Nottinghamshire County Council

Report to Finance and Property Committee

22 February 2016

Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR – FINANCE, PROCUREMENT AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 9 2015/2016

Purpose of the Report

1. To provide a summary of the revenue position of the County Council for the year to date with year-end forecasts.
2. Request approval for an additional contingency request.
3. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
4. To inform Members of the Council's Balance Sheet transactions.

Information and Advice

Background

5. The Council approved the 2015/16 budget at its meeting on 26 February 2015. As with previous financial years, progress updates will be closely monitored and reported to both management and Committee on a monthly basis.

Summary Revenue Position

6. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. A £5.8m underspend position is currently predicted. In light of the Council's continuing financial challenges, the key message to effectively manage budgets and wherever possible deliver in-year savings is being reinforced.

Table 1 – Revenue Expenditure and Forecasts as at Period 9

Forecast Variance as at Period 8 £'000	Committee	Annual Budget £'000	Actual to Period 9 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
1,722	Children & Young People	137,529	106,318	139,326	1,797
(5,700)	Adult Social Care & Health	207,992	143,449	201,018	(6,974)
(38)	Transport & Highways	59,926	47,177	59,782	(144)
(294)	Environment & Sustainability	31,262	21,040	31,016	(246)
228	Community Safety	3,008	958	3,276	268
(195)	Culture	13,373	10,648	13,060	(313)
(1,187)	Policy	24,999	17,366	23,928	(1,071)
(785)	Finance & Property	34,590	26,006	33,721	(869)
(536)	Personnel	3,287	1,749	2,729	(558)
11	Economic Development	1,525	801	1,534	9
(1,898)	Public Health	5,217	(2,334)	5,797	580
(8,672)	**Net Committee (under)/overspend**	**522,708**	**373,178**	**515,187**	**(7,521)**
376	Central items	(8,008)	(36,018)	(7,581)	427
-	Schools Expenditure	186	186	186	-
87	Contribution to/(from) Traders	165	2,961	454	289
(8,209)	**Forecast prior to use of reserves**	**515,051**	**340,307**	**508,246**	**(6,805)**
684	Transfer to / (from) Corporate Reserves	(6,363)	-	(5,440)	923
3,313	Transfer to / (from) Departmental Reserves	(15,422)	(828)	(14,892)	530
-	Transfer to / (from) General Fund	(6,038)	-	(6,038)	-
(4,212)	**Net County Council Budget Requirement**	**487,228**	**339,479**	**481,876**	**(5,352)**

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

Committee and Central Items

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

Children & Young People (forecast £1.8m overspend)

8. The underlying overspend is £1.4m (after planned use of grant reserves and excluding redundancy costs). There has been no change to this figure since period 8. A range of mitigating actions have been developed and pursued which has included a letter from the Corporate Director to restrict all non-essential spend and to adhere to vacancy control procedures as part of budget control measures. The recruitment of all agency staff requires the explicit approval of the Service Director Children's Social Care.

9. The Children's Social Care Division is reporting a forecast net overspend of £2.2m (£2.1m after the planned use of grant reserves), the major contributing variances being:

- £1.5m overspend on staffing due to the continued use of agency staff to cover vacancies in social work and safeguarding teams;

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

10. The Education Standards and Inclusion Division is reporting a forecast overspend of £0.9m, mainly due to an overspend on Special Educational Needs and Disability Policy and Provision. There is a continued demand for home to school transport in excess of the budget.

11. The Youth, Families and Culture Division is forecasting an underspend of £1.3m (£1.5m underspend after the planned use of grant reserves) mainly due to an underspend on Early Years and Early Intervention relating to contract savings and pension refunds.

12. The Capital and Central Charges area is forecasting a £0.3m overspend due to insurance charges in excess of the budget allocated for this purpose which is the additional cost of premiums for historic abuse cases.

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

Adult Social Care & Health (forecast £7m underspend)

14. The underlying forecast position is an underspend of £5.2m (after the planned use of reserves and excluding redundancy costs).

