

**REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND
IMPROVEMENT****FINANCIAL MONITORING REPORT: PERIOD 5 2022/2023****Purpose of the Report**

1. To provide Cabinet with a summary of the budget monitoring position as at Period 5.

Information and Advice**Background**

2. The Council approved the 2022/23 budget at its meeting on 24 February 2022. As with previous financial years, progress updates will be closely monitored and reported to management and either the Cabinet Member for Finance or Cabinet each month.

Summary Revenue Position

3. The table below summarises the revenue budgets for each Portfolio for the forthcoming financial year. An overspend of £4.4m, representing 0.78% of the Council's net annual budget, is currently projected against the budget approved by Full Council in February 2022. As a consequence of this adverse variance and the significant levels of uncertainty and financial challenges facing the Council over the medium term, the key message to effectively manage budgets and, wherever possible, deliver in-year savings is being reinforced.

Table 1 – Summary Revenue Position

Forecast Variance as at Period 4	Portfolio	Annual Budget £'000	Actual to Period 5 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
2,004	Children & Young People	166,498	55,369	168,421	1,923
715	Adult Social Care & Public Health	238,123	77,138	237,428	(695)
683	Transport & Environment	116,225	30,137	118,121	1,896
301	Communities	18,582	3,055	19,781	1,199
490	Economic Development & Asset Management	25,675	8,847	26,197	522
(192)	Deputy Leader & Transformation	5,218	1,782	5,047	(171)
(64)	Finance	16,381	4,924	16,335	(46)
2	Personnel	26,340	11,322	26,486	146
3,939	Net Committee (under)/overspend	613,042	192,574	617,816	4,774
(1,000)	Central items	(36,253)	(15,839)	(37,253)	(1,000)
-	- Schools Expenditure	677	-	677	-
284	Contribution to/(from) Traders	(782)	794	(782)	-
3,223	Forecast prior to use of reserves	576,684	177,529	580,458	3,774
-	- Transfer to / (from) Corporate Reserves	(6,520)	-	(6,520)	-
475	Transfer to / (from) Departmental Reserves	(10,692)	7	(10,075)	617
-	- Transfer to / (from) General Fund	-	-	-	-
3,698	Net County Council Budget Requirement	559,472	177,536	563,863	4,391

Portfolio Variations

Children & Young People's (£1.9m overspend, 1.15% of the net portfolio budget)

- The Children and Young People's portfolio is currently forecasting an overspend of £1.9m after the planned use of grant reserves. This mainly relates to a £1.5m overspend in Commissioning and Resources as well as a range of more minor overspends across the department.
- The Commissioning and Resources Division variance relates to a forecast overspend against external Looked After Children placement costs and Internal Residential Homes budgets, offset by underspends in Children's Centre and internal foster care payment budgets.
- Much of the overspend is due to general market conditions with demand outstripping supply in all placement types, plus the impact of inflation. It is increasingly difficult to secure Independent Fostering Agency placements, resulting in more costly alternatives, consequently the weighted average placement cost is increasing.
- In view of the high cost of external residential placements the forecast is highly sensitive to changes in numbers, weekly costs, and placement mix. There are robust monitoring processes to track trend data, average costs, and actual numbers of children in placement to highlight potential issues as soon as possible.

8. A number of actions are being progressed to mitigate the forecast overspend position, as follows:

- Introducing an accommodation panel to ensure that all creative and flexible solutions have been considered, to give young people and their families the best possible support to enable where possible, the young person to remain within their family network. This will look at utilising existing edge of care capacity more effectively, as well as drawing in the new edge of care team.
- Strengthening the senior oversight of decision-making around placement moves where residential care is being requested.
- Improving the kinship support offer to friends and family members caring for a child in care or at risk of being in care.
- Implementing plans to improve the recruitment and retention of NCC foster carers.
- Growing internal and not-for-profit residential care to reduce the numbers of children being cared for in spot purchase residential placements.

