Nottinghamshire County Council

Report to Finance and Major Contracts Management Committee

15 January 2018

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 8 2017/18

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To provide a summary of capital programme expenditure to date, year-end forecasts and approve the 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 2017/18 budget at its meeting on 23 February 2017. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

Summary Revenue Position

5. The table below summarises the revenue budgets for each Committee for the current financial year. A £8.1m net underspend 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 – Summary Revenue Position

Forecast Variance as at Period 7 £'000	Committee	Annual Budget £'000	Actual to Period 8 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
342	Children & Young People	119,742	80,206	120,144	402
(1,803)	Adult Social Care & Public Health	209,619	122,057	208,230	(1,389)
13	Community & Place	126,485	89,223	125,943	(542)
(72)	Policy	33,980	28,913	33,729	(251)
(257)	Finance & Major Contracts Management	3,229	2,291	3,022	(207)
(53)	Governance & Ethics	7,209	4,937	7,128	(81)
(560)	Personnel	16,262	12,677	15,686	(576)
(2,390)	**Net Committee (under)/overspend**	**516,526**	**340,304**	**513,882**	**(2,644)**
(6,180)	Central items	(10,478)	(33,061)	(17,017)	(6,539)
-	Schools Expenditure	48	-	48	-
-	Contribution to/(from) Traders	505	1,959	605	100
(8,570)	**Forecast prior to use of reserves**	**506,601**	**309,202**	**497,518**	**(9,083)**
313	Transfer to / (from) Corporate Reserves	(15,066)	94	(14,753)	313
241	Transfer to / (from) Departmental Reserves	(10,756)	(984)	(10,047)	709
-	Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(8,016)	**Net County Council Budget Requirement**	**475,279**	**308,312**	**467,218**	**(8,061)**

Committee and Central Items

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

Adult Social Care & Public Health (forecast £1.4m underspend, 0.7% of annual budget)

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

   - Older Adults across the County are forecasting an increased overspend of £2.9m. This is primarily due to increased Long Term Residential/Nursing placements. Though demand and average package costs are increasing for all services and while this can be contained in year, it is likely to present a pressure in future years.
   - Younger Adults across the County are forecast to underspend by £1.3m, due primarily to increased Continuing Health Care income.
   - Expenditure on Section 256 commitments is forecasting an overspend of £0.5m. This is offset by an increased use of reserves.
   - Direct Services are forecast to underspend by £0.8m on staffing.

7. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.5m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.

8. The Transformation Division is forecasting an underspend of £0.5m on the Improved Better Care Fund (IBCF) and Care Act, through slippage on various schemes.

9. Public Health is currently forecasting an underspend of £0.7m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes, Obesity and Smoking and Tobacco. The overall County Council forecast assumes that this net underspend will be transferred to the Public Health reserve.

10. The continued increase in care package commitments will have an even greater impact on next year's budget when the likelihood of receiving additional continuing healthcare income is reduced.

Communities & Place (forecast £0.5m underspend, 0.4% of annual budget)

11. This underspending relates to the anticipated levels of Section 38 and Section 278 income from building works of £0.3m, along with an expected saving of £0.3m in Electricity, Signals and Carbon commitment credits.

Personnel (forecast £0.6m underspend, 3.5% of annual budget)

12. This underspending relates mainly to savings associated with holding vacancies in Business Support and in the Business Support Centre in anticipation of future years' budget reductions, together with additional income from the sale of services to schools.

Central Items (forecast £6.5m underspend)

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

14. At the time of setting the 2017/18 budget, several funding allocations had not been announced, specifically with regard to the impact of business rates revaluations and, therefore, assumptions about certain grants were made based on the best information available at the time. Throughout the year confirmations are received and current forecasts suggest a net additional grant of £1.9m will be received in 2017/18.

15. At the Finance and Major Contracts Management Committee in September 2017, it was approved that the contingency budget would be increased by £3.9m to reflect the in-year savings identified in the Adult Social Care and Public Health Committee. Table 1 assumes that this additional contingency budget will not be spent thereby resulting in a £3.9m underspend.

16. The Council's budget includes a permanent contingency of £5.1m to cover redundancy costs, slippage of savings, the November increase of the Living Wage Foundation rates paid to Authority employees, Business Rates Revaluations, the Apprenticeship Levy and unforeseen events. There is currently £2.9m of the permanent contingency budget that remains uncommitted.