15. The Strategic, Commissioning, Access and Safeguarding Division is currently reporting a net underspend of £1.2m (£1.0m underspend after the use of reserves). The main variances are:

- Client Contribution income is forecasting a shortfall of £0.9m. This is a reduction in the shortfall of £0.2m since period 8. This improved position is partly due to a general increase in Residential income
- Access and Safeguarding are forecasting an overspend of £0.1m relating to agency staff within the MASH and Intake Teams
- Supporting People are forecasting a £1.6m underspend due to a reduction on the LD Contract spend
- There remains an underspend of £0.2m on software costs within the Framework Team and the Market Development Team
- Business Support are showing an underspend of £0.4m against various non-staffing budgets.

16. The North Nottinghamshire Division is currently forecasting a net underspend of £1.4m (£1.0m underspend after the use of reserves) against the budget. This is comprised of the following:

    - Residential Services are now forecasting an underspend of £0.5m, primarily due to staffing in the Care and Support Centres.
    - Day Services and Employment are forecasting an underspend of £1.4m. This is comprised of a £1.7m underspend on staffing within Day Services and Supported Employment partly offset by £0.4m overspend on Transport Services
    - Bassetlaw Community Care are forecasting an overspend of £0.5m due to overspends in Younger Adults.

17. The Mid and South Divisions are currently forecasting a £1.4m underspend (after reserves £0.2m underspend). This is due to the continued pursuit of Continuing Health Care (CHC) funding from the NHS, which has seen the total at risk fall from £4.8m in October to £2.5m in January. This has already been factored in as a saving for next financial year.

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

    - Older Adults across the County are currently reporting an underspend of £3.5m; this is a net decrease in commitment of £0.2m since last month
    - Younger Adults across the County are reporting an overspend of £0.1m which is due to increased CHC income which is offsetting the additional in year costs of Transforming Care and Independent Living Fund
    - Expenditure under the remit of Service Directors and the Principal Social Worker are reporting an overspend of £2.0m. This is a significant increase due to additional spend on Section 256 agreements, though these are funded by reserves so have no impact on the overall forecast.

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

20. The Transformation Division is currently forecasting an underspend of £3.0m against the budget. This is due to the announcement that the County Council will not be required to repay the funding provided by the Government for Part 2 of the Care Act.

Policy (forecast £1.1m underspend)

21. This forecast underspend is due to:

    - £0.3m underspend in Legal Services due mainly to continuing improvements in electronic and digital working and an ongoing efficiency programme reducing operating costs where possible;
    - £0.1m underspend relating to running costs in Democratic Services;
    - £0.2m reduction in running costs at the Customer Services Centre, together with an increase in income resulting from a small increase in blue badge applications;

- £0.3m underspend resulting from a detailed review of expenditure relating to the Programme and Project Team, this is matched by a reduction in the use of corporate reserves;
- £0.2m underspend against the Ways of Working Programme budget.

Finance & Property (forecast £0.9m underspend)

22. This forecast underspend is due to:

- £0.5m underspend in Property due to a staffing rationalisation and savings on county office building maintenance in advance of saving requirements in 2016/17, together with additional Estates income
- £0.2m underspend on county offices and facilities management due to reduced business rates payable on county offices;
- £0.2m underspend within Finance and Procurement relating to staff vacancies in advance of saving requirements in 2016/17.

Personnel (forecast £0.6m underspend)

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

Public Health (forecast £0.6m overspend)

24. The Public Health Department's Revenue Budget is currently showing an overspend of £0.6m. With this overspend being transferred to the ring-fenced Public Health reserve, the underlying budget position is net nil.

25. The Department of Health has confirmed the Government's initial proposal to reduce local authority public health allocations for 2015/16 by 6.2%. This adjustment has now been reflected in the overall forecast overspend for Public Health in the current financial year.

Central Items (forecast £0.4m overspend)

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

27. Interest payments fluctuate depending on expectations of future rates and anticipated slippage on the capital programme. Current Treasury Management forecasts suggest a net overspend on interest of £0.6m.

28. At the time of setting the 2015/16 budget, several funding allocations had not been announced and therefore assumptions about certain grants were made, based on the best information available at the time. Throughout the year confirmations are received, and current forecasts suggest a net additional grant of £0.4m will be received in 2015/16.