Adult Social Care & Public Health (£0.7m underspend, 0.29% of the net portfolio budget)

9. The Adult Social Care & Public Health portfolio is currently reporting a forecast underspend of £0.7m. This is mainly due to underspends in Direct & Provider Services (£2.5m), Maximising Independence (£0.4m), Strategic Commissioning and Integration (£1.0m) and Public Health (£0.8m), being partly offset by an overspend in Living Well and Ageing Well (£4.0m).

10. The underspend in Direct & Provider Services is across all services and is mainly due to the following:

- Anticipated additional NHS Continuing Healthcare income into residential services which is positive in supporting people with complex health and social care needs.
- Increased underspend in Day Services due to slippage on recruitment. Although the vacancy rate is high and the majority of posts need to be recruited to maintain service continuity, retaining a proportion of vacancies will assist in redesigning services and job roles in response to the recently launched Day Opportunities Strategy.

11. The forecast overspend in Living Well continues to reduce, mainly due to more accurate forecasting of anticipated spend and demand by teams and ongoing issues / slippage in recruiting to vacant posts.

12. Living Well spend continues to be challenging, particularly in relation to increasing needs and market forces, where there is limited availability of services, particularly for people with complex needs, which results in lack of market competition and high placement costs. A number of actions are being taken to mitigate this as follows:

- Close oversight of placement decisions through an effective panel process.
- Joint work with Strategic Commissioning to develop the external provider market and maximise how we utilise contracted services.
- A focus on taking a strengths-based approach to support, to maximise independence and reduce the need for formal support.

- Reviewing the transition of young people approaching adulthood to ensure that interventions are timely and cost effective. This will form part of the focused budget setting work over the summer period.
- A joint programme of work relating to home care and Housing with Care has been set out which will help to develop community alternatives that are cost effective and improve outcomes for our residents.

Transport & Environment (£1.9m overspend, 1.63% of the net portfolio budget)

13. The Transport & Environment portfolio is currently reporting a forecast overspend of £1.9m. This consists of forecast overspends of £0.9m against the Via East Midlands Contract, £0.3m against concessionary fares, £0.3m against Fleet Operations and £0.4m across a range of other service areas.
14. The Via contract overspend is due to increased inflationary pressures across the highways sector. Maintaining the current planned service requirements will result in an additional contractual payment of £0.9m against the original budgeted amount. A review of revenue activity and spend in Via is being initiated with a view to maintain service levels but reduce costs to mitigate part of the predicted overspend. A company-wide operations and efficiencies review is also underway.
15. A number of actions are being undertaken, both within this portfolio and across the wider Place Department, to mitigate forecast overspends, including tighter controls upon recruitment, line-by-line review of discretionary spend, service reviews and exploration of in-year savings opportunities.

Communities (£1.2m overspend, 6.45% of the net portfolio budget)

16. The Communities portfolio is currently reporting a forecast overspend of £1.2m. This consists of a forecast overspend against the Inspire contract as well as more minor overspends across a range of other services areas.
17. The Inspire contract £0.8m forecast overspend is mainly due to increased salary costs as a result of the current proposed Local Government proposed pay award alongside increased costs associated with energy and fuel. A review of this budget is to be undertaken with a view to minimising the forecast overspend.

Economic Development & Asset Management (£0.5m overspend, 2.03% of the net portfolio budget)

18. The Economic Development and Asset Management portfolio is currently reporting a forecast overspend of £0.5m which is mainly due to rising energy costs (£0.3m) and additional staffing costs (£0.2m) against the Growth and Development property budget. A number of actions are being undertaken, both within this portfolio and across the wider Place Department, to mitigate forecast overspends, including tighter controls upon recruitment, line-by-line reviews of discretionary spend, service reviews and exploration of in-year savings opportunities.

Traded Services

19. Schools Catering is currently forecasting a breakeven budgetary position. It is important to note however that the service is experiencing a number of significant pressures with respect to increasing food prices, production costs and wage inflation as well as reduced take up of meals. The service is instigating a number of measures to mitigate these pressures.