17. There is also a net underspend of £0.7m on Pension enhancements, trading organisations, National Non-Domestic Rates and interest charges.

Progress with savings and risks to the forecast

18. Council on 23 February 2017 approved savings proposals of £1.6m for delivery over the four year period 2017-21. 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. The progress of the Council's current savings programme is reported to the Improvement and Change Sub-Committee on a regular basis. This report highlights all projects that are either experiencing obstacles or are at risk, the latest being 11 December 2017.

Balance Sheet
General Fund Balance

19. Members were asked to approve the 2016/17 closing General Fund Balance of £27.7m at Council on 13 July 2017. The 2017/18 budget approves utilisation of £4.5m of balances which will result in a closing balance of £23.2m at the end of the current financial year. This is 4.9% of the budget requirement.

20. Following approval at Finance and Major Contracts Management Committee in June 2017, a further £1.0m of General Fund balance is now earmarked for use to repair potholes across the County.

Capital Programme

21. Table 2 summarises changes in the gross Capital Programme for 2017/18 since approval of the original Programme in the Budget Report (Council 23/02/17):

Table 2 – Revised Capital Programme for 2017/18

	2017/18	
	£'000	£'000
Approved per Council (Budget Report 2017/18)		102,520
Variations funded from County Council Allocations :		
Net slippage from 2016/17 and financing adjustments	16,214	
		16,214
Variations funded from other sources :		
Net variation from 2016/17 and financing adjustments	331	
		331
Revised Gross Capital Programme		**119,065**

22. 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	39,813	15,659	33,423	(6,390)
Adult Social Care & Public Health	5,912	643	5,975	63
Community & Place	48,320	15,655	46,122	(2,198)
Policy	24,005	11,331	23,839	(166)
Finance & Major Contracts Mngt	220	(141)	220	-
Personnel	295	7	219	(76)
Contingency	500	-	500	-
Total	**119,065**	**43,154**	**110,298**	**(8,767)**

Children & Young People

23. In the Children and Young People's capital programme, a forecast underspend of £6.4m has been identified. This is mainly due to a £4.0m forecast underspend against the Schools Capital Refurbishment Programme. Following scrutiny and challenge of final accounts by the commissioning and delivery property teams, the cost of completed projects is lower than previously forecast. It is also anticipated that an element of the 2017/18 programme will slip into the next financial year as a result of the late notification of grant. A further £0.6m underspend is forecast against the Beardall Street Phase 2 project.

24. In addition, £1.8m of the Clayfields House budget has been re-profiled into future years to reflect the current cash flow forecast following procurement issues encountered on this project.

It is proposed that the Children and Young People's capital programme is varied to reflect the re-profiled Clayfields House forecast.

Adult Social Care & Public Health

25. In the Adult Social Care and Public Health Committee capital programme, the Authority has received a £0.5m Disabled Facilities Grant which funds the purchase of equipment that can enable adults with special needs to remain in their homes.

It is proposed that the Adult Social Care and Public Health Committee capital programme is varied to reflect the £0.5m Disabled Facilities Grant received by the Authority.

Community & Place

26. In the Community and Place Committee capital programme an underspend of £2.2m has been identified. This is mainly as a result of budgets associated with the Energy Saving Project (£0.8m), the Sherwood Forest Visitor Centre (£0.4m) and the Transport and Travel Services (£0.4m) being re-profiled into the next financial year.

It is proposed that the Community and Place Committee capital programme is varied to reflect the re-profiled budgets identified above.

Financing the Approved Capital Programme

27. Table 4 summarises the financing of the overall approved Capital Programme for 2017/18.

Table 4 – Financing of the Approved Capital Programme for 2017/18

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	29,606	10,068	-	139	39,813
Adult Social Care & Public Health	5,605	244	-	63	5,912
Community & Place	14,139	33,558	188	435	48,320
Policy	22,919	817	-	269	24,005
Finance & Major Contracts Mngt	-	-	-	220	220
Personnel	295	-	-	-	295
Contingency	500	-	-	-	500
Total	**73,064**	**44,687**	**188**	**1,126**	**119,065**

28. It is anticipated that borrowing in 2017/18 will increase by £9.4m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

- £16.2m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
- Net slippage in 2017/18 of £6.8m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

