Nottinghamshire County Council

Report to Finance and Property Committee

17 October 2016

Agenda Item: 5

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 5 2016/2017

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 and approve variations to the capital programme.
3. To inform Members of the Council's Balance Sheet transactions.

Information and Advice

Background

4. The Council approved the 2016/17 budget at its meeting on 25 February 2016. 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 £0.8m net overspend 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
4,776	Children & Young People	136,537	49,273	141,294	4,757
(2,370)	Adult Social Care & Health	220,563	69,747	217,517	(3,046)
364	Transport & Highways	59,769	20,807	60,115	346
191	Environment & Sustainability	31,498	9,497	31,817	319
272	Community Safety	3,136	294	3,348	212
(98)	Culture	13,080	5,015	13,055	(25)
(375)	Policy	25,045	8,808	24,753	(292)
(266)	Finance & Property	30,482	17,008	30,213	(269)
(86)	Personnel	2,635	1,072	2,550	(85)
63	Economic Development	1,465	373	1,536	71
(931)	Public Health *	5,716	(1,684)	4,809	(907)
1,540	**Net Committee (under)/overspend**	**529,926**	**180,210**	**531,007**	**1,081**
(751)	Central items	(17,099)	41	(19,763)	(2,664)
-	Schools Expenditure	(180)	(180)	(180)	-
113	Contribution to/(from) Traders	575	2,191	624	49
902	**Forecast prior to use of reserves**	**513,222**	**182,262**	**511,688**	**(1,534)**
(19)	Transfer to / (from) Corporate Reserves	(18,344)	(20)	(18,363)	(19)
1,140	Transfer to / (from) Departmental Reserves	(12,241)	(278)	(9,934)	2,307
-	Transfer to / (from) General Fund	(3,741)	-	(3,741)	-
2,023	**Net County Council Budget Requirement**	**478,896**	**181,964**	**479,650**	**754**

* 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 £4.8m overspend)

7. The Children's Social Care Division is reporting a forecast net overspend of £2.8m (£2.8m after the planned use of grant reserves). The major contributing variances are:

- £0.1m underspend on staffing in social work and safeguarding teams. There is a continued reduction in forecast spend due to a very successful recruitment campaign with 75 new recruits being appointed of which more than 50% are newly qualified social workers (NQSWs). This successful recruitment has resulted in a lower reliance on agency staff.
- £2.6m overspend on Provider Services (Looked After Children placements). This is made up of £1.3m overspend on external residential and supported accommodation placements, £1.2m achievability issues with the 2016/17 savings target, £0.4m overspend on Fostering mainly due to the Fostering Futures Scheme and £0.1m overspend on Social, Emotional and Behavioural Difficulties (SEBD) homes and 16/17 year olds living independently, £0.2m on all other budgets (CAMHS, Edge of Care, etc.). This is offset by an underspend on Adoption interagency placements due to the receipt of the Interagency adoption grant £0.4m and the Contact Service of £0.1m.

- £0.3m overspend on transport as demand continues to exceed the budget. This has reduced due to more rigorous application of eligibility criteria regarding foster carers travel claims.
- £0.1m overspend on the Children's Disability Services (CDS) residential homes due to an income shortfall of £0.2m from the inability to sell beds to other authorities and the reduction in health funding for The Big House, offset by £0.1m underspend on employees and running costs.
- £0.2m underspend on non LAC placements i.e. Child Arrangement, Special guardianship orders and Adoption Financial Support payments. A budget pressure of £0.6m was agreed for these payments but the current forecast is showing lower growth than was previously projected.
- £0.2m overspend on all other budgets mainly due to Section 17 payments.

8. The Education Standards and Inclusion Division is reporting a forecast net overspend of £2.1m (£2.1m after the planned use of grant reserves). The major contributing variances are:

- £2.4m overspend on Special Education Needs and Disability (SEND) home to school transport (£1.9m pre-16 and £0.5m post-16). The overspend is consistent with period 4. It does not reflect any changes for the new academic year. This also reflects the achievability issues with the 2016/17 savings target of £0.6m.
- £0.1m overspend on historic ongoing pension enhancements for schools based staff.
- £0.1m underspend on Governing Body Services due to the over achievement of the sold service income target.
- The above variances are partially offset by maximising the use of £0.3m uncommitted Pupil Premium Grant and Higher Level Teaching Assistants Grant.

