



17 July 2017

Agenda Item: 4

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

FINANCIAL MONITORING REPORT: PERIOD 2 2017/2018

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To 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 2017/18 budget at its meeting on 23 February 2017. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.
6. This report is based on upon the revised Committee structure that was approved at Full Council on 25 May 2017.

Summary Revenue Position

7. The table below summarises the revenue budgets for each Committee for the forthcoming financial year. A £2.7m net underspend is currently predicted. In light of the Council's continuing financial challenges, the key message to effectively manage budgets and wherever possible deliver in-year savings is being reinforced.

Table 1 – Summary Revenue Position

Forecast Variance as at Period 1 £'000	Committee	Annual Budget £'000	Actual to Period 11 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
	- Children & Young People	132,258	9,236	132,052	(206)
	- Adult Social Care & Public Health	222,207	13,838	220,156	(2,051)
	- Community & Place	112,024	12,218	112,068	44
	- Policy	34,907	7,284	34,465	(442)
	- Finance & Major Contracts Management	2,962	1,866	2,807	(155)
	- Governance & Ethics	7,135	988	7,025	(110)
	- Personnel	16,671	2,143	16,644	(27)
	- Net Committee (under)/overspend	528,164	47,573	525,217	(2,947)
	- Central items	(16,108)	1,288	(16,157)	(49)
	- Schools Expenditure	(56)	-	(56)	-
	- Contribution to/(from) Traders	-	(8)	-	-
	- Forecast prior to use of reserves	512,000	48,853	509,004	(2,996)
	- Transfer to / (from) Corporate Reserves	(22,914)	-	(22,914)	-
	- Transfer to / (from) Departmental Reserves	(8,304)	-	(8,003)	301
	- Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
	- Net County Council Budget Requirement	475,282	48,853	472,587	(2,695)

Committee and Central Items

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

Adult Social Care & Health (forecast £2.1m underspend)

8. The underlying forecast is an underspend of £2.1m (before any adjustments for new savings proposals or budget reductions).
9. Throughout the County, the significant variances across the service types relating to community care packages are as follows:
 - Residential and Nursing Care is forecasting a £0.5m underspend primarily in Older Adults.
 - Supported accommodation is forecasting a £0.9m overspend across Younger and Older Adults
 - Homecare is reporting an overspend of £1.8m primarily in Older Adults.
 - External Day services are forecasting an underspend of £0.5m across Younger and Older Adults
 - Direct Payments are reporting a combined overspend of £0.8m across Older and Younger Adults.
 - Staffing budgets are now forecasting an overspend of £1.5m across Older and Younger adults. This will be rectified with budget virements for the temporary money.
 - Continuing Health Care income is forecasting £4.6m more than budget due to the improved processes.

- Predicted Needs and Transitions are now forecasting a £0.8m underspend.
10. In addition there are further forecast underspends within the market development team (£0.2m), a potential overachievement of client contribution income (£0.3m) and Public Health forecasting an underspend (£0.2m).
11. £1.0m of savings associated with the reviews of packages have not yet been factored into this forecast as the reviews have not been completed. In addition, a detailed review of budgets is being undertaken with an anticipation that the budget will be adjusted to reflect underlying budget underspends and areas of pressure

Requests for contingency

12. The Council's budget includes a contingency budget of £5.1m to cover redundancy costs, slippage of savings, the November increase of the Living Wage Foundation rates paid to Authority employees, Business Rates Revaluations, the Apprenticeship Levy and unforeseen events.
13. As reported to Policy Committee in June 2017, a request for contingency has been submitted to provide up to £0.16m of funding in 2017/18 to meet the cost of establishing and resourcing an Information Governance Improvement Plan and Programme to deliver improvements in this key area

Progress with savings and risks to the forecast

14. Council on 23 February 2017 approved savings proposals of £1.6m for delivery over the four year period 2017-21. These proposals are in addition to those approved previously by County Council. Officers will continue to monitor the deliverability of individual schemes and targets as part of the budget monitoring process and reflect achievability in the forecast outturn.
15. Issues associated with the achievement of savings relating to Adult Social Care Transport are being reviewed. The outcome of the reviews will be reported to the Corporate Leadership Team and subsequently to Finance and Major Contracts Management Committee.

