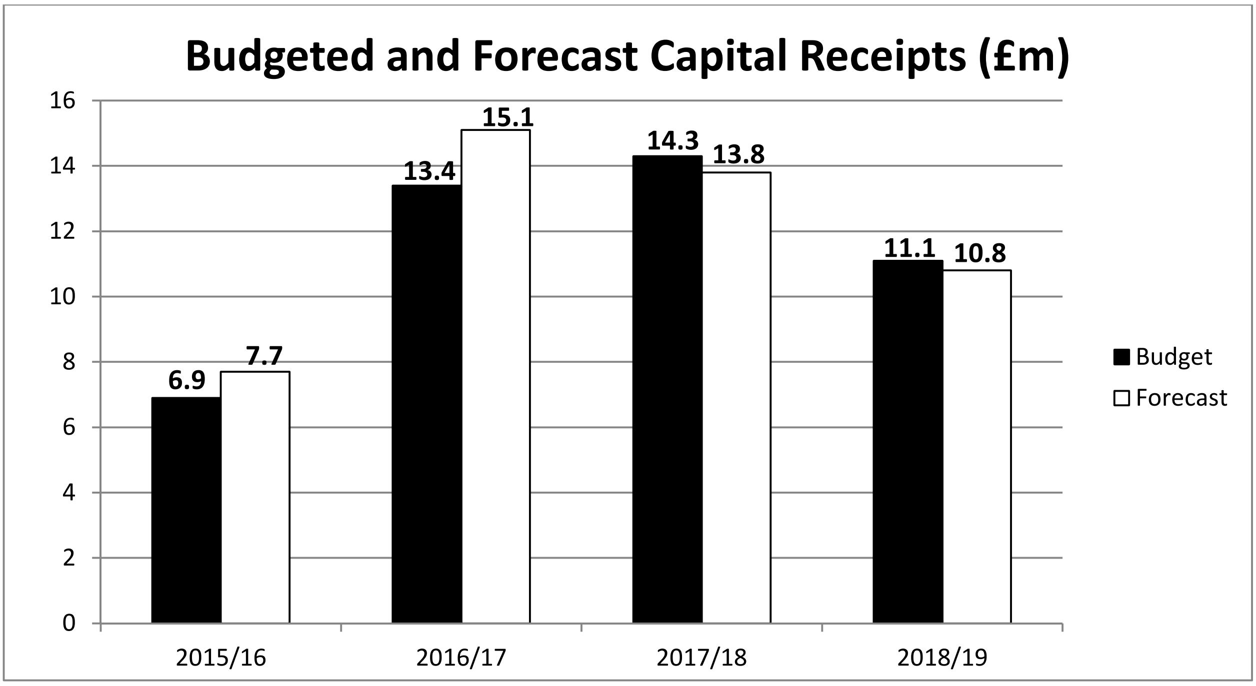
Prudential Indicator Monitoring

48. 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

49. 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.

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



51. 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.

