

**14 October 2019**

**Agenda Item: 4**

**REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE  
AND IMPROVEMENT**

**FINANCIAL MONITORING REPORT: PERIOD 5 2019/20**

**Purpose of the Report**

1. To provide a summary of the Committee revenue budgets for 2019/20.
2. To provide a summary of capital programme expenditure to date and year-end forecasts.
3. To request approval for additional contingency applications.
4. To inform Members of the Council's Balance Sheet transactions.

**Information  
Background**

5. The Council approved the 2019/20 budget at its meeting on 28 February 2019. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.

**Summary Revenue Position**

6. The table below summarises the revenue budgets for each Committee for the current financial year. A £2.3m net overspend is currently predicted. As a consequence of the in-year overspend and the significant 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 £'000	Committee	Annual Budget £'000	Actual to Period 5 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
8,302	Children & Young People's	127,772	41,007	136,102	8,330
(5,328)	Adult Social Care & Public Health	211,641	79,715	210,182	(1,459)
2,013	Communities & Place	122,493	46,468	124,422	1,929
111	Policy	33,936	16,870	34,145	209
(79)	Finance & Major Contracts Management	2,856	1,321	2,760	(96)
133	Governance & Ethics	7,305	2,919	7,448	143
(107)	Personnel	15,018	7,333	14,978	(40)
<b>5,045</b>	<b>Net Committee (under)/overspend</b>	<b>521,021</b>	<b>195,633</b>	<b>530,037</b>	<b>9,016</b>
(2,782)	Central items	(15,869)	(1,172)	(23,768)	(7,899)
-	- Schools Expenditure	74	-	74	-
489	Contribution to/(from) Traders	241	2,534	816	575
<b>2,752</b>	<b>Forecast prior to use of reserves</b>	<b>505,467</b>	<b>196,995</b>	<b>507,159</b>	<b>1,692</b>
-	- Transfer to / (from) Corporate Reserves	654	-	654	-
467	- Transfer to / (from) Departmental Reserves	(16,594)	(254)	(16,002)	592
-	- Transfer to / (from) General Fund	(2,099)	-	(2,099)	-
<b>3,219</b>	<b>Net County Council Budget Requirement</b>	<b>487,428</b>	<b>196,741</b>	<b>489,712</b>	<b>2,284</b>

## Committee and Central Items

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

### Children & Young People's (£8.3m overspend, 6.5% of annual budget)

- The Youth, Families and Social Work Division is reporting a forecast £0.9m overspend. The major contributing factor is a £1.1m overspend on social work staffing. The overspend 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.
- Education, Learning & Skills Division is reporting a net nil position although the achievement of the sold service income target is still a concern.
- The Commissioning and Resources Division is forecasting an overspend of £7.4m of which £1.8m is attributable to growth in number of Independent Fostering Agency (IFA) placements, £3.4m residential and £2.2m on semi-independent placements. External placements decreased by a net of 4 in August. This is only a temporary dip and is smaller than what was observed in 2017/18 and 2018/19 which both reduced by 9 in August. To compound this, new additions in the first week of September are also slightly higher than usual (fortunately mostly

IFAs) and have been factored into the forecast accordingly. This is unlikely to affect the long-term trend but this slightly accelerated growth and a variation in August's placement composition/mix accounts for the increased forecast overspend. Historically, demand is more volatile over the summer months, so short term forecasts are more prone to fluctuate during this period.

10. As reported at the last Finance and Major Contracts Management Committee on 16 September 2019, in addition to existing high-level budget control actions a more detailed Action and Recovery Plan has been prepared and will continue to be monitored over the coming months.
11. In addition to the cost pressures being experienced in the Children and Families Local Authority budget there is also significant pressure on the Authority's High Needs Block which is funded from Department for Education grant. Although this does not impact on local authority budgets, the increase in numbers of pupils requiring Special Educational Needs and Disabilities (SEND) support, alternative provision and a range of SEND services has an impact on transport costs and this is referred to in paragraph 16.