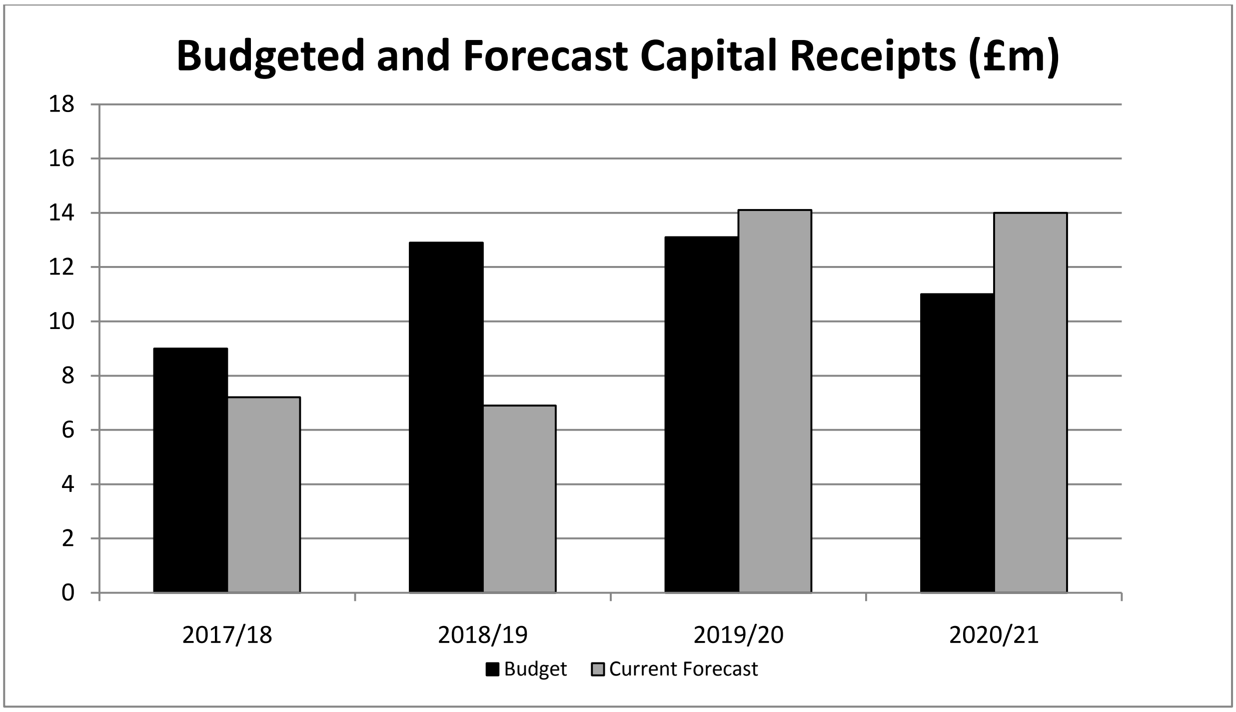
Prudential Indicator Monitoring

29. 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

30. 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.

31. The chart below shows the budgeted and forecast capital receipts for the four years to 2020/21.



32. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2017/18 (Council 23/02/2017). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

33. The capital receipt forecast for 2017/18 is £7.2m. To date in 2017/18, capital receipts totalling £1.4m have been received.

34. 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.