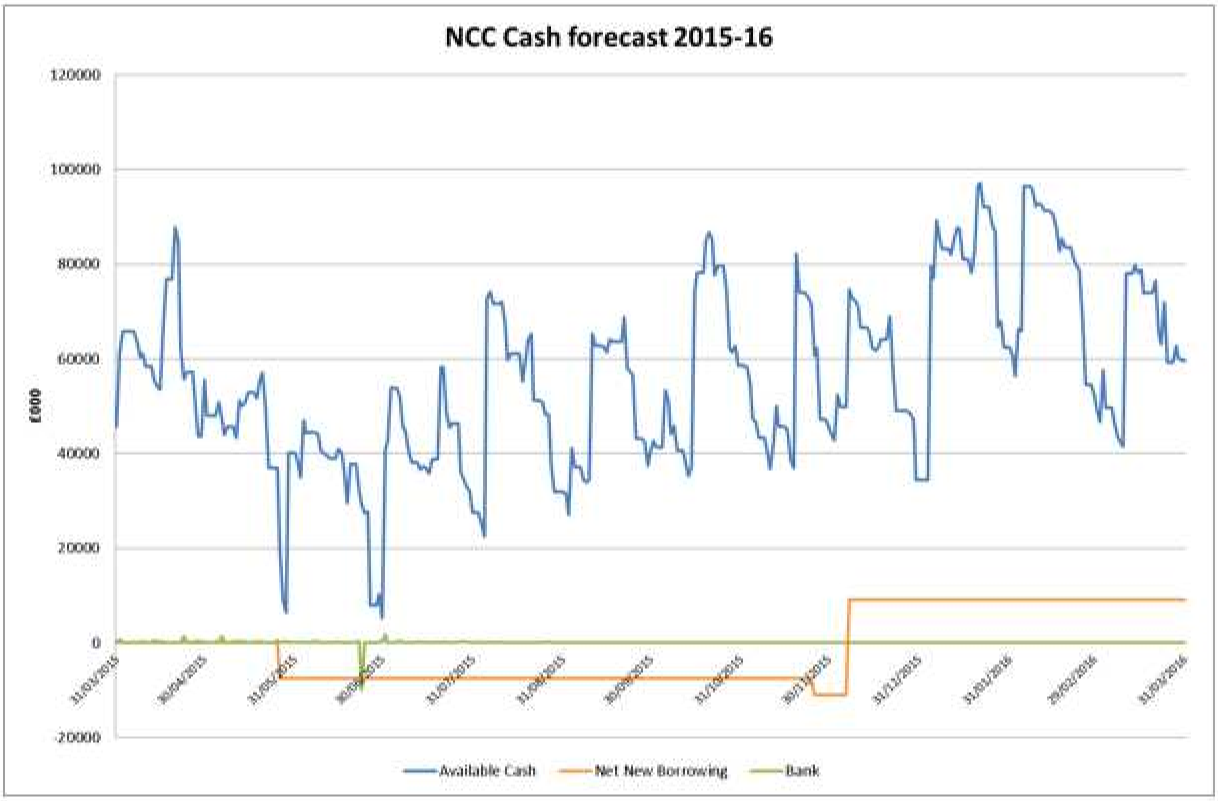
52. The capital receipt forecast for 2015/16 is £7.7m. To date in 2015/16, capital receipts totalling £5.5m have been received.

53. 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.

54. 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

55. 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. The cash forecast chart below 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 receipt profile of precepts. However, cash outflows, in particular capital expenditure, tend to increase later in the year.