### **Adult Social Care & Public Health (forecast £1.5m underspend, 0.7% of annual budget)**

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

- Older Adults across the County are forecasting an underspend of £2.0m with underspends on direct payments, employee costs and over achievement of Joint Healthcare funding more than offsetting overspends on Long term Care and Homecare.
- Younger Adults across the County are forecast to overspend by £1.4m, due to increases in Direct Payments and Residential & Nursing Care costs, although these are partly offset by underspends on Staffing and additional Joint Healthcare funding.
- Other budgets are forecasting an overspend of £0.1m, mainly due to a forecast overspend on reablement.

13. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £4.5m made up of a net increase of £0.6m in Service User Contribution's, due mainly to increases in Residential & Nursing income, £3.2m in Service User Contribution's due mainly to increases in Personal Budget income and £0.9m additional savings being released from the closure of the Care and Support Centres due to fewer long-term residents. There is a forecast overspend of £0.2m in agency costs within the mosaic team due to delays in the systems review.

14. Public Health is currently forecasting an underspend of £0.6m, mainly due to slippage in Children's Services. Any net underspend will be added to reserves at year end and therefore reduce the net use of reserves.

15. The 2019/20 pressure bids were submitted on certain assumptions at the time. A budget pressure for Older Adults hasn't materialised as we have seen a net reduction in long term packages for Older Adults instead of an expected increase in line with the population growth as a result of the early resolution and promoting people's independence work. Despite the overall reduction in long term packages for Older Adults, there has been an increase in the number of Long Term Residential and Nursing packages for Older Adults due to increasing

complexity of need and this has resulted in more Client Contribution income. It is therefore proposed that the net effect of £4.1m is incorporated into the Council's contingency budget.

### **Communities & Place (forecast £1.9m overspend, 1.6% of annual budget)**

16. Transport is forecasting an overspend of £1.6m. The major contributing variances are:

- There are additional SEND Home to School (HtS) costs of £0.9m caused by an increase in pupil numbers in line with expectations. The costs are SEND Pre-16 HtS transport £0.6m; SEND Post 16 Transport £0.1m; and EOTAS (education other than at school) of £0.2m. The SEND and HtS forecasts are based on current known pressures. A more accurate year-end forecast will be available once the new academic year intake of pupils and re-tendering of contracts is confirmed.
- There is a forecast overspend on Concessionary Fares of £0.3m due to increased costs for CT4N where a new operator has taken over commercial routes previously provided under a fixed rate deal by Trent Barton.
- There is an overspend on Mainstream Home to School transport of £0.3m. This is due to the increase in pupil numbers and capacity limits at the closest designated school, necessitating transport to alternative educational establishments either by bus or taxi.
- There is a forecast overspend on Local Bus Services of £0.1m caused by ongoing pressure on provision of services, especially when commercial operators withdraw from a particular route and inflationary increases.

17. The Coroner's budget is forecasting an overspend of £0.5m based on advice from Nottingham City Council (who manage the service) and is due to an anticipated increase in the annual cost of mortuary services.

18. Other budgets are forecasting an underspend of £0.2m, mainly due to staffing savings that have arisen due to the restructure of the Community Safety and the Community and Voluntary Sector Teams

### **Trading Services**

19. County Supplies are forecasting a deficit of £0.2m, this is attributed to trading activity prior to transfer to Hertfordshire County Council, including costs for legacy staffing, legal and IT costs. There is no reserve to fund this overspend.

20. Catering, Cleaning & Landscapes are forecasting a deficit prior to use of Reserves of £0.7m. This is to be funded partly from Traded Services Reserves of (£0.4m), the result being a forecast overspend of £0.3m. There is no reserve to fund this overspend.

21. Clayfields is currently forecasting a shortfall against its income target of £0.5m. This is due to a decision by the Children and Families senior leadership team to limit the number of beds available for occupancy because of staffing issues. These issues are currently being addressed and the income forecast assumes that all beds will be fully occupied by November 2019. The shortfall will be met from Clayfields trading reserve.