9. The Youth, Families and Culture Division is reporting a forecast net overspend of £0.2m (£0.1m after budgeted use of grant reserves). This mainly consists of:

- £0.5m overspend in the Integrated Disability Service on Flexible and Targeted Short Breaks and Disabled Children's Access to Childcare (DCATCH). This is partially offset by maximising the use of uncommitted SEND Reform Grant (£0.2m).
- £0.1m underspend within the Family Service due to staff vacancy savings and reduced spend within Activities and Support budgets. This is an early delivery of next year's savings and as such is a temporary underspend.

10. An underspend of £0.4m in Business Support is forecast which relates to savings associated with holding vacancies in anticipation of future years' budget savings. A report is being taken to a future meeting of the Personnel Committee in respect of the business support review.

11. As a result of the current overspend and the clear requirement to make reductions in budget over the lifetime of the current Medium Term Financial Strategy, a plan has been put in place which consists of four main strands of work:

    1) A review of Looked After Children
    2) A review of Special Educational Needs transport
    3) A whole Departmental review
    4) A restriction of in-year spend

    Members have been briefed on this plan and regular updates will be provided.

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

12. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a breakeven position (a net overspend of £0.1m after the planned use of reserves). It is comprised of the following:

    - Client Contribution income is now forecasting a shortfall of £0.5m, primarily due to an underachievement of property income. This is a reduction in shortfall of £0.5m since period 4 and reflects an increase in residential income.
    - The contribution to the Integrated Community Equipment Loans Scheme (ICELS) Pooled Budget is still forecast to be £0.2m less than budget, due to contract re-negotiations with County Health Partners.
    - The Access and Safeguarding Teams are still forecasting a £0.1m underspend due to staffing vacancies.
    - There is a £0.2m underspend expected on the Advocacy contract. The new contract commences in October and has come in under budget.

13. The North Nottinghamshire Division is currently forecasting a net underspend of £0.2m against the budget and compromises the following :

    - Residential Services are forecasting a £0.1m overspend due to increased agency costs and reduced income from the CCG's following removal of funding for the Step up beds.
    - Day Services and Employment are forecasting a reduced underspend of £0.2m due to increased staffing and transport costs.
      Bassetlaw Community Care are forecasting an increased underspend of £0.2m. This is an increase of £0.1m due to reductions in Older Adults spend.

14. The Mid and South Divisions are forecasting a net underspend of £2.4m (£1.3m after the planned use of reserves).

    - Older Adults across the County are now forecasting an underspend of £1.6m. This is a reduction of £0.7m since period 4 due to further reductions in long term residential and nursing costs. The underspend is primarily due to underspends on staffing and direct payments.
    - Younger Adults across the County are forecasting an underspend of £0.3m. There is still an overspend on Supported Living and Long term residential and Nursing placements primarily due to Transforming Care Cases which are only partly offset by additional income.
    - The other cost centres across the division are forecasting a net underspend of £0.5m.

15. The Transformation Division is currently forecasting an underspend of £0.3m (a £0.4 overspend after the use of reserves) against the budget.

16. The County Council is seeking funding from the Clinical Commissioning Groups to cover the full cost of the Transforming Care Packages and, if this is successful, the overall Committee's net underspending may increase by up to £2m.

Public Health (£0.9m underspend)

17. This forecast underspend is due mainly to slippage in activity against the Obesity Programme which will be re-programmed into the 2017/18 and 2018/19 financial years, together with an underspend against the Smoking and Tobacco Programme and the Public Health Directorate.

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

Central Items (forecast £2.7 underspend)

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

20. At the time of setting the 2016/17 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 £1.4m will be received in 2016/17.

21. 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 £0.7m.

Requests for Contingency

22. The Council budget includes a contingency budget of £5.5m to cover redundancy costs, slippage of savings and unforeseen events. Contingency requests approved previously and including the request below total £2.4m leaving a balance of £3.1m for future requests. Table 1 assumes that the original contingency allocation will be used before year end as new requests are likely to emerge.