Central Items (£1.0m underspend)

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

21. Interest projections (both payable and receivable) fluctuate depending on expectations in relation to future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net underspend on interest of £1.0m.

22. The Council's budget includes a base contingency budget of £4.0m to cover redundancy costs, slippage of savings and other potential unforeseen events. Also, in 2022/23 further demand and inflationary pressures have been identified that have a degree of uncertainty with regard to likelihood, value and profiling; including assumptions on pay awards. As such, an additional provision of £13.3m has been made within the contingency to fund these pressures should they arise. The Cabinet, Cabinet Member for Finance or the Section 151 Officer are required to approve the release of contingency funds.

Requests for Contingency

23. There has already been a call on the 2022/23 contingency budget from requests that have been approved by the previous Finance Committee, Cabinet or the Section 151 Officer which total £4.1m. Table 1 assumes that the remaining contingency budget will be utilised in full for future requests.

Main Areas of Risk within the 2022/23 budget

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

- Any on-going financial impact of the COVID19 pandemic and the implications that this may have on the delivery of Council services.
- The cost pressures factored into the Council's budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to Adults and Children's Social Care Services, Transport Services, the impact of the National Living Wage, agreement of the pay award, the impact of the proposed Adult Social Care reform as well as any additional burdens identified by Central Government.
- The COVID19 pandemic coupled with the UK leaving the EU has had a significant impact on the availability of staffing resource particularly in the social care sector as recruiting and retaining care staff across social care services remains difficult. Staff shortages have also been experienced in catering, facilities management and waste services.

- Whilst the Council is somewhat protected from immediate inflation on direct energy costs through the advanced purchasing arrangement with Crown Commercial Services (CCS), wider inflationary pressures driven by energy costs could have a detrimental impact across a whole range of service areas.
- Fuel prices which are at a record high, will also be felt across all areas of the organisation in due course, with the potential for contracts to become unaffordable for the council or unviable for some service providers.
- The 2022/23 Settlement reflected a one-year settlement only. As a result, estimated future increases in Central Government grants that are set out in the MTFS may not be in line with future announcements.
- Higher costs associated with the capital programme due to material shortages and increases in the cost of construction and other key materials.

Balance Sheet

General Fund Balance

25. Cabinet approved the 2021/22 closing General Fund Balance of £35.2m on 14 July 2022. This balance represents 6.2% of the net budget requirement.

Capital Programme

26. Table 2 summarises changes to the gross Capital Programme for 2022/23 since approval of the original Programme in the Budget Report (Council 24/02/22):

Table 2 – Revised Capital Programme for 2022/23

	2022/23	
	£'000	£'000
Approved per Council (Budget Report 2022/23)		126,879
Variations funded from County Council Allocations : Net slippage from 2021/22 and financing adjustments	19,641	
		19,641
Variations funded from other sources : Net variation from 2021/22 and financing adjustments	2,420	
		2,420
Revised Gross Capital Programme		148,940

27. Table 3 shows actual capital expenditure to date against the forecast out-turn at Period 5.

Portfolio	Revised Capital Programme £'000	Actual Expenditure to Period 5 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	47,546	14,745	47,593	47
Adult Social Care & Public Health	1,073	259	1,073	-
Transport & Environment	52,639	11,527	52,639	-
Communities	3,225	451	3,232	7
Economic Devt & Asset Mngt	28,832	1,937	28,832	-
Finance	11,600	3,919	9,330	(2,270)
Personnel	106	22	106	-
Contingency	3,919	-	3,919	-
Total	148,940	32,860	146,724	(2,216)

28. In the Finance portfolio capital programme, a forecast underspend of £2.3m is currently being reported. This is due to expected slippage of £2.3m against the Microsoft Enterprise Agreement capital budget. Future costs associated with this programme are currently under review. A variation to the capital programme will be sought through the usual capital approval processes once future costs have been agreed. At this stage, the Section 151 officer has approved that £2.3m of funding is slipped into future financial years.