29. The Council's original budget included a contingency of £5.1m to cover redundancy costs, slippage of savings and unforeseen events. Following base budget adjustments (£2.5m) being removed from Departmental budgets and contingency requests (£4.5m) approved at previous Finance and Property Committees, the remaining contingency balance stands at

£3.1m. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.

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

Request for Contingency

31. On 6 January 2016, the Policy Committee recommended that a request for £0.05m funded from 2016/17 contingency is submitted to the Finance and Property Committee. It is proposed that this funding is made available to fund the continuation of activities associated with Healthwatch Nottinghamshire.

Transfer to / (from) reserves

32. A review of reserves has been undertaken to identify surplus departmental reserves that may be released to support the budget. The outcome of this review resulted in £3.6m of departmental reserves being transferred to corporate reserves as part of the overall budget strategy.

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

Progress with savings (forecast shortfall £4.7m in 2015/16)

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

36. As reported in previous Financial Monitoring Reports, issues have been experienced with regard to Provider Services (Looked after Children placements), SEND Home to School Transport and Independent Travel Training savings. Reviews have been carried out with regard to these savings with the following outcomes:

37. Unachievable savings totalling £2.1m have been identified in the current year against the Looked after Children option for change. This saving was based upon an overall reduction in the Looked after Children population. This reduction has not materialised. Also, the transfer of young people from external placements to more cost effective internal alternative has not happened at the expected rate.

38. Unachievable savings totalling £0.2m have been identified in the current year against the Special Educational Needs Home to School Transport option for change. Analysis of this savings option has found that parents were generally not in favour of receiving personal budgets for transporting their children to school.

39. Unachievable savings totalling £0.2m have been identified in the current year against the Independent Travel Training option for change. This is mainly as a result of the low number of children being able to use the scheme either due to routes not being available or, again, parental preference.

40. The recent review of Redefining Your Council (considered by Policy Committee in July 2015) noted that transformation is inherently risky to deliver and that the task of achieving significant budget savings becomes increasingly difficult over time, as change is overlaid upon change. Considerable lessons have been learned from savings projects which have been approved and delivered to date. Whilst programme and project management arrangements have been effective, a stronger approach to the identification and management of the assumptions which underpin projects is being put in place to ensure that they are evidenced and challenged prior to full implementation.

Capital Programme

41. Table 2 summarises changes in the gross Capital Programme for 2015/16 since approval of the original programme in the Budget Report (Council 26/02/15):

Table 2 – Revised Capital Programme for 2015/16

	2015/16 £'000	2015/16 £'000
Approved per Council (Budget Report 2015/16)		112,039
Variations funded from County Council Allocations :		
Net slippage from 2014/15 and financing adjustments	(2,523)	
		(2,523)
Variations funded from other sources :		
Net slippage from 2014/15 and financing adjustments	6,836	
		6,836
Revised Gross Capital Programme		**116,352**

42. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 9.

Table 3 – Capital Expenditure and Forecasts as at Period 9

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 9 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	50,505	17,381	35,273	(15,232)
Adult Social Care & Health	4,933	1,803	4,668	(265)
Transport & Highways	35,961	26,405	36,116	155
Environment & Sustainability	2,416	1,548	2,418	2
Community Safety	-	-	-	-
Culture	1,532	784	1,096	(436)
Policy	2,033	1,802	1,981	(52)
Finance & Property	10,590	5,186	9,441	(1,149)
Personnel	298	24	258	(40)
Economic Development	7,554	4,571	7,305	(249)
Contingency	530	-	530	-
Total	**116,352**	**59,504**	**99,086**	**(17,266)**

43. In the Children and Young People's Committee, there is a total forecast underspend of £15.2m. This is mainly as a result of slippage against the School Places programme (£10.9m) and savings identified against the School Capital Refurbishment programme (£3.3m).

44. The forecast underspend against the main School Capital Programmes have increased by £4.9m since Period 8. This is mainly as a result of capital contributions to Priority School Building Programme schemes slipping into the 2016/17 financial year.