23. A full review of the 2015/16 year end position in the Adult Social Care and Health Committee has been undertaken. The review identified a number of permanent reductions totalling £2.0m. Table 1 reflects that a budget adjustment has been processed to transfer the budget from the ASCH Committee budget into contingency. However the forecast outturn has assumed that this element of the contingency budget will not be spent during the year.

Transfer to / (from) reserves

24. A review of reserves has been undertaken to identify surplus earmarked reserves that can be released to support the budget and form part of the overall budget strategy. In total £4m of earmarked reserves have been transferred to general balances. This transfer was anticipated when the Council approved the Medium Term Financial Strategy in February.

Progress with savings and risks to the forecast

25. Council on 25 February 2016 approved savings proposals of £17.6m for delivery over the four year period 2016-20. These proposals are in addition to those approved previously by County Council. Officers will continue to monitor the deliverability of individual schemes and targets as part of the budget monitoring process and reflect achievability in the forecast outturn.

26. Issues associated with the achievement of savings relating to Looked After Children Provider Services, SEND Home to School Transport and 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.

Capital Programme

27. Table 2 summarises changes in the gross Capital Programme for 2016/17 since approval of the original programme in the Budget Report (Council 25/02/16):

Table 2 – Revised Capital Programme for 2016/17

	2016/17 £'000	£'000
Approved per Council (Budget Report 2016/17)		112,345
Variations funded from County Council Allocations :		
Net slippage from 2015/16 and financing adjustments	8,127	
		8,127
Variations funded from other sources :		
Net slippage from 2015/16 and financing adjustments	422	
		422
Revised Gross Capital Programme		**120,894**

28. 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	43,508	8,565	41,983	(1,525)
Adult Social Care & Health	7,863	1,713	6,765	(1,098)
Transport & Highways	39,166	9,756	39,162	(4)
Environment & Sustainability	3,128	83	3,128	-
Community Safety	100	-	100	-
Culture	2,177	-	2,081	(96)
Policy	255	74	255	-
Finance & Property	16,309	3,777	14,637	(1,672)
Personnel	372	222	262	(110)
Economic Development	6,681	1,033	6,009	(672)
Contingency	1,335	-	1,335	-
Total	**120,894**	**25,223**	**115,717**	**(5,177)**

Children and Young People

29. In the Children and Young People's Committee capital programme, a forecast underspend of £1.5m has been identified. This is as a result of slippage against the Schools Capital Refurbishment Programme. Feasibility works relating to heating and drainage schemes are ongoing and it is anticipated that an element of these projects will slip into the next financial year.

It is proposed that the Children and Young People's capital programme is varied to reflect the slippage against the Schools Capital Refurbishment Programme.

Adult Social Care and Health

30. In the Adult Social Care and Health Committee capital programme, a forecast underspend of £1.1m has been identified. This is as a result of the Council's contributions to three Living at Home projects being re-profiled into 2017/18.

    It is proposed that the Adult Social Care and Health capital programme is varied to reflect the Living at Home re-profiled funding.

Finance and Property

31. In the Finance and Property Committee, a forecast underspend of £1.7m has been identified. This is mainly as a result of slippage against the Energy Saving Scheme (£1.0m) as feasibility costs against a major project has resulted in the main costs of the project being re-profiled into 2017/18.

    It is proposed that the Finance and Property Committee capital programme is varied to reflect the Energy Saving re-profiling.

32. In addition, minimal expenditure is anticipated against the Lindhurst development project as negotiations continue, resulting in forecast slippage of £0.5m.

