

**REPORT OF THE CHAIRMAN OF FINANCE & MAJOR CONTRACTS
MANAGEMENT COMMITTEE**

MANAGEMENT ACCOUNTS 2019/20

Purpose of the Report

- 1.1 To inform Council of the year end position for the 2019/20 Management Accounts.
- 1.2 To request that Council approves the transfer from the General Fund Balances of £2.1m.
- 1.3 To inform Council of the position on other reserves of the Authority.
- 1.4 To inform Council of the year end position for the 2019/20 Capital Programme and its financing.
- 1.5 To inform Council that capital expenditure and borrowing in 2019/20 were managed within the Council's Prudential Indicators.
- 1.6 To inform Council of Treasury Management activities during 2019/20.

Information and Advice

2. Background

- 2.1 It is important to note that this Management Accounts report has been put together at a time when the Council is responding to the consequences of COVID-19. A large number of services, resources, functions, plans and programmes have been re- and de-prioritised as the Council has had to respond to a rapidly changing and fluid situation that has included the regular provision of new guidance and legislation. A report which sets out the impact of COVID-19 crisis on the work of Nottinghamshire County Council and the Council's response was reported to Policy Committee on 17 June 2020.
- 2.2 A Financial Resilience Group has been set up to consider the financial impact arising from the COVID-19 crisis. This Group will focus on reviewing variables such as additional costs, lost income, impact on savings plans, use of reserves and cash flow position as well as additional grant received from the Government in order to assess the impact upon the Medium-Term Financial Strategy. Regular reports will be provided to the Corporate Leadership Team and Members to keep them informed about the financial implications of the crisis.
- 2.3 The financial position of the County Council has been monitored throughout the financial year, with monthly reports to the Corporate Leadership Team and the Finance and Major Contracts Management Committee providing an update of progress, thus ensuring decision makers had access to financial information on a timely basis. Draft Management Accounts

were reported to Policy Committee on 17 June 2020, this report is the final out-turn for 2019/20, and this is in line with the forecast position.

3. Summary Financial Position

- 3.1 Due to the significant financial challenges facing the Authority, particularly around the increased cost and demand for Children’s Social Care services, Committee budgets are showing a net overspend of £4.2m or 0.8% of net Committee budgets. This compares to a period 10 forecast overspend of £6.2m. An exercise to fully understand the permanent or temporary nature of both overspends and underspends is to be undertaken. Permanent underspends will be removed from the base budget to fund specific future priorities and support the strategy required to meet the £28.3m shortfall in funding across the medium term. This approach was approved as part of the 2020/21 Annual Budget Report to Full Council in February 2020.
- 3.2 The level of General Fund balances, subject to approval by County Council, will decrease by £2.1m to £22.0m. This results in a closing balance that is in line with the revised budget.
- 3.3 Table 1 shows the summary revenue position of the County Council. Further detail, including the position on reserves, is provided in the appendices to this report.

Table 1 – Summary Financial Position

Committee	Final Budget £'000	Draft Out-turn £'000	Draft Variance £'000	Percentage Variance to Annual Budget
Children & Young People	126,982	136,672	9,690	7.6%
Adult Social Care & Public Health	208,954	202,424	(6,530)	(3.1%)
Communities & Place	124,666	126,155	1,489	1.2%
Policy	38,065	38,079	14	0.0%
Finance & Major Contracts Management	3,437	3,097	(340)	(9.9%)
Governance & Ethics	7,282	7,402	120	1.6%
Personnel	15,291	15,029	(262)	(1.7%)
Net Committee (under)/overspend	524,677	528,858	4,181	0.8%
Central items	(20,954)	(51,238)	(30,284)	
Contribution to Schools Expenditure	199	199	-	
Contribution to/(from) Traders	491	1,255	764	
Forecast prior to use of reserves	504,413	479,074	(25,339)	
Transfer to / (from) Corporate Reserves	(3,243)	19,130	22,373	
Transfer to / (from) Departmental Reserves	(11,643)	(8,664)	2,979	
Transfer to / (from) General Fund	(2,099)	(2,112)	(13)	
Net County Council Budget Requirement	487,428	487,428	-	

4. Net Committee Spend

The overall net overspend within the Committees is £4.2m and the principal reasons for the variations are detailed below.

4.1 Children & Young People (£9.7m overspend, 7.6% of Committee budget)

The overspend has been caused primarily by rapidly increased demand for children’s care services. Allied with unavoidably high unit costs this has had a large impact on demand led

budgets. This increased demand is also being experienced nationally and consequently adds additional market pressures.