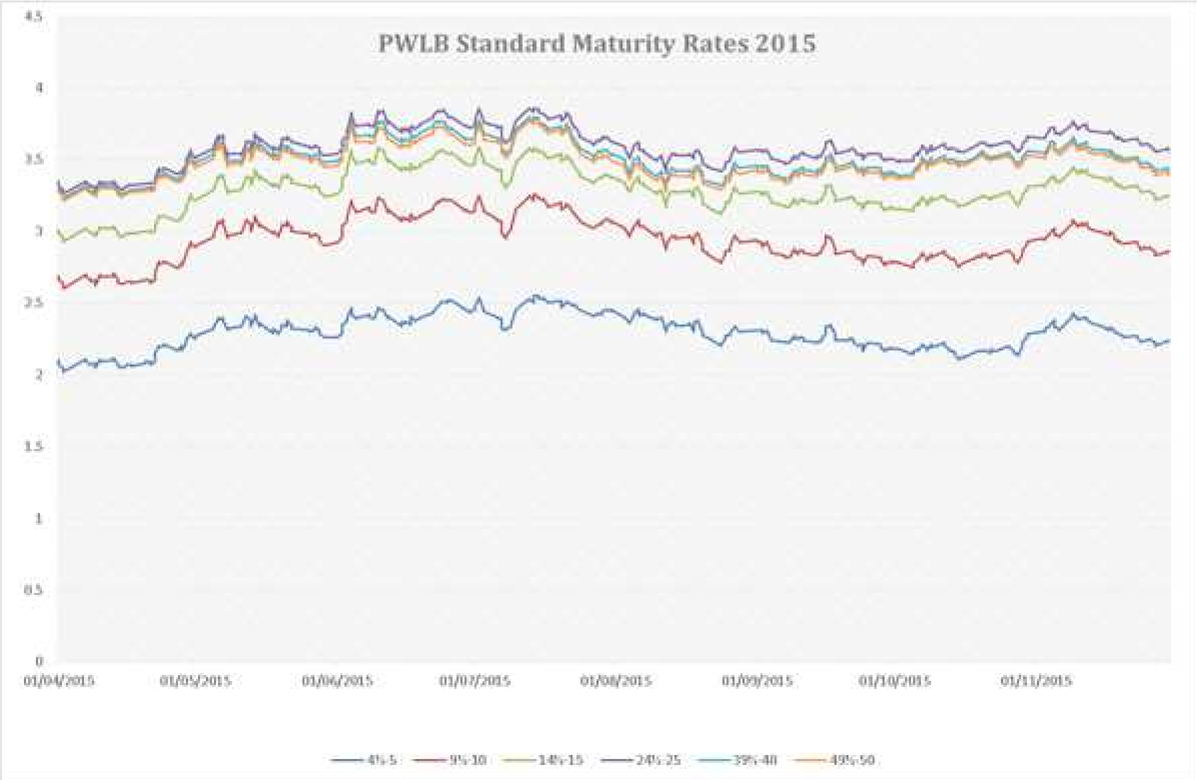


56. The chart above gives the following information:

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

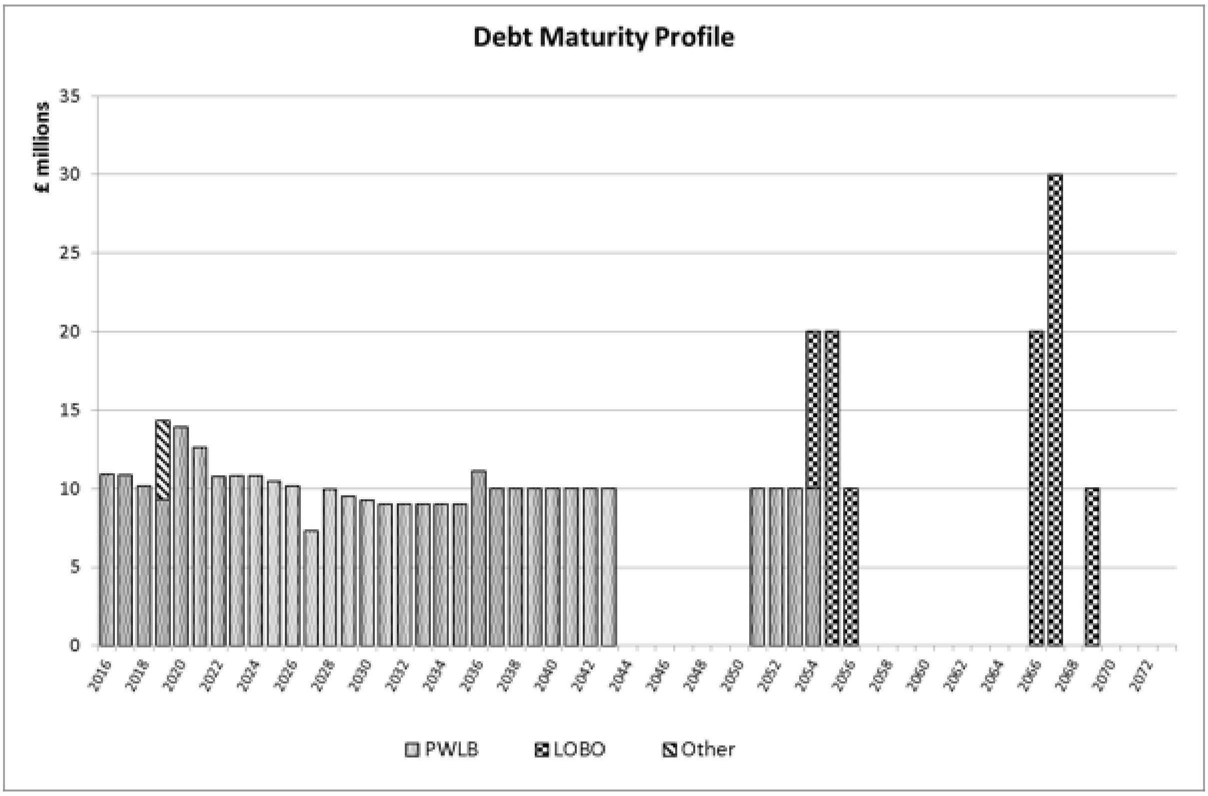
57. The Treasury Management Strategy for 2015/16 originally identified a need for additional borrowing of £78m to fund the capital programme, replenish internal balances and to replace maturing debt. This was later adjusted to nil, in line with the most recent capital monitoring and reserves forecast and the TM Mid-Year report. However, in-year cashflow analysis indicated a possible shortage of cash over the Christmas period, and so £20m long-term debt was borrowed from PWLB on 7 December. The forecast year-end under-borrowed position for 2015/16 is now £200m. In other words, the Council's reserves and working capital will allow some £200m of potential debt to be postponed to 2016/17 and beyond.

58. 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 around 0.2%. 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 2015/16.