Balance Sheet

General Fund Balance

16. Members were asked to approve the 2016/17 closing General Fund Balance of £27.7m at Council on 13 July 2017. The 2017/18 budget approves utilisation of £4.5m of balances which will result in a closing balance of £23.2m at the end of the current financial year. This is 4.9% of the budget requirement.
17. Following approval at Finance and Major Contracts Management in June 2017, a further £1.0m of General Fund balance is now earmarked for use to repair potholes across the County.

Capital Programme

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

Table 2 – Revised Capital Programme for 2017/18

	2017/18	
	£'000	£'000
Approved per Council (Budget Report 2017/18)		102,520
Variations funded from County Council Allocations : Net slippage from 2016/17 and financing adjustments	23,426	
		23,426
Variations funded from other sources : Net variation from 2016/17 and financing adjustments	(2,956)	
		(2,956)
Revised Gross Capital Programme		122,990

19. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 2.

Table 3 – Capital Expenditure and Forecasts as at Period 2

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	42,419	2,310	39,056	(3,363)
Adult Social Care & Health	7,212	52	7,180	(32)
Community & Place	48,338	250	48,227	(111)
Policy	23,506	1,021	23,302	(204)
Finance and Major Contracts	220	(193)	220	-
Personnel	295	-	295	-
Contingency	1,000	-	1,000	-
Total	122,990	3,440	119,280	(3,710)

Children and Young People

20. In the Children and Young People's capital programme, an underspend of £3.4m has been identified. This is mainly due to a £2.9m forecast underspend against the Schools Capital Refurbishment Programme. Following scrutiny and challenge of final accounts by the commissioning and delivery property teams, the cost of completed projects are coming in lower than previously forecast. It is also anticipated that an element of the 2017/18 programme will slip into the next financial year as a result of the late notification of grant. A further £0.4m underspend is forecast against the Beardall Street Phase 2 project.

Financing the Approved Capital Programme

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

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

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People	31,477	10,803	-	139	42,419
Adult Social Care & Health	6,165	984	-	63	7,212
Community & Place	18,920	28,383	600	435	48,338
Policy	22,420	817	-	269	23,506
Finance & Major Contracts	-	-	-	220	220
Personnel	295	-	-	-	295
Contingency	1,000	-	-	-	1,000
Total	80,277	40,987	600	1,126	122,990

22. It is anticipated that borrowing in 2017/18 will increase by £19.9m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

- £23.4m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
- Net slippage in 2016/17 of £3.5m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