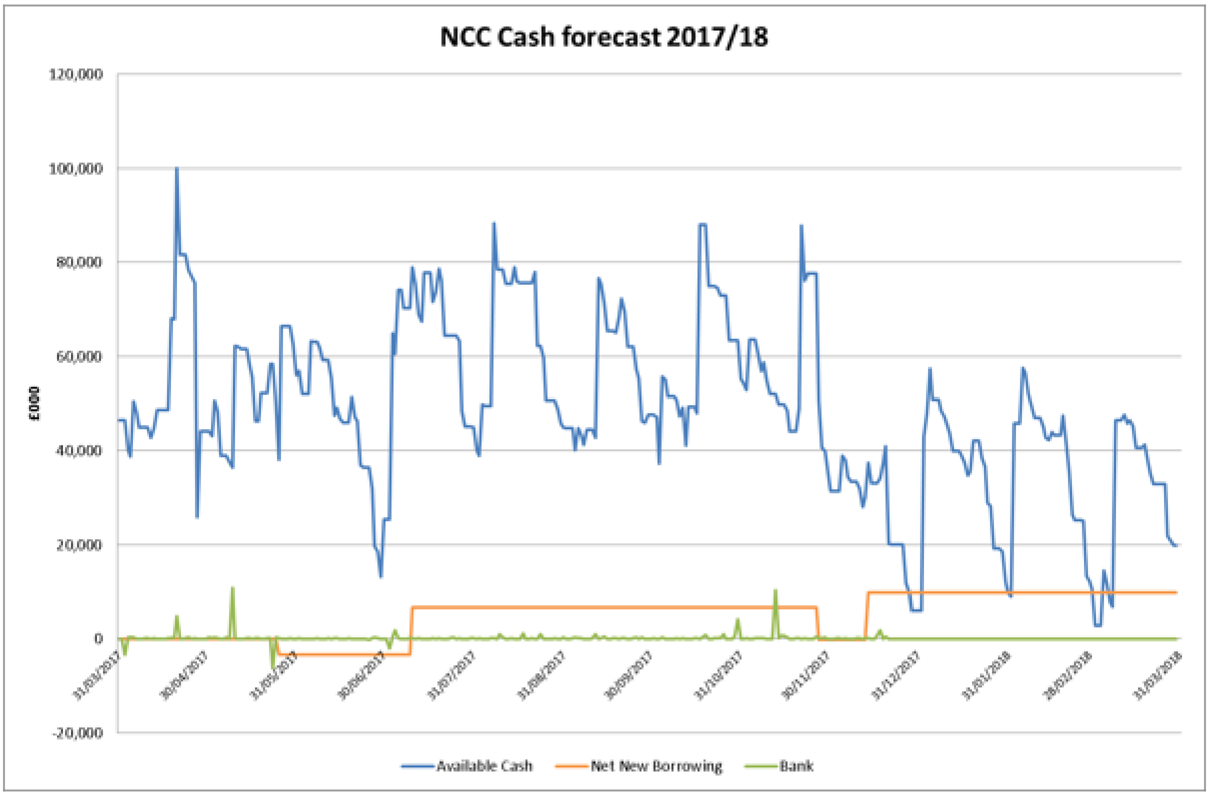
35. A full review of capital receipts has recently been undertaken. The outcome of this review has resulted in £1.8m slippage from 2017/18 and a further £6.0m slippage from 2018/19. There is also further slippage into 2021/22 but overall the total capital receipts forecast remains relatively stable over the longer term.

36. Current Council policy (Budget Report 2017/18) is to use the first £2.6m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will set against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

37. 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.

38. The Cash forecast chart below shows the actual cash flow position for the financial year 2017/18. 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 shows a clear need for the Council to borrow during the course of the year.