## **Central Items (forecast £7.9m underspend)**

22. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
23. At the time of setting the 2019/20 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 £3.1m will be received in 2019/20.
24. 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 £0.5m. There is a net £0.2m underspend across the other central items.
25. Table 1 assumes that the contingency adjustment proposed in paragraph 15 is approved. Added to the increase in contingency approved at the Finance and Major Contracts Management Committee in September 2019, where it was approved that the contingency budget would be increased by £1.0m to reflect a reduction to a budget pressure in the Adult Social Care and Public Health Committee. It is forecast that this additional contingency budget will not be spent thereby resulting in a £5.1m underspend.
26. The Council's budget includes a main contingency budget of £4.6m to cover redundancy costs, slippage of savings and unforeseen events. Contingency requests approved previously total £0.9m. Table 1 assumes that the remaining contingency budget will be used for future requests.

## **Contingency Budget**

27. A number of corporate services (Finance, HR, ICT) make accounting charges to the traders to reflect the support they provide (e.g. BMS system). In recent years the charges to the Traders have reduced significantly. In order to realign the income budgets of the corporate services to reflect the current charges to traders a permanent allocation from contingency of £200,000 from 2019/20 is requested.
28. As part of the 2018/19 budget a savings option was approved for the Catering and Cleaning and Landscaping traders to make a £270,000 contribution to the Council's revenue budget. The saving was for a management restructure within the division and this has been achieved. However, significant cost pressures arising from increasing salaries and food costs, and challenging markets limiting the ability to increase prices whilst retaining customers. As such there is little scope to achieve an in-year surplus or fund the contribution from reserves which are almost exhausted. A request from contingency to address the increased budget pressure of £70,000 in 2019/20 and further bids of £75,000 in each of 2020/21 and 2021/22 to be allowed in the MTFS to reduce the contribution.

## **Progress with savings and risks to the forecast**

29. Council on 28 February 2019 approved savings proposals of £15.2m for delivery in 2019/20, with further savings identified for the period 2020-23. 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. The latest report to Improvement and Change Sub-Committee on 23 September 2019 highlighted that the following savings projects are at risk – Development of Shared Lives, New Ways of Working for Carers and the Social Impact Bond. If any savings options are written off they will be reported to this Committee at the earliest opportunity.

30. On 4 September 2019, the Chancellor of the Exchequer announced the outcome of the Spending Round 2019. The key announcements that impact on the County Council are as follows:-

- Temporary grants (£1.8bn improved Better Care Fund and £650m Social Care / Winter Pressures) have been baselined into Government funding.
- £1bn additional Social Care funding.
- 4% Council Tax threshold (including 2% Adult Social Care Precept).
- Additional £700m SEND funding.
- Public Health Grant will increase in real terms.
- Core funding will increase by 2.7%
- Business Rates baseline will increase in line with inflation.
- A £241m Stronger Town Fund to support the regeneration of high streets / town centres.

31. More detail of the announcements made in the Spending Round 2019 will be confirmed as part of the Spending Round Technical Consultation which is expected in October or November 2019.

## **Balance Sheet**

### **General Fund Balance**

32. Members approved the 2018/19 closing General Fund Balance of £24.1m at Full Council on 11 July 2019. The 2019/20 budget approves utilisation of £2.1m of balances which will result in a closing balance of £22.0m at the end of the current financial year. This is 4.5% of the budget requirement.

## Capital Programme

33. Table 2 summarises changes in the gross Capital Programme for 2019/20 since approval of the original Programme in the Budget Report (Council 28/02/19):

**Table 2 – Revised Capital Programme for 2019/20**

	2019/20	
	£'000	£'000
Approved per Council (Budget Report 2019/20)		116,375
Variations funded from County Council Allocations : Net slippage from 2018/19 and financing adjustments	22,112	
		22,112
Variations funded from other sources : Net variation from 2018/19 and financing adjustments	(1,568)	
		(1,568)
<b>Revised Gross Capital Programme</b>		<b>136,919</b>

34. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 5.