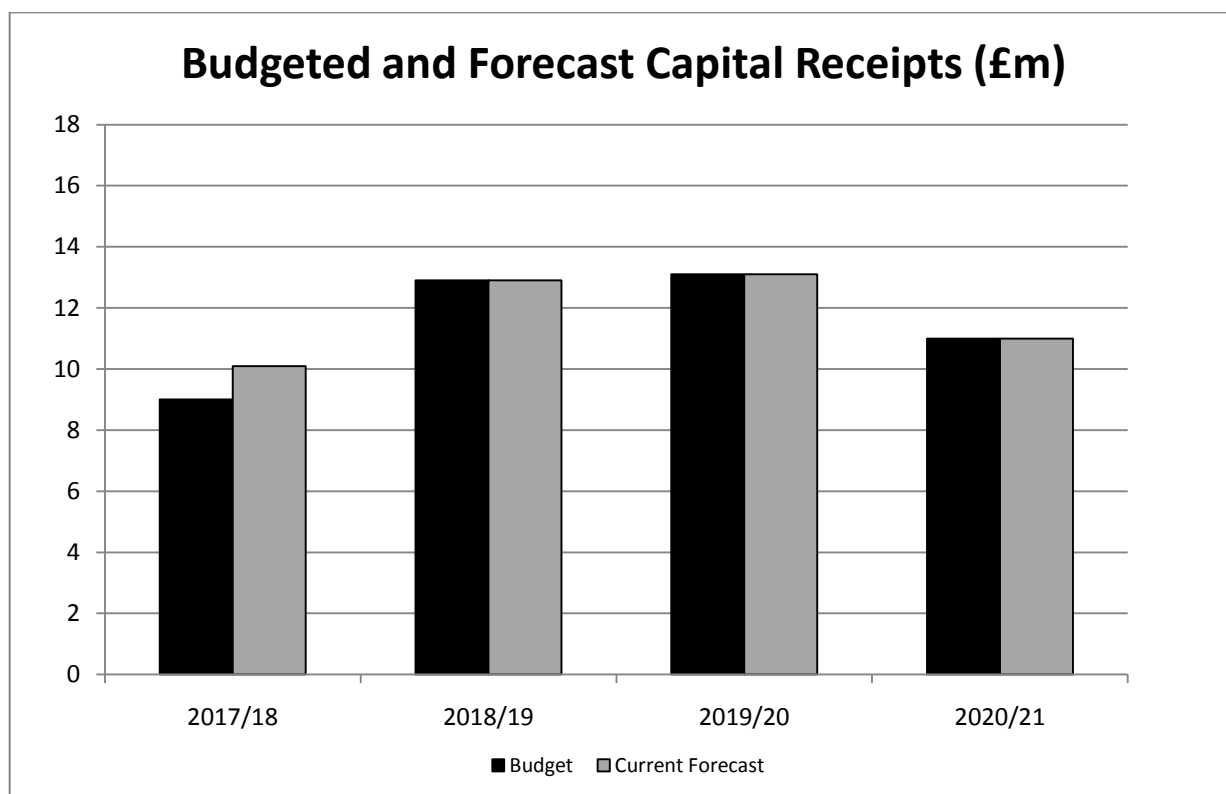
Prudential Indicator Monitoring

23. 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

24. 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.

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



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

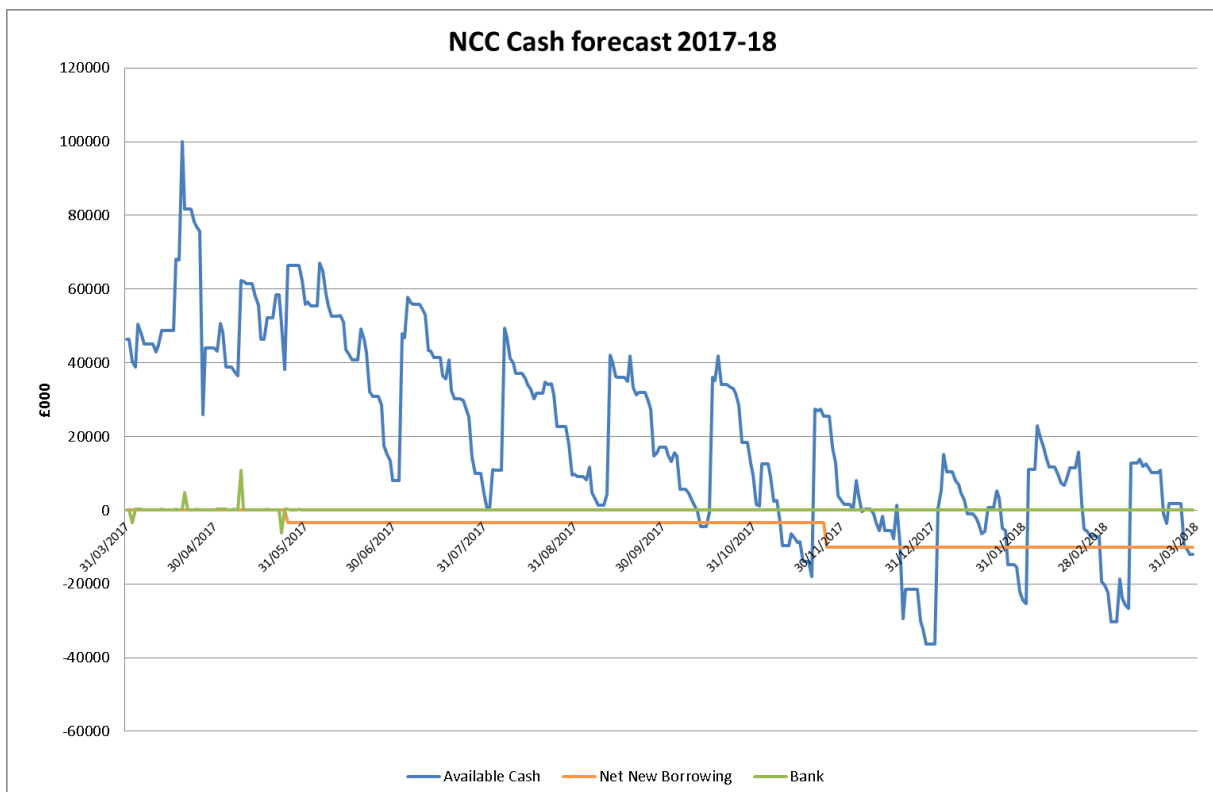
27. The capital receipt forecast for 2017/18 is £10.1m. To date in 2017/18, capital receipts totalling £0.2m have been received.