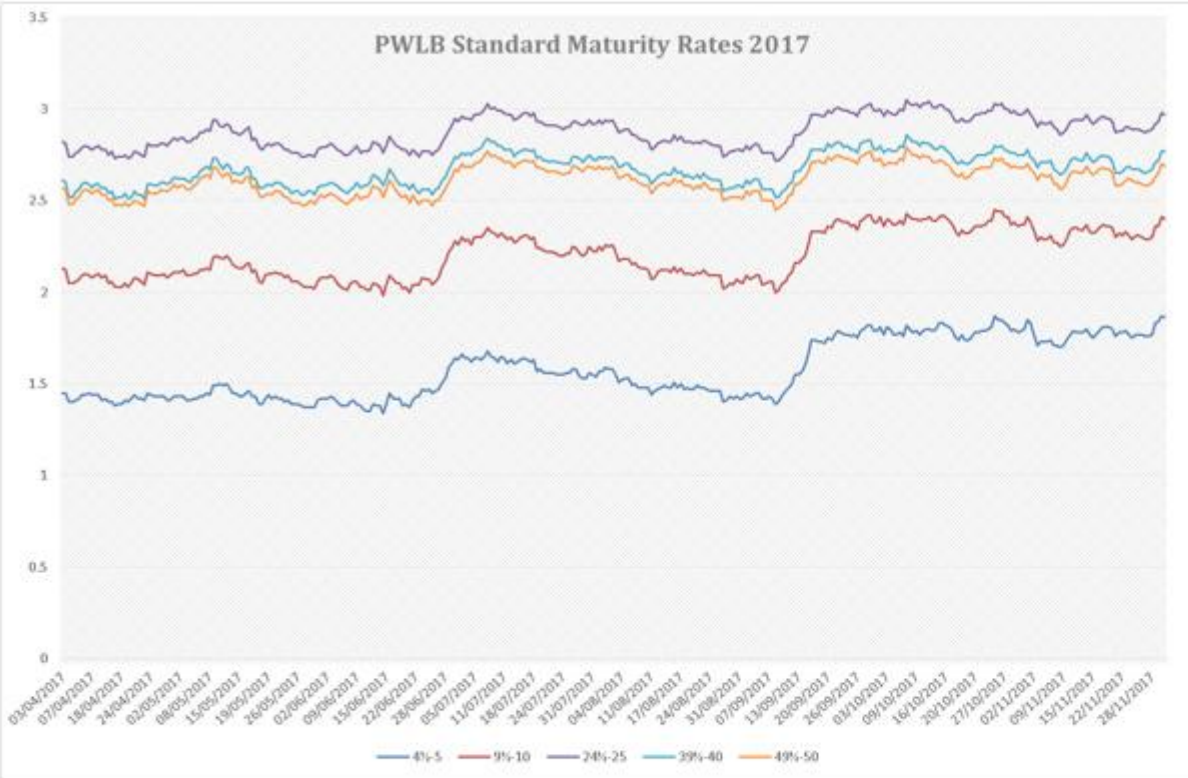


39. The chart above gives the following information:

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

40. The Treasury Management Strategy for 2017/18 identified a need to borrow approximately £30m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. The first £10m tranche of this was taken from PWLB on 10 July, and a second £10m tranche on 14 December. Both these tranches are reflected in the cash forecast chart above. 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. The chart below shows the movement in standard PWLB maturity rates over the course of 2017 so far.

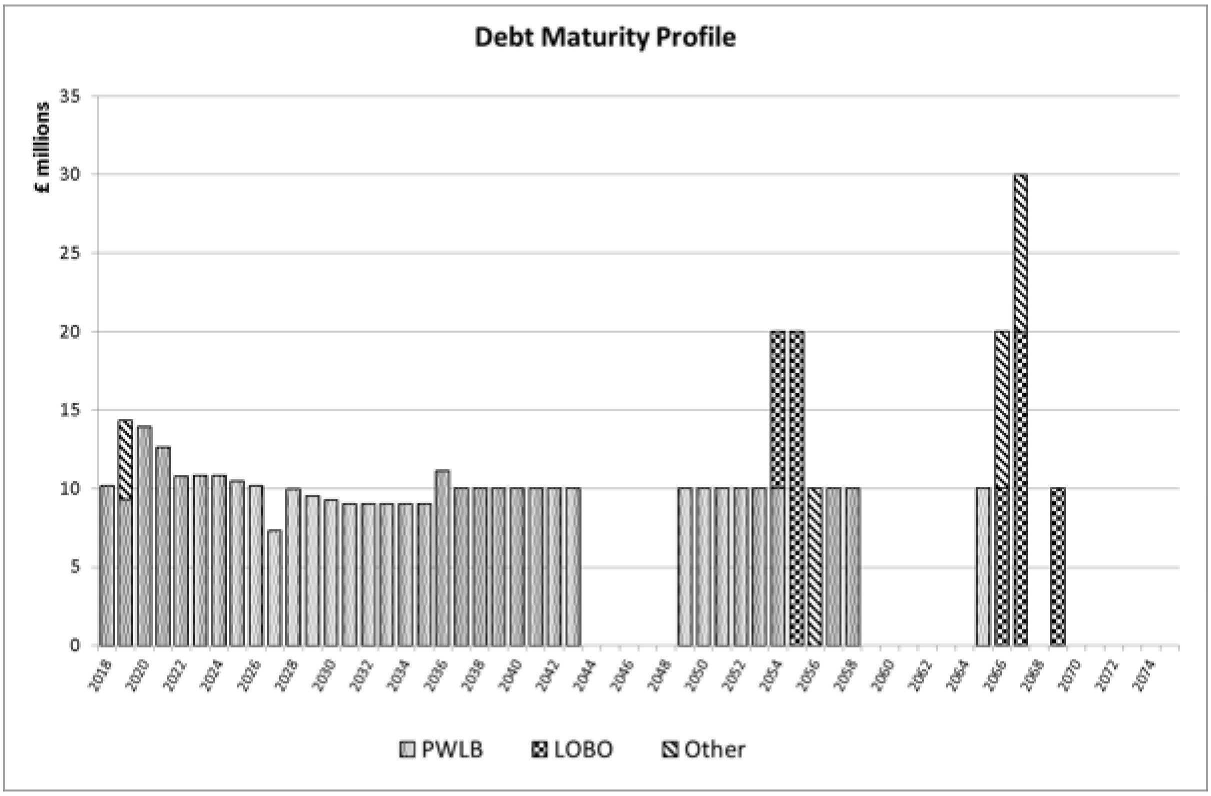


41. Borrowing decisions will take account of a number of factors including:
    - expected movements in interest rates
    - current maturity profile
    - the impact on revenue budgets and the medium term financial strategy
    - the treasury management prudential indicators.