45. In the Finance and Property Committee capital programme there is a forecast underspend of £1.1m. This is mainly as a result of re-profiling identified against the Customer Services Centre project (£0.6m) due to tender process delays which have slipped the occupation date to June 2016. Minor slippage has been identified against a number of other projects.

Financing the Approved Capital Programme

46. Table 4 summarises the financing of the overall approved Capital Programme for 2015/16.

Table 4 – Financing of the Approved Capital Programme for 2015/16

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	17,536	26,486	817	5,666	50,505
Adult Social Care & Health	4,124	729	45	35	4,933
Transport & Highways	12,703	22,069	47	1,142	35,961
Environment & Sustainability	1,187	729	500	-	2,416
Community Safety	-	-	-	-	-
Culture	1,232	70	-	230	1,532
Policy	2,029	-	-	4	2,033
Finance & Property	9,479	50	-	1,061	10,590
Personnel	-	118	-	180	298
Economic Development	4,109	3,445	-	-	7,554
Contingency	530	-	-	-	530
Total	**52,929**	**53,696**	**1,409**	**8,318**	**116,352**

47. It is anticipated that borrowing in 2015/16 will decrease by £19.2m from the forecast in the Budget Report 2015/16 (Council 26/02/2015). This decrease is primarily a consequence of:

- £8.9m of net slippage from 2014/15 to 2015/16 and financing adjustments funded by capital allocations.
- Variations to the 2015/16 capital programme funded from capital allocations totalling £11.4m as approved to the January 2016 Finance and Property Committee.
- Net slippage in 2015/16 of £16.7m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

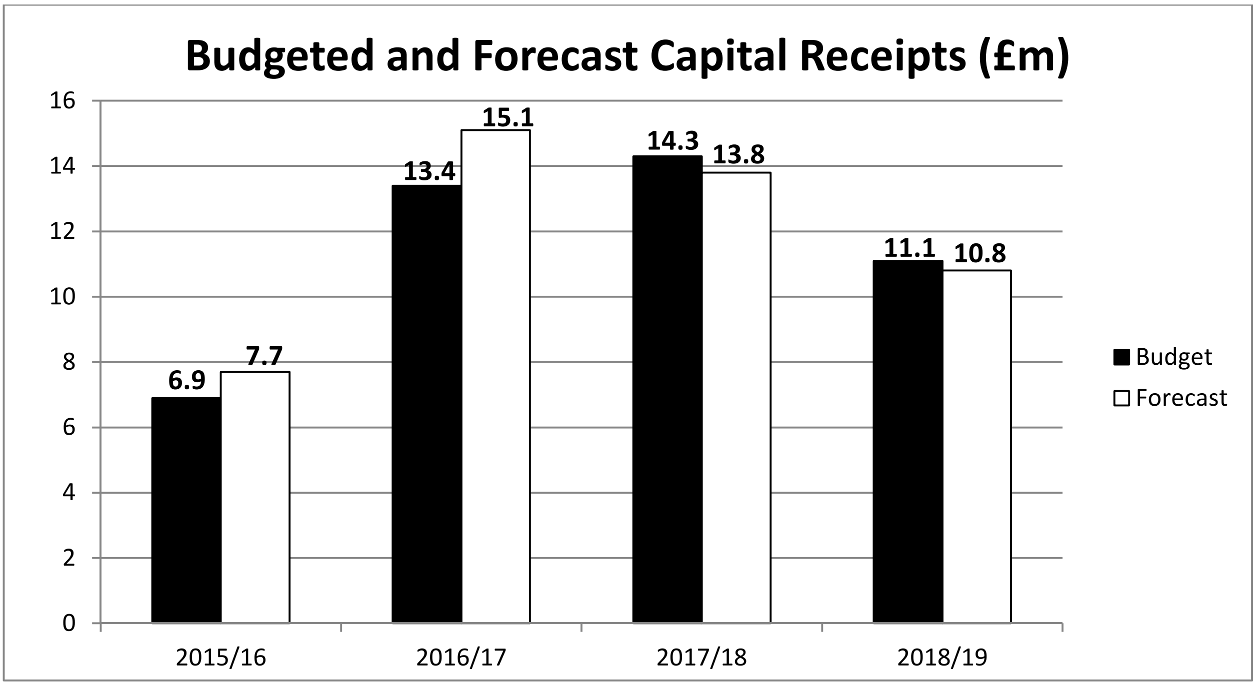
Prudential Indicator Monitoring

48. Performance against the Council's Prudential Indicators is regularly monitored to ensure that external debt remains within both the operational boundary and the authorised limit.