The major contributing variances are:

- External Placements for Looked After Children overspent by £8.7m, of which £1.7m is attributable to earlier growth in the number of Independent Fostering Agency placements, together with £4.6m Residential and £2.4m on semi-independent spot placements. From the beginning of April to the end of December external LAC numbers increased by 42 to 440, which very closely tracked the long-term trend of an average of 5 extra per month.
- There is a £1.3m overspend on Children's Social Work staffing budgets. This has arisen due to a combination of staffing changes including permanent recruitment to vacancies, additional capacity staff to respond to continuing increased workload and maintain manageable caseloads; and agency workers. All agency posts continue to require the explicit approval of the Service Director Youth, Families & Social Work and are subject to scrutiny by the quarterly Agency Challenge Panel.

There is a net £0.3m underspend across a range of other budgets.

As reported previously to Finance and Major Contracts Management Committee, in addition to existing high-level budget control actions a more detailed Action and Recovery Plan has been prepared and continues to be monitored against.

4.2 Adult Social Care and Public Health (£6.5m underspend, 3.1% of Committee budget)

Within Adult Social Care and Public Health the main variances were:

- £2.9m underspend within Strategic Commissioning and Integration primarily due to £1.4m additional Client Contributions as a result of care package demand and a £0.9m underspend from the closure of Care and Support Centres due to fewer long-term residents.
- £1.3m underspend against Living Well and Ageing Well budgets. This consists of an underspend of £2.5m in Living Well, offset by an overspend of £1.2m in Ageing Well.

In addition, there was a £2.3m underspend in Public Health. This was primarily due to a contract variation on the Public Health Need 0-19 contract which has reduced the contract in year by £1.5m. In addition, there were smaller underspends across all other areas within the Public Health budget. As the Public Health Grant is ringfenced, this underspend has been transferred to reserves for use in future years.

4.3 Communities and Place (£1.5m overspend, 01.2% of Committee budget)

There is an overspend of £1.8m against the SEND / Home to School transport budget. This is mainly due to pre-16 transport where there was an increase of 160 pupils requiring SEN transport, driven by the upturn in Educational Health Care Plans, of which 47% are then assessed for SEN transport. This is national issue and a review of transport provision is underway looking at charging demand and the efficiency of routes.

There is also an overspend of £0.5m on Coroners based on advice from Nottingham City Council (who manage the service) and is due to an increase in the annual cost of mortuary services

These underspends are offset by a number of smaller underspends on other services such as Highways Client (£0.2m), Waste and Energy (£0.2m), Emergency Planning and Registration (£0.3m) and Communities Staffing and Grants (£0.2m).

There is a net £0.1 overspend across a range of other budgets.

4.4 Policy (£0.0m underspend, 0.0% of Committee budget)

There are no major variances to report.

4.5 Finance and Major Contracts Management (£0.3m underspend, 9.9% of Committee budget)

The £0.3m underspend has mainly arisen due to staffing vacancies within the Finance and Procurement Groups.

4.6 Governance and Ethics (£0.1m overspend, 1.6% of Committee budget)

There are no major variances to report.

4.7 Personnel (£0.3m underspend, 1.7% of Committee budget)

The £0.3m underspend is mainly due to savings in the Business Support service where there was a proactive strategy to hold vacant posts to ensure the delivery of future known savings requirements.

4.8 Traders Services (£0.8m overspend)

Traders are expected to be neutral in cost for the year, with any underspend being transferred to reserves to fund future expenditure and any overspend being covered by a use of reserve. There are overspends for County Supplies (£0.3m), Cleaning and Landscapes (£0.2m) and Catering Services (£0.3m). There are no reserves available to fund these deficits and so they will fall to be funded from the General Fund.

5 Central Items (£30.3m underspend)

Central Items primarily consists of interest on cash balances and payments on borrowing, contingency, capital charges and various grants. Key variances are outlined below including against the contingency budget and as a consequence of the receipt of Government Funding for COVID-19. There were various minor under and overspends (net total £0.6m underspend) within the rest of central items category, details of which can be found in Appendix A.

5.1 Contingency (£5.1m underspend) (for detail please refer to Appendix C)

As reported to Finance and Major Contracts Management Committee in September 2019 and October 2019 the contingency budget was increased by £1.0m and £4.1m respectively to reflect a reduction to a budget pressure in the Adult Social Care and Public Health Committee. As forecast, this additional contingency budget was not spent thereby resulting in a £5.1m underspend. The residual 2019/20 contingency budget totalled £5.0m and was used to fund redundancy costs, slippage of savings and other unforeseen events. A detailed breakdown is provided in Appendix C of this report.

5.2 Government Grants (£25.6m underspend)

On 19 March 2020, the Government announced £1.6bn of additional funding for Local Government to help respond to COVID-19 pressures across all services. Nottinghamshire County Council's share of this emergency fund totalled £22.3m. This funding was received on 27 March 2020 and, given its un-ringfenced nature, was transferred to the COVID-19 reserve to fund emergency costs in the next financial year.