42. 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 47 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.

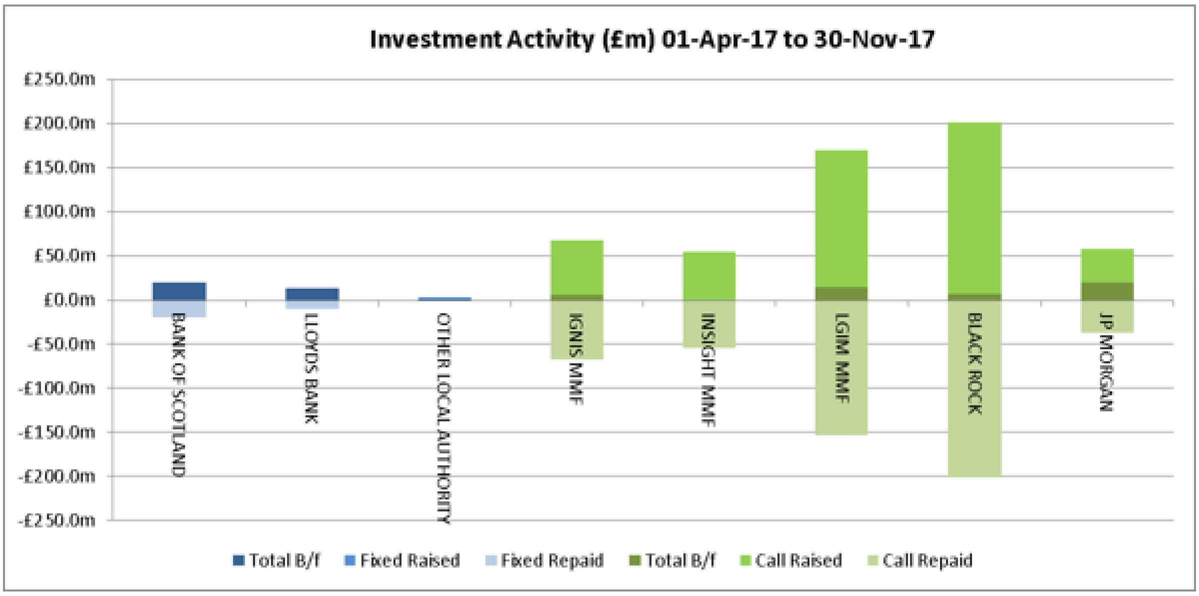
43. Longer-term borrowing (maturities up to 52 years) was obtained from the market some years ago in the form of ‘Lender’s Options, Borrower’s Options’ loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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.

44. The ‘other’ loans denote borrowing from the money markets where the main objective was to minimise interest costs, and also includes loans from Barclays Bank that were converted from LOBOs to fixed-term loans in 2016.



45. The investment activity for 2017/18 to the end of November 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £41m at the end of the period. This reduction includes the effect of making a £39m contribution to the Nottinghamshire Pension Fund in order to reduce the contributions deficit.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	20,000	-	(20,000)	-
Lloyds Bank	13,000	-	(10,000)	3,000
Other Local Authority	1,500	1,450	(1,450)	1,500
IGNIS MMF	6,000	61,450	(67,450)	-
Insight MMF	-	54,450	(54,450)	-
LGIM MMF	13,950	155,700	(153,350)	16,300
Black Rock	6,500	194,900	(201,400)	-
JP Morgan	20,000	37,250	(37,250)	20,000
Total	**80,950**	**505,200**	**(545,350)**	**40,800**



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

Statutory and Policy Implications

47. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

1) To comment on the revenue budget expenditure to date and year-end forecasts.

2) To comment on the capital programme expenditure to date, year-end forecasts and approve the variations to the Capital Programme.

3) To comment on the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:
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Tamsin Rabbitts - Senior Accountant, Pensions and Treasury Management

Constitutional Comments (GR 02/01/2018)

48. Pursuant to the County Council's Constitution the proposals as set out within this report are within the remit of the Finance and Major Contracts Management Committee.

Financial Comments (GB 20/12/2017)

49. 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