Capital Receipts Monitoring

49. Anticipated capital receipts are regularly reviewed. Forecasts are currently based on estimated sales values of identified properties and prudently assume a slippage factor based upon a review of risk associated with each property.

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



51. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2015/16 (Council 26/02/2015). These capital receipts budgets prudently incorporated slippage, giving a degree of "protection" from the risk of non-delivery.

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

53. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales being lower than the forecast.

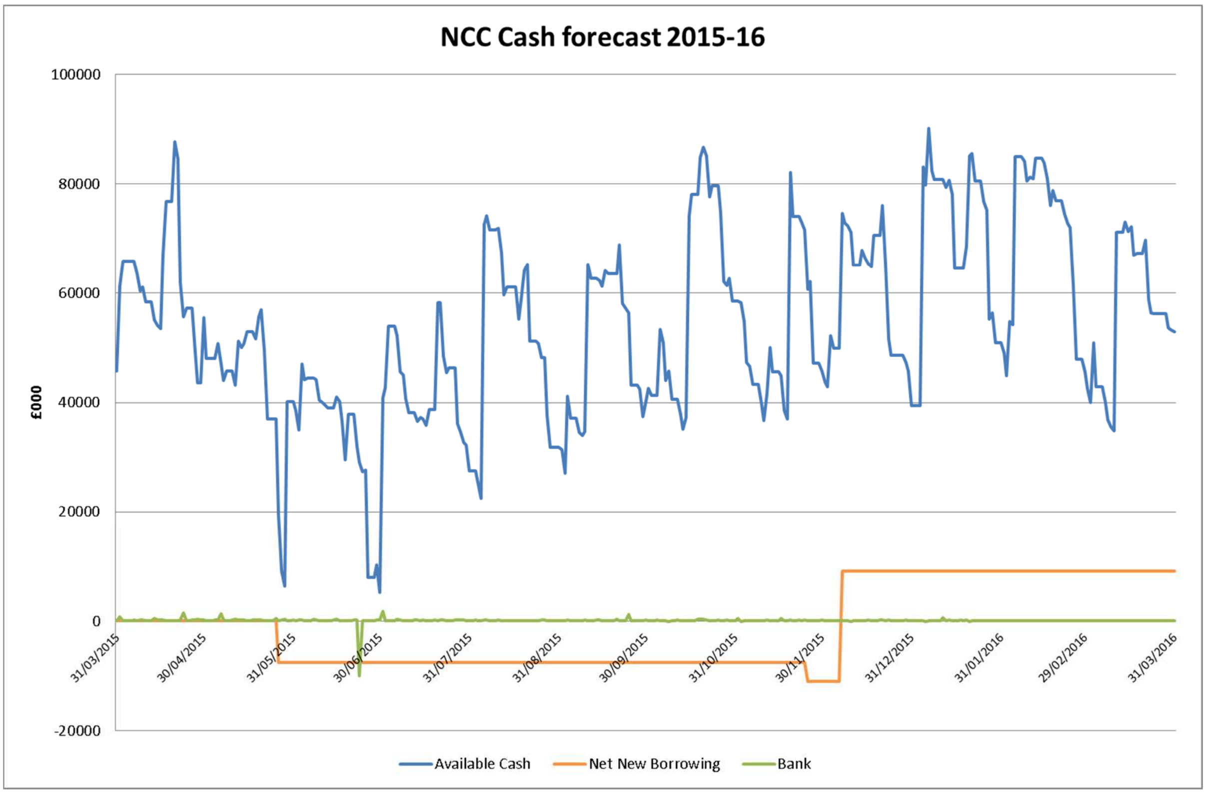
54. Current Council policy (Budget Report 2015/16) is to set capital receipts against the principal of previous years' borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

55. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The Cash forecast chart below shows the actual cash flow position to date and forecasts for the remainder of the year. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. However, cash outflows, in particular capital expenditure, tend to increase later in the year.