Financing the Approved Capital Programme

33. Table 4 summarises the financing of the overall approved Capital Programme for 2016/17.

Table 4 – Financing of the Approved Capital Programme for 2016/17

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	19,909	23,299	-	300	43,508
Adult Social Care & Health	6,528	1,083	252	-	7,863
Transport & Highways	10,644	28,172	-	350	39,166
Environment & Sustainability	1,853	62	600	613	3,128
Community Safety	100	-	-	-	100
Culture	2,177	-	-	-	2,177
Policy	255	-	-	-	255
Finance & Property	16,009	50	-	250	16,309
Personnel	-	82	-	290	372
Economic Development	4,040	2,574	67	-	6,681
Contingency	1,335	-	-	-	1,335
Total	**62,850**	**55,322**	**919**	**1,803**	**120,894**

34. It is anticipated that borrowing in 2016/17 will increase by £2.9m from the forecast in the Budget Report 2016/17 (Council 25/02/2016). This increase is primarily a consequence of:

- £23.5m of net slippage from 2015/16 to 2016/17 and financing adjustments funded by capital allocations.
- Variations to the 2016/17 capital programme funded from capital allocations totalling £15.4m as approved to the September 2016 Finance and Property Committee meeting.
- Net slippage in 2016/17 of £5.2m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

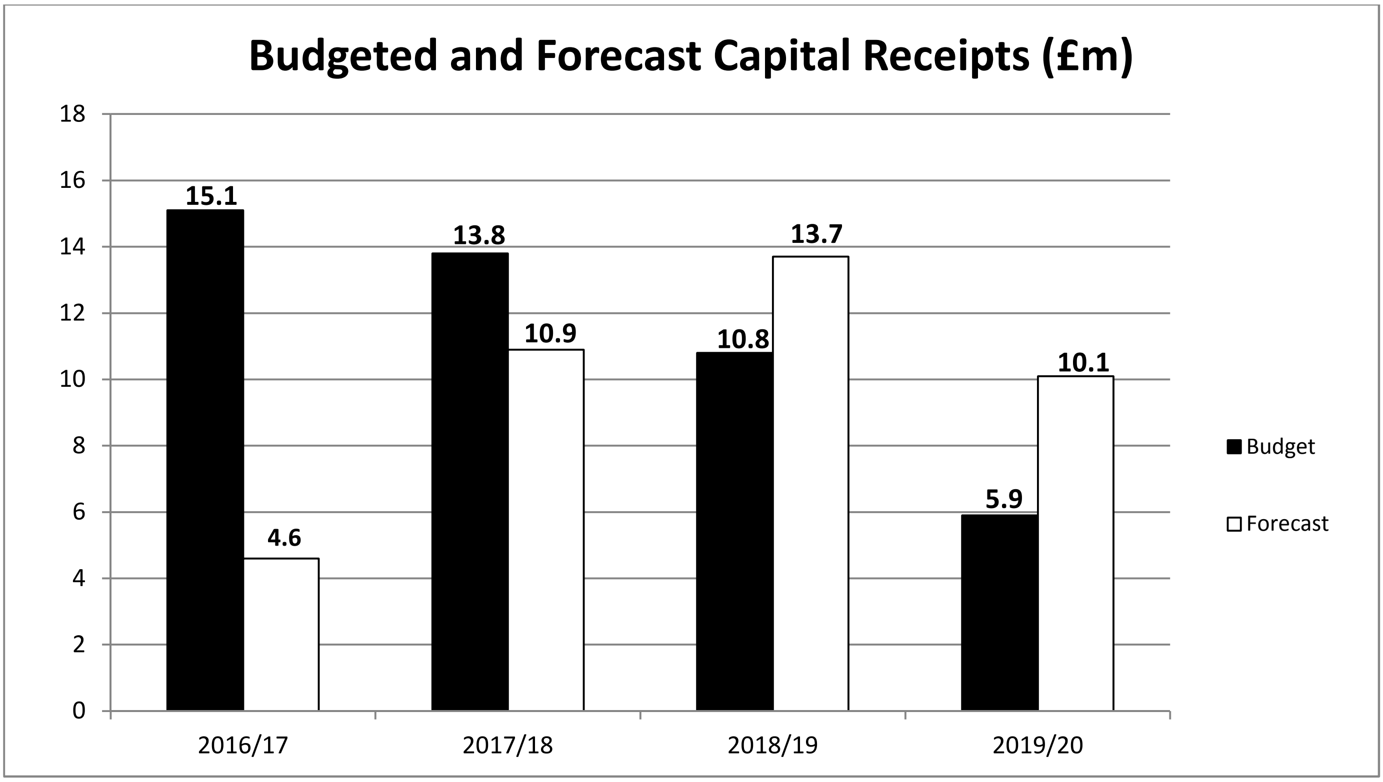
Prudential Indicator Monitoring

35. 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

36. 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.