**Table 3 – Capital Expenditure and Forecasts as at Period 5**

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 5 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	51,568	10,331	51,569	1
Adult Social Care & Public Health	3,467	454	3,607	140
Communities & Place	62,148	9,295	62,168	20
Policy	19,300	2,865	19,514	214
Finance & Major Contracts Mngt	180	7	180	-
Governance & Ethics	256	-	256	-
Contingency	-	-	-	-
<b>Total</b>	<b>136,919</b>	<b>22,952</b>	<b>137,294</b>	<b>375</b>

## Financing the Approved Capital Programme

35. Table 4 summarises the financing of the overall approved Capital Programme for 2019/20.

**Table 4 – Financing of the Approved Capital Programme for 2019/20**

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	32,287	18,674	-	607	51,568
Adult Social Care & Public Health	2,271	1,196	-	-	3,467
Communities & Place	17,050	43,553	1,128	417	62,148
Policy	15,187	4,091	-	22	19,300
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	256	-	-	-	256
Contingency	-	-	-	-	-
<b>Total</b>	<b>67,051</b>	<b>67,514</b>	<b>1,128</b>	<b>1,226</b>	<b>136,919</b>

36. It is anticipated that borrowing in 2019/20 will increase by £22.3m from the forecast in the Budget Report 2019/20 (Council 28/02/2019). This increase is primarily a consequence of:

- £22.1m of net slippage from 2018/19 to 2019/20 and financing adjustments funded by capital allocations.
- Net acceleration into 2019/20 of £0.2m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

### Prudential Indicator Monitoring

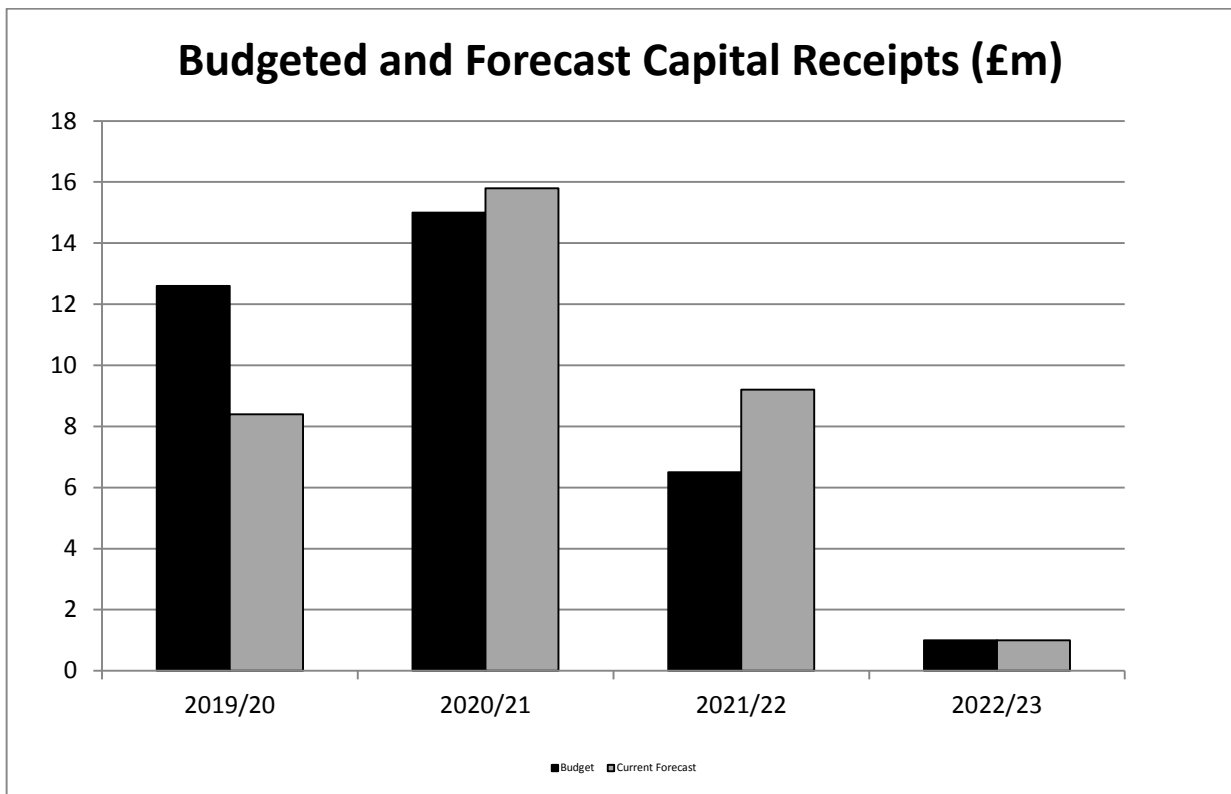
37. Performance against the Council's Prudential Indicators is regularly monitored to ensure that external debt remains within both the operational boundary and the authorised limit.