Variations to the Capital Programme

29. Under the Council's new governance arrangements, in addition to the capital variation set out above, the Section 151 officer has approved variations to the capital programme as set out in the following paragraphs:

Children & Young People (CYPS)

30. **School Places** - The Authority has been successful in securing a £0.3m S106 contribution to carry out works at the Flying High Academy Primary School in Hucknall to provide additional school places. The CYPS portfolio capital programme has been varied to reflect the £0.3m S106 contribution.

Transport & Environment (T&E)

31. **Electric Vehicle Infrastructure Fund** - The Authority has been successful in securing £0.8m of external funding from the Department for Transport to fund an Electric Vehicle Infrastructure Programme. The T&E portfolio capital programme has been varied by £0.8m to reflect receipt of the external funding from the Department for Transport.

Financing of the Approved Capital Programme

32. Table 4 summarises the financing of the overall approved capital programme for 2022/23

Table 4 – Financing of the Approved Capital Programme for 2022/23

Portfolio	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	27,543	19,753	200	50	47,546
Adult Social Care & Public Health	43	851	-	179	1,073
Transport & Environment	10,699	40,690	726	524	52,639
Communities	3,035	170	20	-	3,225
Economic Devt & Asset Mngt	22,991	4,667	100	1,074	28,832
Finance	7,725	2,040	-	1,835	11,600
Personnel	106	-	-	-	106
Contingency	3,919	-	-	-	3,919
Total	76,061	68,171	1,046	3,662	148,940

33. It is anticipated that borrowing in 2022/23 will increase by £17.3m from the forecast in the Budget Report 2022/23 (Council 24/02/22). This increase is primarily a consequence of:

- £19.6m of net slippage from 2021/22 to 2022/23 and financing adjustments funded by capital allocations.
- Net slippage in 2022/23 of £2.3m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

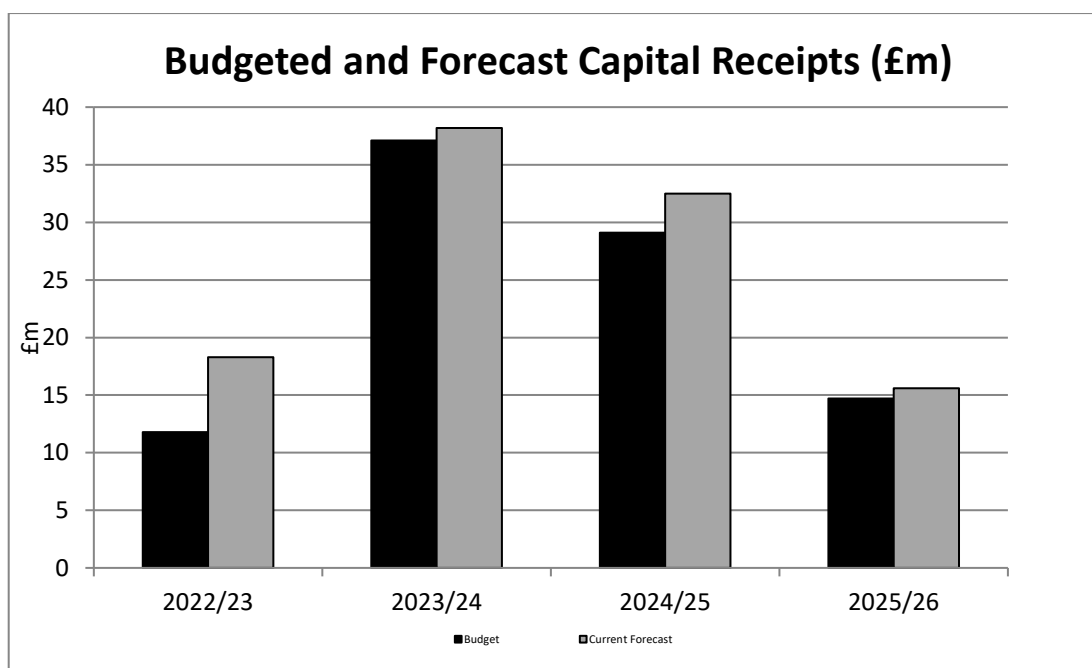
Prudential Indicator Monitoring

34. 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

35. 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.