37. The chart below shows the budgeted and forecast capital receipts for the four years to 2019/20.



38. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2016/17 (Council 25/02/2016). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

39. The capital receipt forecast for 2016/17 is £4.6m. This is below the budgeted figure due to slippage on four major sites. Despite this, the overall capital receipts forecast remains relatively unchanged although an element has been re-profiled into 2020/21. To date in 2016/17, capital receipts totalling £3.4m have been received.

40. 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.

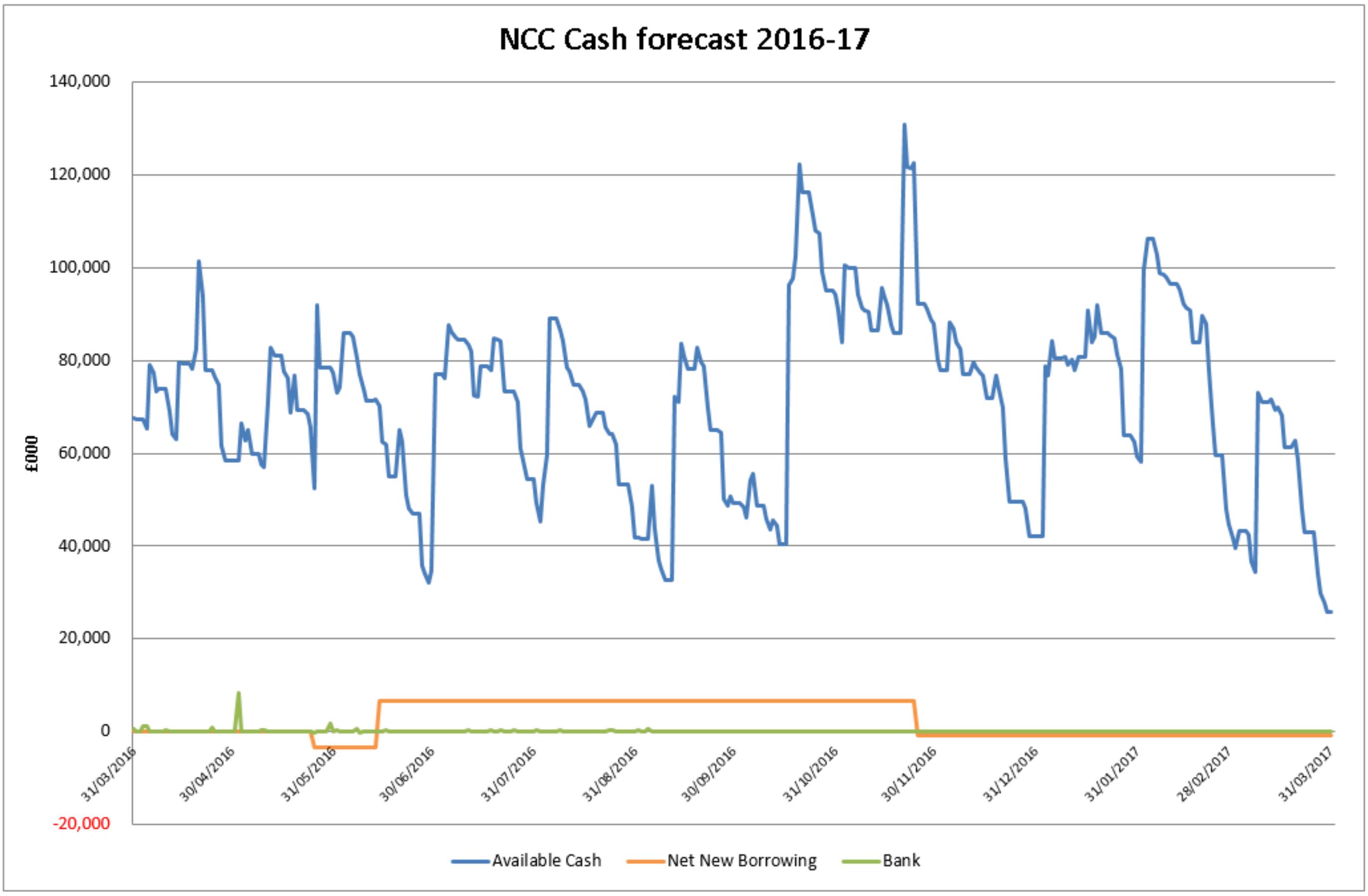
41. Current Council policy (Budget Report 2016/17) is to set capital receipts against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

42. 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 2016/17. 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.