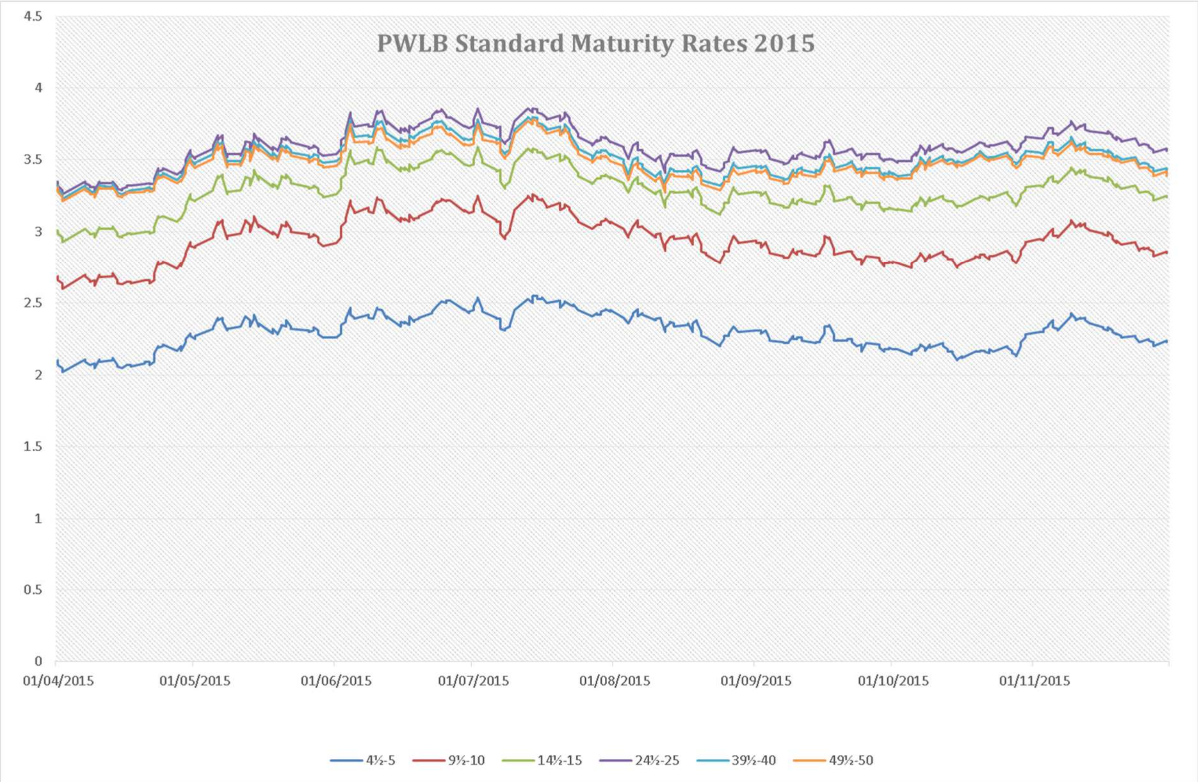
56. The chart below gives the following information:

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.