36. The chart below shows the budgeted and forecast capital receipts for the four years to 2025/26.

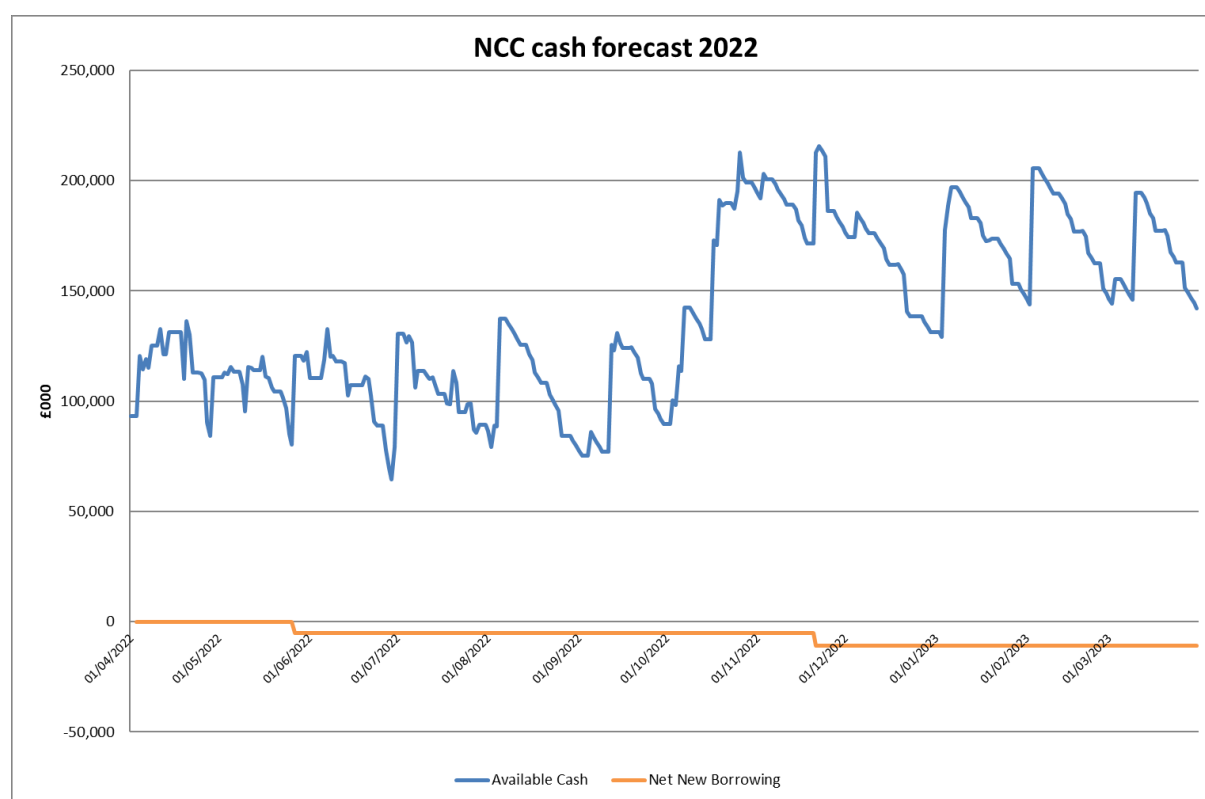


37. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2022/23 (Council 24/02/2022). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.
38. The capital receipt forecast for 2022/23 is £18.3m. To date in 2022/23, £0.1m of capital receipts have been received.
39. 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.
40. Current Council policy (Budget Report 2022/23), to minimise the impact of the cost of borrowing on the revenue budget, is to use capital receipts to the value approved as part of the 2021/22 Budget Report to set against previous years’ borrowing thereby reducing the impact of the Minimum Revenue Provision on the revenue accounts. This will enable excess capital receipts to be used to fund future additional capital investment.