Several non-ringfenced grants sit centrally, but values are not normally confirmed until after the budget is set in the February of each year, which results in year-end variances to budget. Overall these grants have resulted in a £3.3m underspend.

5.3 Statutory Provision for Debt Redemption (£1.5m overspend)

The Council is under a statutory duty “to determine for the current financial year an amount of Minimum Revenue Provision (MRP) which it considers to be prudent”. The MRP charged to the General Fund in 2019/20 has been determined at £6.5m. This includes a re-alignment adjustment of £4.2m to reflect MRP charges that exceeded what prudence required during the period from 1 April 2007 and 31 March 2016. This higher than expected charge is due mainly to lower than expected realised capital receipts in the year.

5.4 Interest (£0.6m underspend)

Interest payments depend upon Treasury Management decisions taken, expectations of future rates and anticipated slippage on the capital programme. Variances against each of these factors coupled with other interest and dividends received in year have achieved an underspend of £0.6m in 2019/20.

6 Movements on Balances and Reserves (for detail please refer to Appendix B)

6.1 Reserves Strategy

The Authority’s reserves strategy was approved as part of the 2019/20 Annual Budget Report to Full Council in February 2019. The strategy included planned contributions to reserves to fund specific future priorities as well as planned use of reserves to fund in-year expenditure. To reflect the approved strategy in the 2019/20 accounts the necessary adjustments have been made. The level of reserves will continue to be reviewed on a regular basis as part of the Authority’s Financial Management processes. Further detail of the movement on balances and reserves are set out below.

6.2 General Fund Balance

The Council meeting on 28 February 2019 approved the use of £2.1m of General Fund Balances. Given that in 2019/20 the Council has achieved a balanced position it is proposed that this amount is drawn down as planned. The closing balance of the Council’s General Fund will reduce from £24.1m to £22.0m.

6.3 Other Earmarked Reserves

At the end of 2019/20 other ‘earmarked’ reserves totalled £113.0m, a net increase of £7.3m since 31 March 2019. This consists of the following:

- **PFI Reserves**

A total of £27.1m of reserves are held for PFI schemes and this equates to 24% of other earmarked reserves. The arrangements for calculating PFI grant result in more grant being received in the early years of a PFI scheme than is needed to meet the payments to providers of the service. These surpluses need to be kept in an earmarked reserve to cover the corresponding deficits in later years. The amounts set aside at the end of 2019/20 are shown in the table below.

Table 2 – PFI set aside as at 31/03/2020

PFI Scheme	£'000
East Leake Schools	2,837
Bassetlaw Schools	95
Waste	24,143
Total	27,075

- **Insurance Reserve**

The Authority operates a self-insurance scheme and covers risks up to an agreed amount. External insurers cover risks in excess of this figure. The Insurance Reserve is set aside to cover possible insurance claim losses that are not yet known. The closing balance of this reserve is £34.1m.

- **Capital Projects Reserve**

The Capital Projects Reserve supports the Medium-Term Financial Strategy as well as current and future capital commitments. In 2019/20 there was a net use of the reserve of £2.1m. As at 31 March 2020, the balance on the Capital Projects Reserve is £3.2m.

- **Strategic Development Fund**

It was approved that this reserve supports future year costs associated with the Programme and Projects team. The balance of this reserve remains at £2.8m.

- **Workforce Reserve**

It has been approved that this reserve will cover pay related costs including National Living Wage increases and Pension Strain, as well as covering Pension Contributions and Redundancy. There was a £2.6m use of this reserve resulting in a balance as at 31 March 2020 of £6.2m.

- **Earmarked for Services Reserves**

All departments have reserves for identified purposes. In addition, Financial Reporting Standards requires some grant income to be carried on the Balance Sheet as a reserve balance. This includes Public Health and Section 256 grants. During the year, these departmental balances decreased by a net £10.7m to £36.7m.

- **NDR Pool Reserve**

The pool was established in April 2013 when a new funding mechanism was introduced with the seven District and Borough Councils. There was a net increase of £2.1m in this reserve during 2019/20. Of the £10.2m year-end balance, £9.3m relates to the County's share of the pool surplus, the remaining balance (£0.9m) is funding set aside for N2.

- **COVID-19 Reserve**

On 19 March 2020, the Government announced £1.6bn of additional funding for Local Government to help respond to coronavirus pressures across all services. Nottinghamshire County Council's share of this emergency fund totalled £22.3m. This funding was received on 27 March 2020 and, given its un-ringfenced nature, was transferred to the COVID-19 reserve to fund emergency costs in the next financial year. Further information on additional Government funding and the anticipated costs in respect of COVID-19 was reported to Policy Committee on 17 June 2020.