### Capital Receipts Monitoring

38. 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.



39. The chart below shows the budgeted and forecast capital receipts for the four years to 2022/23.



40. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2019/20 (Council 28/02/2019). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

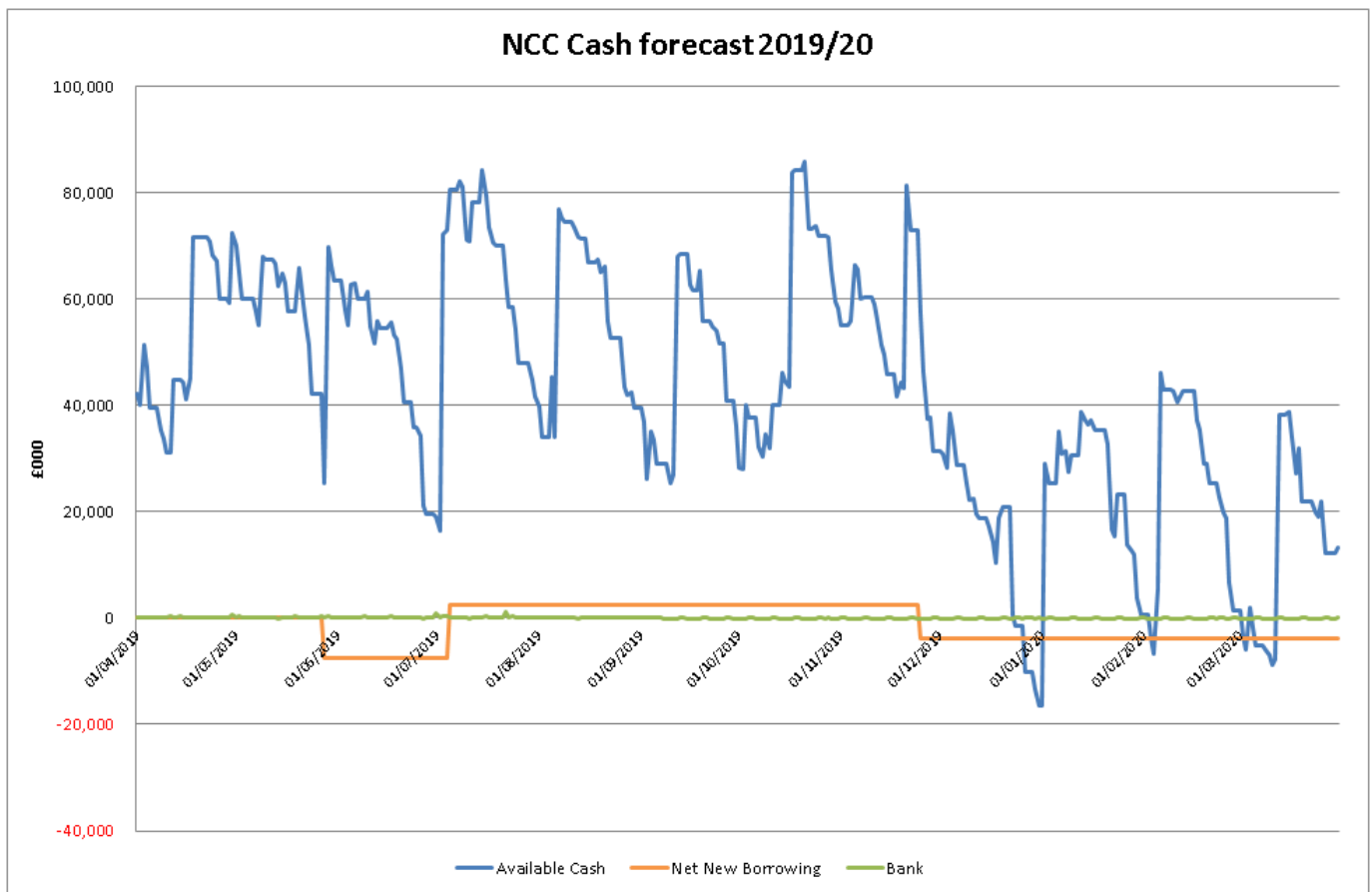
41. The capital receipt forecast for 2019/20 is £8.4m. To date in 2019/20, capital receipts totalling £0.2m have been received.