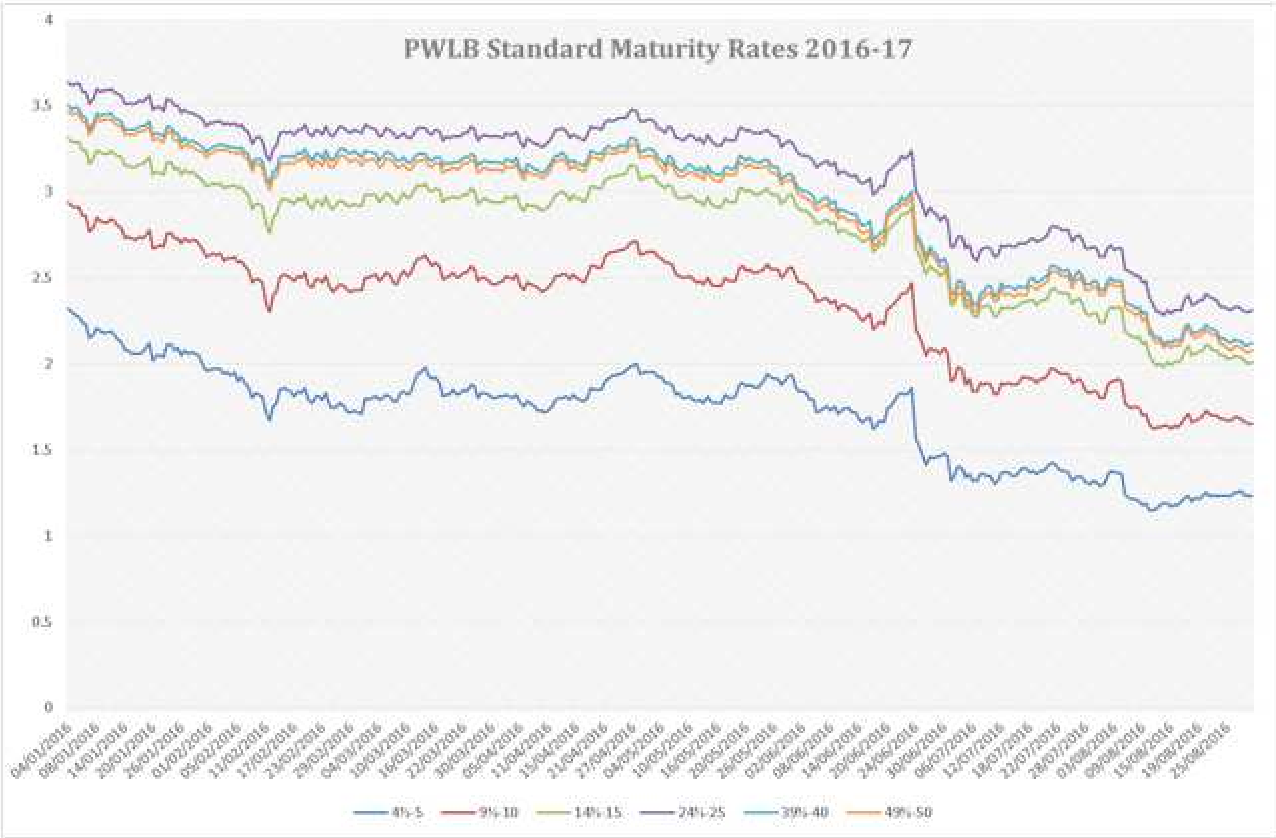
The chart below gives the following information:

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.