- **Earmarked Reserve**

Earmarked reserves contain balances of reserves previously held under services but have been deemed no longer required for their original purpose. Following an exercise in the summer additional earmarked for services reserves totalling £1.8m have transferred in to leave the balance at £3.2m.

7 Capital Expenditure

7.1 Capital Expenditure in 2019/20 totalled £119.841m Table 3 shows the final 2019/20 Capital Programme broken down by Committee.

Table 3 – 2019/20 Capital Expenditure

Committee	Revised Budget £'000	Total Outturn £'000	Variance £'000
Children & Young People	31,848	35,122	3,274
Adult Social Care & Public Health	3,341	2,739	(602)
Communities & Place	51,056	48,864	(2,192)
Policy	33,111	33,082	(29)
Finance & MCM	150	18	(132)
Personnel	128	16	(112)
Total	119,634	119,841	207

Note: These figures exclude any expenditure incurred directly by schools.

The major areas of investment in 2019/20 are listed in Table 4 below.

Table 4 – Major investment areas 2019/20

Committee	Scheme	2019/20 Capital Expenditure £'000
Children & Young People	School Places Programme	3,063
	School Capital Refurbishment Programme	8,164
	Bestwood Hawthorne New School	3,209
	Watnall Road New School	3,209
	Sharphill Primary New School	3,681
Communities & Place	Road Maintenance & Renewals	27,391
	Gedling Access Road	6,620
	Integrated Transport Measures	4,640
	Street Lighting	2,253
Policy	Flood Drainage and Alleviation	2,205
	Toton Land Purchase	22,143
	Building Works	1,795
	Smarter Ways of Working	2,259
	Various IT Capital Projects	4,494

Capital Programme Variations

7.2 The changes in the gross Capital Programme for 2019/20, since its approval at Council (28/02/19) are summarised in Table 5 below.

Table 5 2019/20 Capital Programme

	£'000
Approved per Council (Budget Report 2019/20)	116,375
Variations funded from County Council Allocations : Net slippage from 2018/19 and financing adjustments	20,594
Variations funded from other sources : Net slippage from 2018/19 and financing adjustments	(17,128)
Revised Gross Capital Programme	119,841

Capital Financing

7.3 Table 6 below outlines how the 2019/20 capital expenditure has been financed.

Table 6 - 2019/20 Capital Financing

	Revised Budget (£'000)	Out-turn (£'000)	Variance (£'000)
Funding Source:			
Prudential Borrowing	62,815	65,533	2,718
Capital Grants	54,263	51,691	(2,572)
Revenue / Reserves	2,556	2,617	61
Gross Capital	119,634	119,841	207

7.4 Capital receipts for 2019/20 totalled £0.6m. This is £12.0m less than anticipated in the 2019/20 budget report. This is mainly as a result of a small number of high value capital receipts that were not completed in 2019/20. These capital receipts have been used, per the capital flexibility directive, to fund one-off transformational costs incurred during the year.

Given the low level of capital receipts realised during the financial year, alternative resources were identified from resources and contingency to fund the remaining one-off costs of transformation.

7.5 Total borrowing for the year is £65.5m, which is £2.7m more than the revised budget for 2019/20 of £62.8m.

7.6 The Capital Programme for 2020/21 will be monitored to ensure that borrowing for 2020/21 is managed within the prudential limits for the year. Funding by borrowing in 2020/21 is now projected to be £62.9m and the size of the revised Capital Programme for 2020/21 is £132.3m.

8 Treasury Management Activities

All treasury management activities during 2019/20 were carried out within approved limits and adhered to approved policies and practices. Appendix E provides a full report on these activities.

9 Statement of Accounts

The pre-audited Statement of Accounts were certified by the Section 151 Officer on 7th July 2020 and were published on the Council's website to meet statutory requirements. The external audit is currently underway, therefore figures will be provisional, pending the completion of the audit.

Statutory and Policy Implications

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 provisional 2019/20 year-end revenue position.
2. To approve the level of County Fund Balances as set out in section 6.2 and Appendix A.
3. To comment on the movements in reserves as detailed in section 6 and Appendix B.
4. To comment on the Capital Programme and its financing.
5. To comment on the Council's 2019/20 Prudential Indicators out-turn as detailed in Appendix D.
6. To comment on the Treasury Management outturn report in Appendix E.

Councillor Richard Jackson

Chairman of Finance and Major Contracts Management Committee

For any enquiries about this report please contact:

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Constitutional Comments (KK 14/07/2020)

The proposals in this report are within the remit of Full Council.

Financial Comments (GB 13/07/2020)

The financial implications are set out in the report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All