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

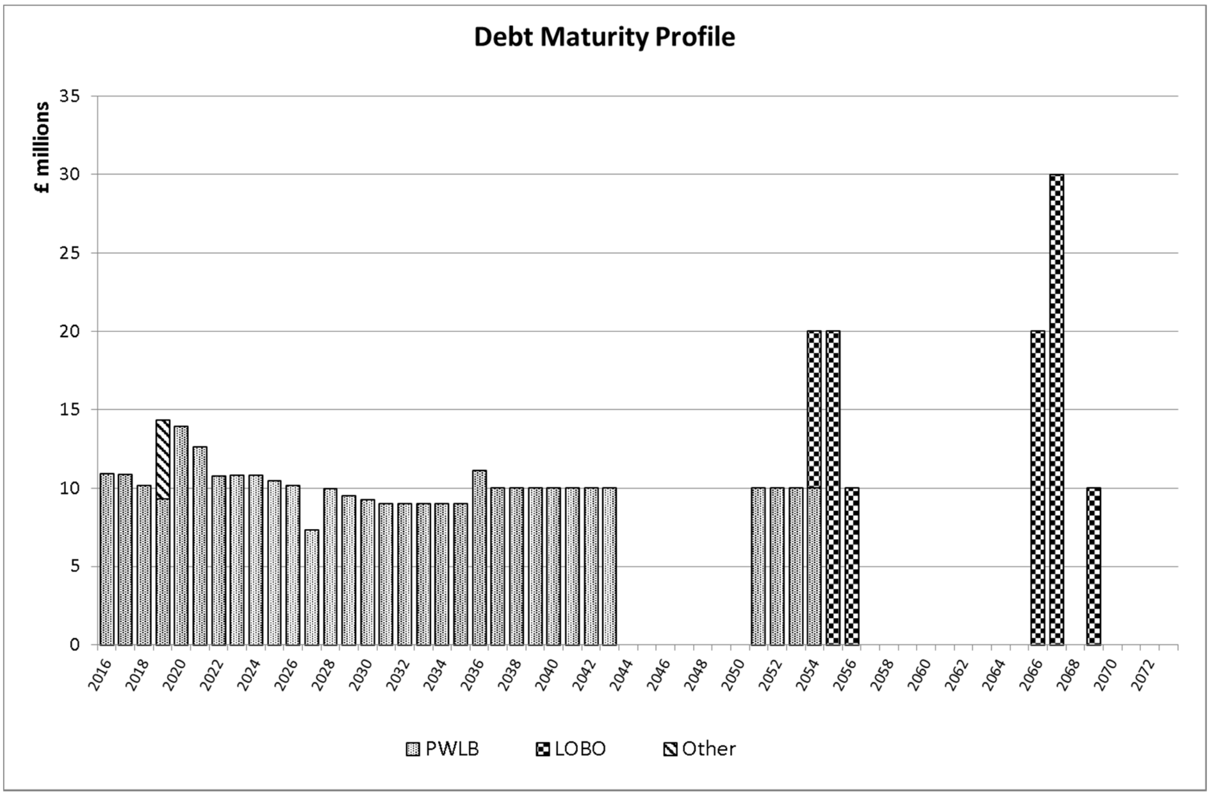
58. PWLB rates are monitored closely in order to feed into decisions on new borrowing. Longer term rates are currently slightly higher than they were at the beginning of the year although they have dropped off recently. Shorter term rates have drifted up by around 0.2%. The Council is able to take advantage of the PWLB "certainty rate" which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates during 2015/16.



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

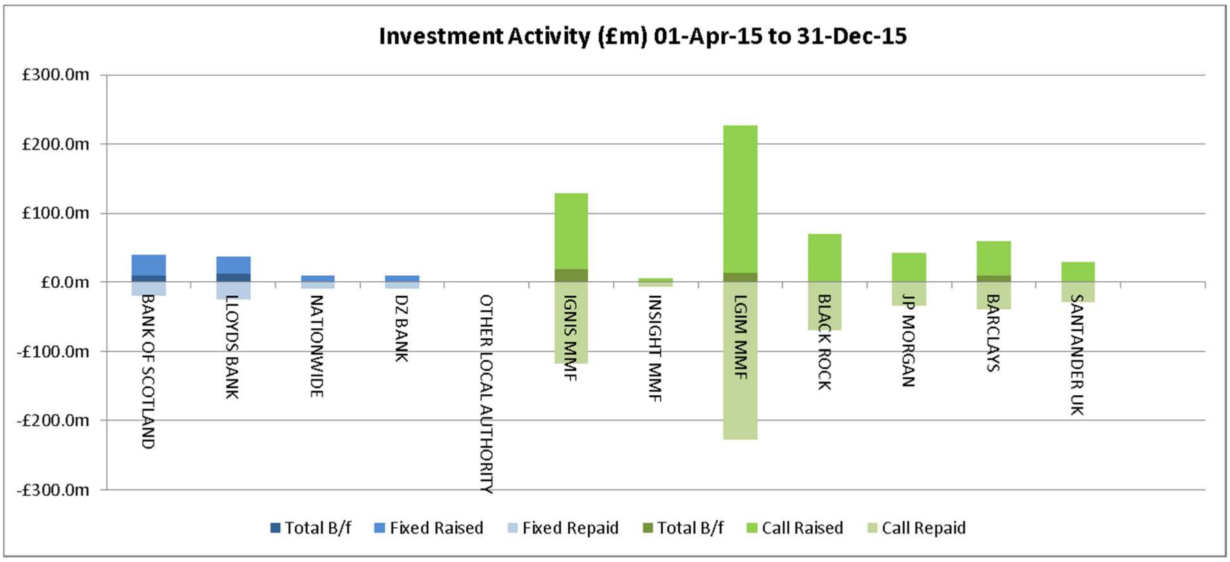
60. The maturity profile of the Council's debt portfolio is shown in the chart below. The PWLB loans are reasonably well distributed and have a maximum duration of 38 years. Longer-term borrowing (maturities up to 55 years) was obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender increases the rate at an option point, the

Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at the time. They are shown in the chart below at their latest maturity points, but could actually mature at various points before then, constituting a risk that the Council will have to then borrow at the prevailing interest rate. The ‘other’ loan denotes more recent borrowing from the money markets where the main objective was to minimise interest costs. Refinancing of these loans has been factored into the Treasury Management Strategy.



61. The investment activity for 2015/16 to the end of December 2015 is summarised in the chart and table below. Outstanding investment balances totalled £70.2m at the start of the year and £73.9m at the end of the period. This is in line with the forecast cash flow profile for the year.

	Total B/f £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	10,000	30,000	(20,000)	20,000
Lloyds Bank	13,000	25,000	(25,000)	13,000
Nationwide	-	10,000	(10,000)	-
DZ Bank	-	10,000	(10,000)	-
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	109,050	(117,350)	11,700
Insight MMF	-	6,700	(6,700)	-
LGIM MMF	14,550	213,100	(227,650)	-
Black Rock	500	69,500	(70,000)	-
JP Morgan	-	42,300	(34,600)	7,700
Barclays	10,650	49,100	(39,750)	20,000
Santander UK	-	29,500	(29,500)	-
Total	**70,200**	**594,250**	**(590,550)**	**73,900**



62. The majority of fixed term deals have been placed with Lloyds Bank or Bank of Scotland, both part of Lloyds Banking Group (LBG). Although LBG does not currently meet the minimum credit rating criteria required by the Council's Treasury Management Policy, both Lloyds Bank and Bank of Scotland individually do and LBG currently has a significant shareholding held by the UK government. This shareholding was planned to be sold off in the early part of 2016, but this has recently been postponed due to market volatility. The position of LBG and of Lloyds Bank and Bank of Scotland individually will be factored into the formulation of the TM policy for 2016/17, to be taken to Council in February.

Procurement Performance

63. The Procurement Group continues to review the Council's performance on a regular basis. An update on Strategic Performance Information and ongoing developments will be provided for

this report to Committee on a quarterly basis with the next update to be included in the Period 10 report.

Debt Recovery and Accounts Payable Performance

64. The debt recovery and accounts payable performance information will continue to be reviewed at an operational level on a fortnightly basis. The strategic performance information will be compiled for this report to Committee on a quarterly basis with the next update to be included in the Period 10 report.

Statutory and Policy Implications

65. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

1) To note the revenue budget expenditure to date and year end forecasts
2) To approve the contingency request
3) To note the Capital Programme expenditure to date and year end forecasts and approve variances to the Capital Programme
4) To note the Council's Balance Sheet transactions

Nigel Stevenson Service Director – Finance, Procurement and Improvement Division

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

Constitutional Comments (HD 27/01/2016)

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

Financial Comments (GB 27/01/2016)

67. The financial implications are stated within the report itself.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- ‘None’

Electoral Division(s) and Member(s) Affected

’All’