Treasury Management

41. Daily cash management aims for a closing nil balance across the Council’s pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group (TMG).
42. The cash forecast chart below shows the current estimated cash flow position for the financial year 2022/23. Cash inflows are typically higher at the start of the year due to the front-loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart below reflects this. Also, expected borrowing in support of capital expenditure is not included in the forecast.

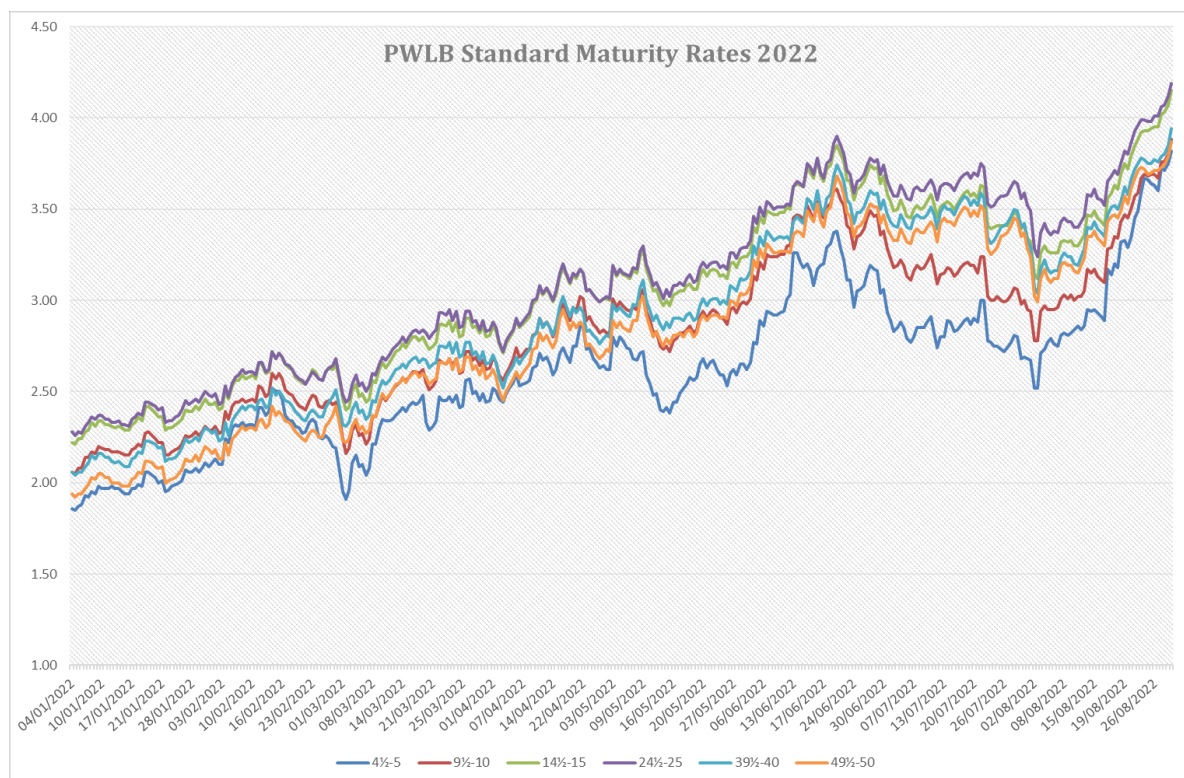
The chart thereby helps highlight the points in the year when such borrowing will be necessary, and it is monitored daily so that treasury management staff can act comfortably in advance of the cash being required, the aim being to maintain adequate but not excessive liquidity.



43. 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.

44. The Treasury Management Strategy for 2022/23 identified a need to borrow approximately £20m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. However, more recent forecasts show that the Council should be able to make use of internal borrowing until next financial year. PWLB interest rates continue to be monitored closely to allow changes - or potential changes - in rates to feed into decisions on new borrowing. The Council remains able to take advantage of the PWLB “certainty rate” which is 0.2% below the standard rates, although rate rises this year have somewhat nullified the benefit. The chart below shows the movement in standard PWLB maturity rates over the course of 2022 so far.