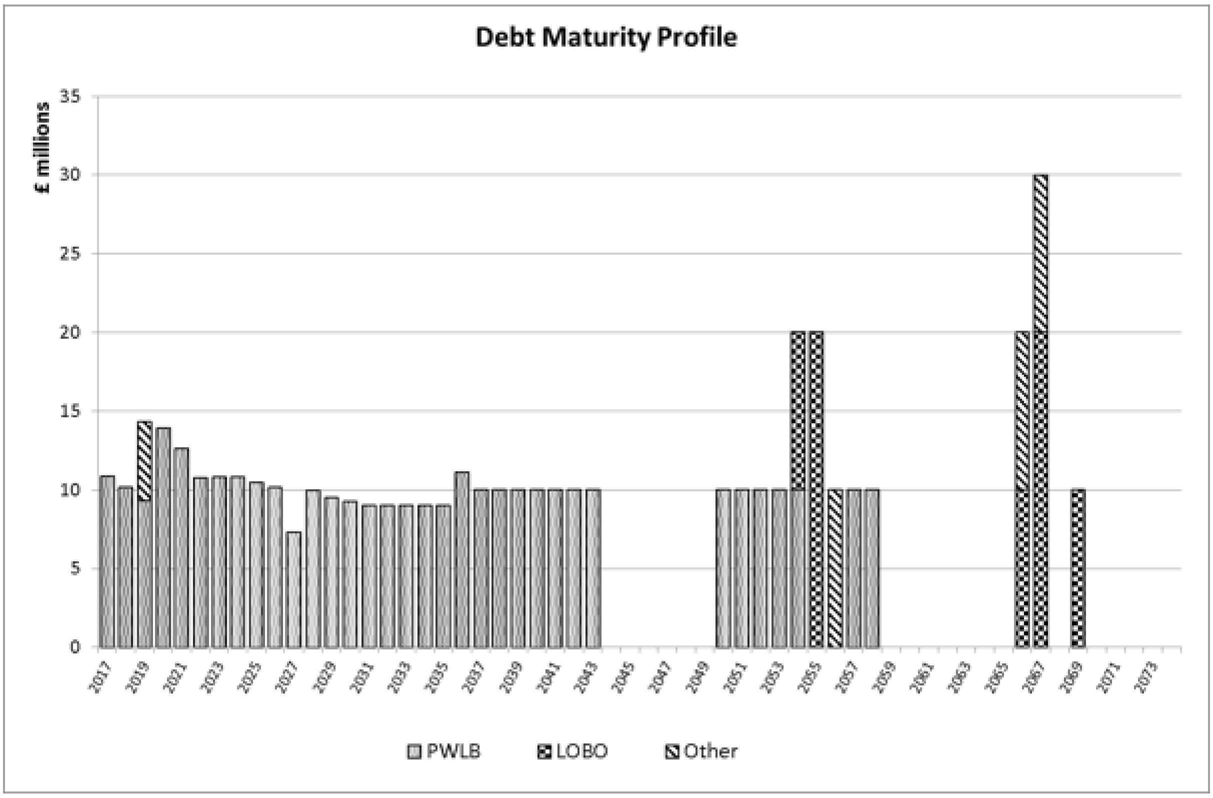
43. The Treasury Management Strategy for 2016/17 identified a need for additional borrowing of £52m to fund the capital programme, replenish internal balances and to replace maturing debt. However, updates to the capital programme and the reserves forecast, together with £10m additional PWLB borrowing when rates were low prior to the EU Referendum, have virtually negated the need for any further borrowing during 2016/17.

44. Post EU Referendum, PWLB rates remain low and continue to be monitored closely in order to feed into decisions on new borrowing. 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 and the first period of 2016/17.