42. 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.

43. Current Council policy (Budget Report 2019/20) is to use the first £4.9m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be 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

44. 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.
45. The Cash forecast chart below shows the current cash flow position for the financial year 2019/20. 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.

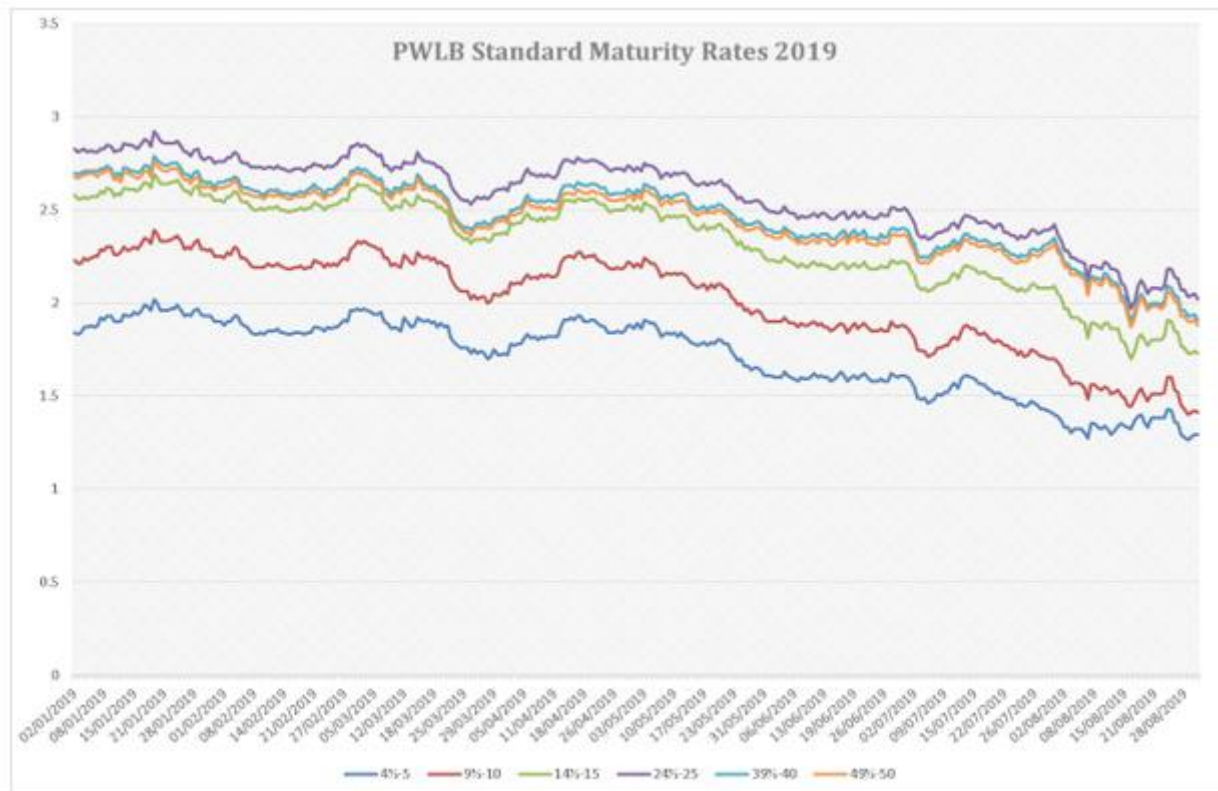


46. The chart above gives the following information:

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