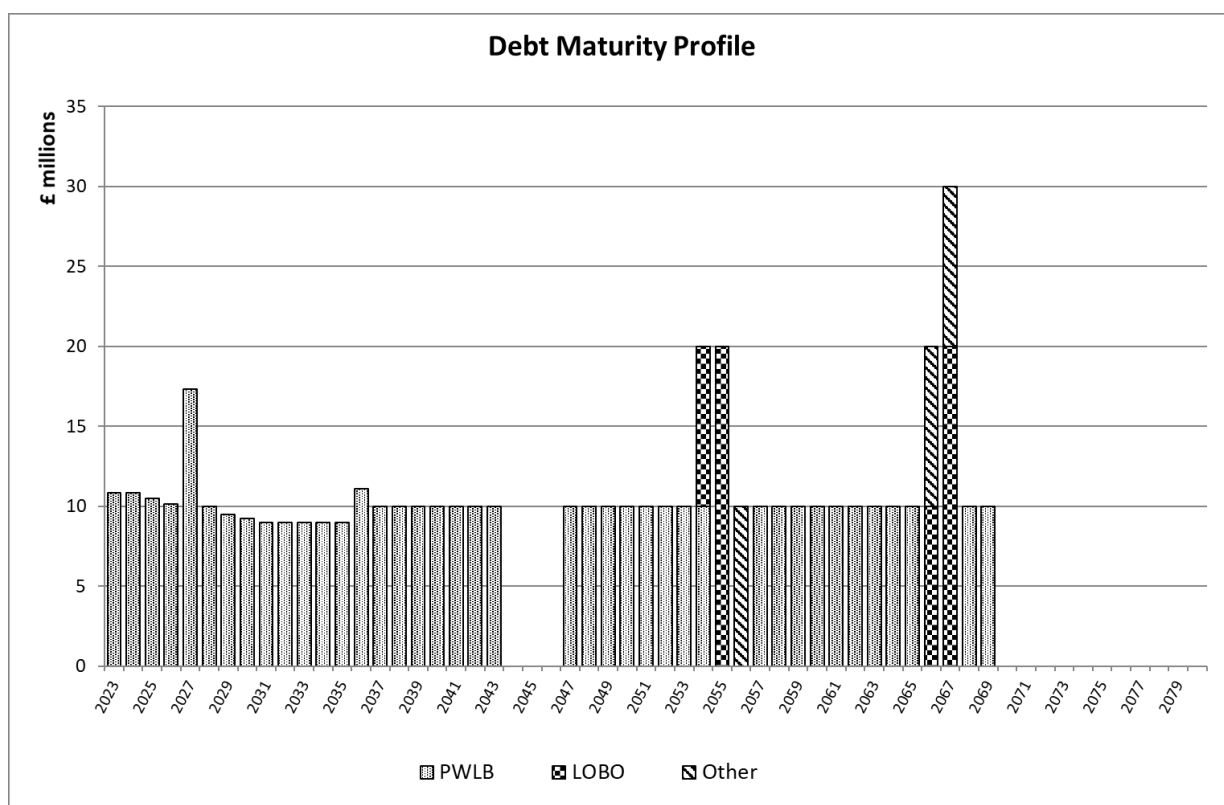
45. Borrowing decisions will take account of a number of factors including:

- 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 50 years. When deciding on the lengths of future loans the Council will factor in any gaps in its maturity profile, with a view to minimising interest rate risk, but will consider this alongside other financial factors.