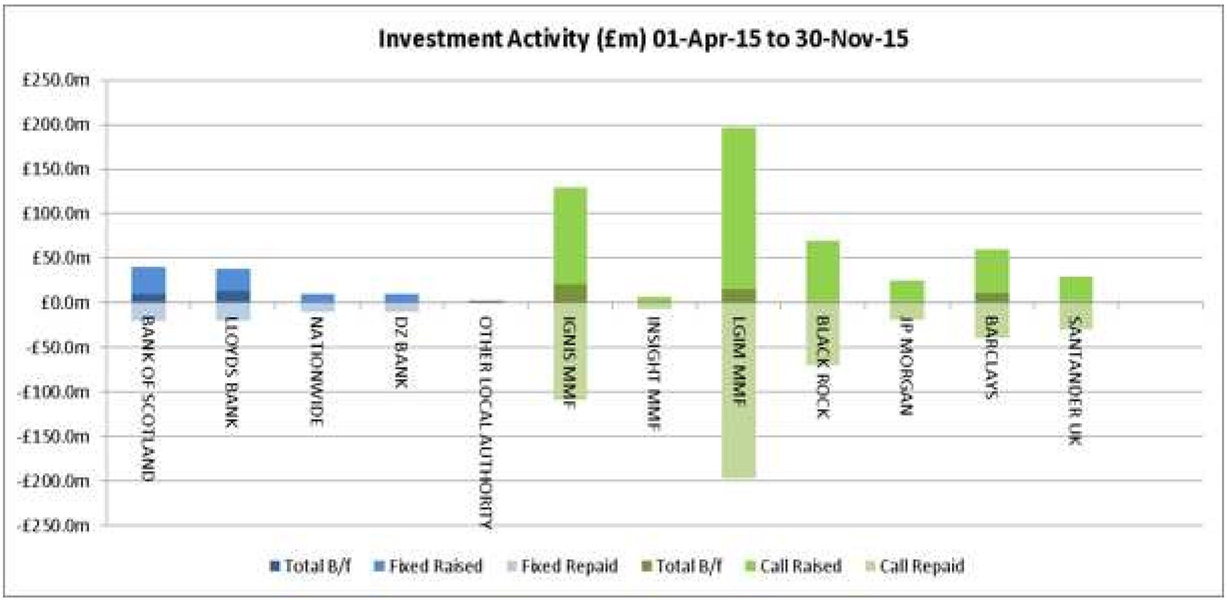
59. Borrowing decisions will take account of a number of factors including:
    - expected movements in interest rates
    - current maturity profile
    - the impact on revenue budgets and the medium term financial strategy
    - the treasury management prudential indicators

60. 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. They are shown in the chart below at their latest maturity points, but could actually mature at various points before then. The ‘other’ loans denote 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.



61. The investment activity for 2015/16 to the end of November 2015 is summarised in the chart and table below. Outstanding investment balances totalled £70.2m at the start of the year and £85.2m 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	30,000	(20,000)	20,000
Lloyds Bank	13,000	25,000	(20,000)	18,000
Nationwide	-	10,000	(10,000)	-
DZ Bank	-	10,000	(10,000)	-
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	109,050	(109,050)	20,000
Insight MMF	-	6,700	(6,700)	-
LGIM MMF	14,550	182,800	(197,200)	150
Black Rock	500	69,500	(70,000)	-
JP Morgan	-	24,500	(18,950)	5,550
Barclays	10,650	49,100	(39,750)	20,000
Santander UK	-	29,500	(29,500)	-
Total	**70,200**	**546,150**	**(531,150)**	**85,200**



62. The majority of fixed term deals have been placed with Lloyds Bank or Bank of Scotland, both part of Lloyds Banking Group (LBG). LBG does not currently meet the minimum credit rating criteria required by the Council's Treasury Management Policy but is included on the approved lending list because of a significant shareholding by the UK government. This shareholding is planned to be sold off in the early part of 2016, subject to the prevailing share price. The position of LBG will be factored into the formulation of the TM policy for 2016/17, to be taken to Council in February.

Procurement Performance

63. The Procurement Group 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 10 report.

Debt Recovery and Accounts Payable Performance

64. 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 10 report.

Statutory and Policy Implications

65. 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 note the Capital Programme expenditure to date and year end forecasts and approve variances to the Capital Programme

3) To note the Council's Balance Sheet transactions

Nigel Stevenson Service Director – Finance, Procurement and Improvement Division

For any enquiries about this report please contact:
Glen Bicknell - Senior Finance Business Partner, Senior Accountant
Simon Cunnington - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (HD 23/11/15)

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

Financial Comments (GB 29/12/2015)

67. 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