47. The Treasury Management Strategy for 2019/20 identified a need to borrow approximately £7m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. After the 2018/19 accounts closure this estimate has been revised to £30m (and will be revised periodically throughout the year). £10m of this was borrowed from PWLB in July at 2.05% for 42 years.

48. 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 2019 so far.



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

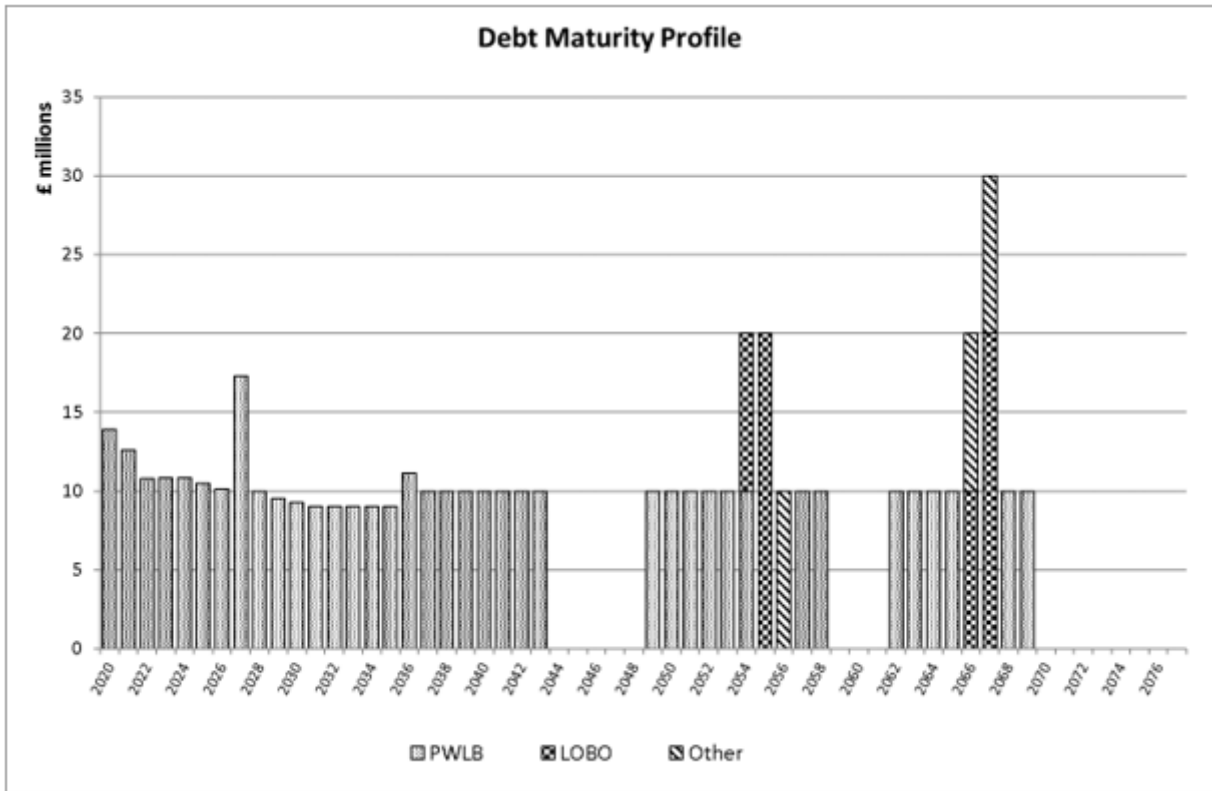
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

50. 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.