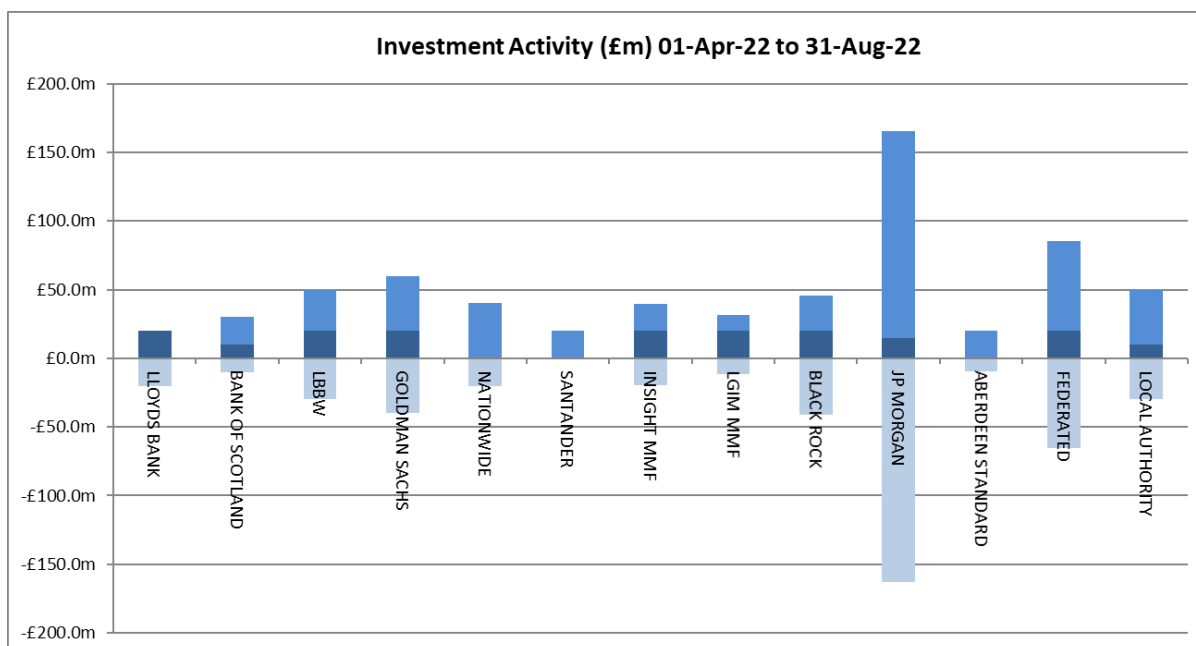
47. Long-term borrowing was also obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. However, LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

48. The 'other' loans shown in the chart consists of fixed-term loans from Barclays Bank.



49. The investment activity for 2022/23 to date is summarised in the chart and table below. Outstanding investment balances totalled approximately £175m at the start of the year and £197m at the end of August.

	Total B/f £000	Total Raised £000	Total Repaid £000	Outstanding £000
LLOYDS BANK	20,000	0	-20,000	0
BANK OF SCOTLAND	10,000	20,000	-10,000	20,000
LBBW	20,000	30,000	-30,000	20,000
GOLDMAN SACHS	20,000	40,000	-40,000	20,000
NATIONWIDE	0	40,000	-20,000	20,000
SANTANDER	0	20,000	0	20,000
INSIGHT MMF	20,000	19,450	-19,450	20,000
LGIM MMF	20,000	11,500	-11,500	20,000
BLACK ROCK	20,000	25,500	-41,150	4,350
JP MORGAN	14,800	150,350	-163,200	1,950
ABERDEEN STANDARD	0	20,000	-9,450	10,550
FEDERATED	20,000	65,200	-65,200	20,000
LOCAL AUTHORITY	10,000	40,000	-30,000	20,000
	174,800	482,000	-459,950	196,850



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

Statutory and Policy Implications

51. 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) For Cabinet to:-

- Note the individual Portfolio revenue budgets for 2022/23.
- Note the contingency requests submitted to date.
- Note the summary of capital expenditure to date, year-end forecasts and variations to the capital programme.
- Note the Council's Balance Sheet transactions.

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Constitutional Comments (GR 23/09/2022)

52. Pursuant to the Nottinghamshire County Council Constitution the Cabinet has delegated authority to receive and consider this report in accordance with the recommendations.

Financial Comments (GB 21/09/2022)

53. 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'