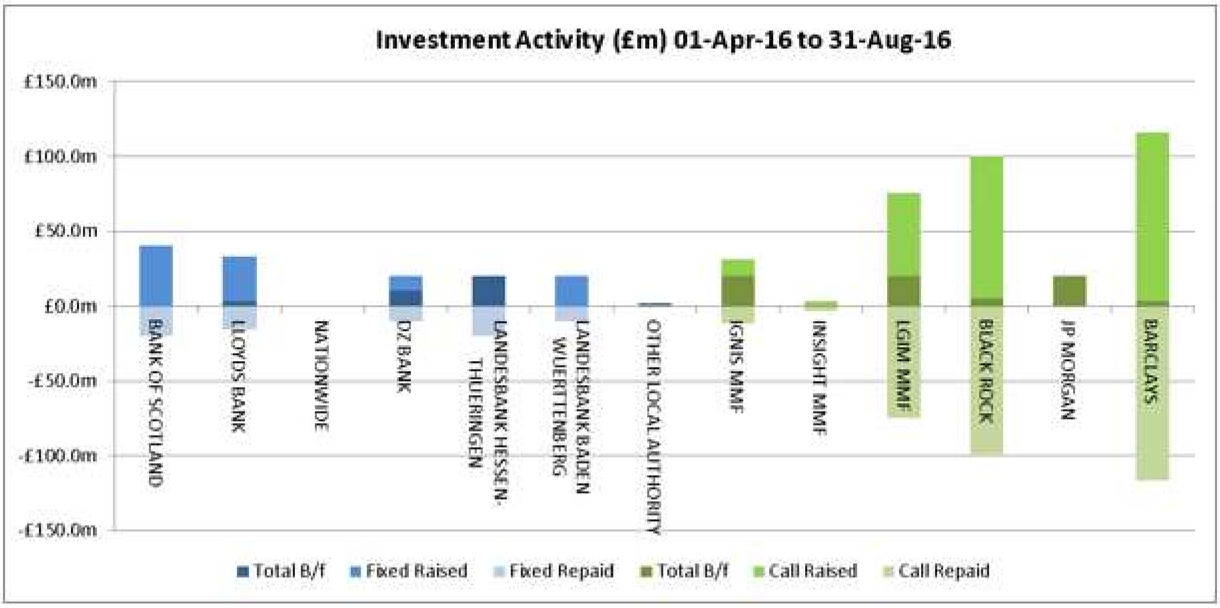
45. Borrowing decisions will take account of a number of factors including:
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators

46. 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 42 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. Longer-term borrowing (maturities up to 53 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. During June the three LOBOs from Barclays Bank were converted (by Barclays) to fixed rate loans and will now mature at their endpoints in 2055, 2065 and 2066. The remaining LOBOs are shown in the chart below also at their furthest maturity points, but could actually mature at various points before then, constituting a risk that the Council will have to then borrow at the prevailing interest rate. The ‘other’ loan denotes borrowing from the money markets where the main objective was to minimise interest costs, and now also includes the Barclays Bank ‘LOBO’s. Refinancing of these loans has been factored into the Treasury Management Strategy.



47. The investment activity for 2016/17 to the end of June 2016 is summarised in the chart and table below. Outstanding investment balances totalled £102m at the start of the year and £101m at the end of the period. This is slightly higher than balances at the same time last year, and reflects the reduction in the need to borrow (mentioned above).

	Total B/f £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	-	40,000	(20,000)	20,000
Lloyds Bank	3,000	30,000	(15,000)	18,000
Nationwide	-	-	-	-
DZ Bank	10,000	10,000	(10,000)	10,000
Landesbank Hessen-Thueringen	20,000	-	(20,000)	-
Landesbank Baden Wuerttenberg	-	20,000	(10,000)	10,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	11,200	(11,200)	20,000
Insight MMF	-	3,050	(3,050)	-
LGIM MMF	20,000	55,200	(75,000)	200
Black Rock	4,700	95,700	(98,650)	1,750
JP Morgan	20,000	-	-	20,000
Barclays	2,950	113,350	(116,300)	-
Santander UK	-	-	-	-
Total	**102,150**	**378,500**	**(379,200)**	**101,450**



48. The Council's lending list has been reviewed for 2016/17, and additional banks meeting the Council's lending criteria have been added. All counterparty ratings are regularly monitored and lending restrictions placed accordingly.

Procurement Performance

49. 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 7 report.

Debt Recovery and Accounts Payable Performance

50. 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

51. 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 variations 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:
Keith Palframan, Group Manager, Financial Strategy and Compliance
Simon Cunnington - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (SG 08/09/2016)

52. The proposals in this report are within the remit of the Finance and Property Committee.

Financial Comments (GB 26/09/2016)

53. 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