51. 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,

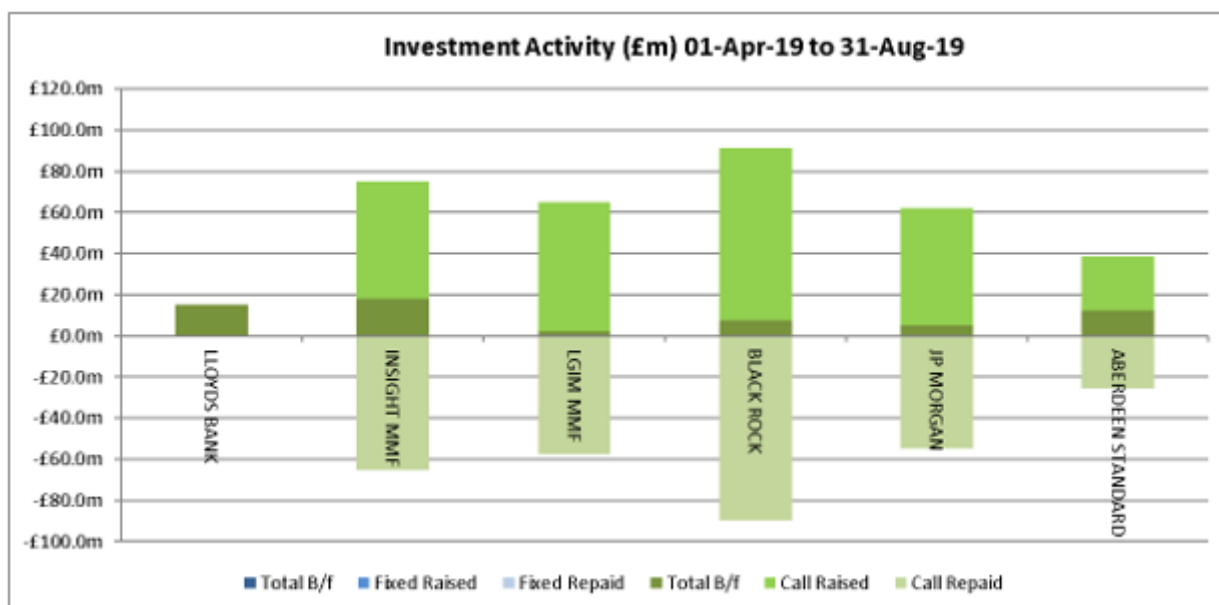
LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

52. The 'other' loans shown in the chart consists of LOBO loans from Barclays Bank that were converted to standard fixed-term loans in 2016.



53. The investment activity for 2019/20 is summarised in the chart and table below. Outstanding investment balances totalled approximately £60m at the start of the year and approximately £55m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Lloyds Bank	15,000	-	-	15,000
Insight MMF	18,100	57,000	(65,300)	9,800
LGIM MMF	2,200	62,850	(57,550)	7,500
Black Rock	7,600	83,900	(89,500)	2,000
JP Morgan	4,900	57,350	(54,750)	7,500
Aberdeen Standard	12,500	25,900	(25,700)	12,700
<b>Total</b>	<b>60,300</b>	<b>287,000</b>	<b>(292,800)</b>	<b>54,500</b>



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

## Statutory and Policy Implications

55. 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 and year-end forecasts.
- 3) To approve the contingency requests.
- 4) To comment on the Council's Balance Sheet transactions.

**Nigel Stevenson Service Director – Finance, Infrastructure and Improvement**

For any enquiries about this report please contact:  
 Keith Palframan - Group Manager, Financial Services  
 Tamsin Rabbits - Senior Accountant, Pensions and Treasury Management

## Constitutional Comments (KK 01/10/2019)

56. Pursuant to Part 4 section 21 of the Nottinghamshire County Council's Constitution the Finance and Major Contracts Management Committee has the delegated authority for all decisions within the control of the Council including but not limited to responsibility for the financial

management of the Authority. The recommendations contained within this report fall within the delegated authority to this Committee

### **Financial Comments (GB 20/09/2019)**

57. 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