28. 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.

29. Current Council policy (Budget Report 2017/18) is to use the first £2.3m of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will set against the principal of previous years’ borrowing. This reduces the amount of Minimum Revenue Provision (MRP) to be set aside each year. It is important to regularly monitor capital receipt forecasts and their effect on the overall revenue impact of the Capital Programme.

Treasury Management

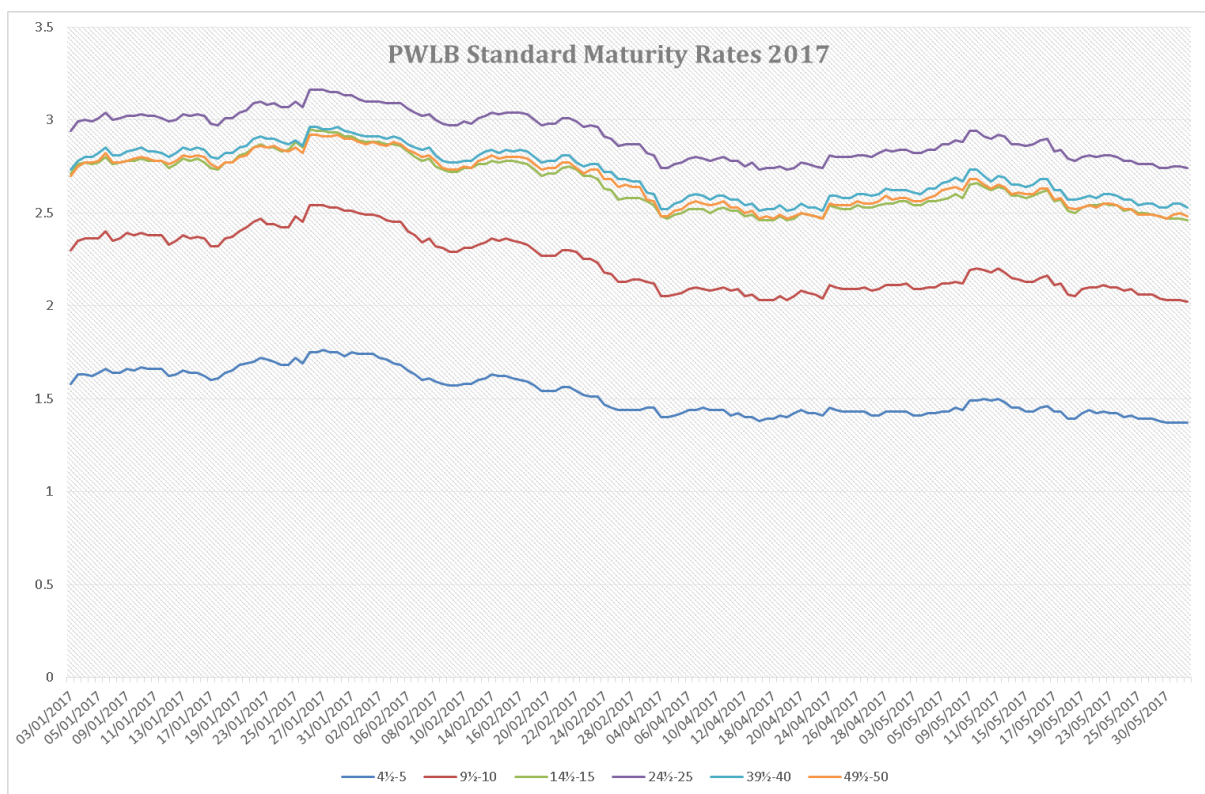
30. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group.
31. The Cash forecast chart below shows the actual cash flow position for the financial year 2017/18. Cash inflows are typically higher at the start of the year due to the front loading receipt of Central Government grants, and the payment profile of precepts. Cash outflows, in particular capital expenditure, tend to increase later in the year, and the chart shows a clear need for the Council to borrow during the course of the year.



32. 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.

33. The Treasury Management Strategy for 2017/18 identified a need to borrow approximately £30m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. It is likely that the first tranche of this will be taken prior to the end of July (at which point the forecast shown in the chart above gets close to zero). PWLB interest rates continue to be monitored closely to allow dips in rates to feed into decisions on new borrowing. The Council remains able to take advantage of the PWLB “certainty rate” which is 0.2% below the standard rates. The chart below shows the movement in standard PWLB maturity rates over the course of 2017 so far.



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

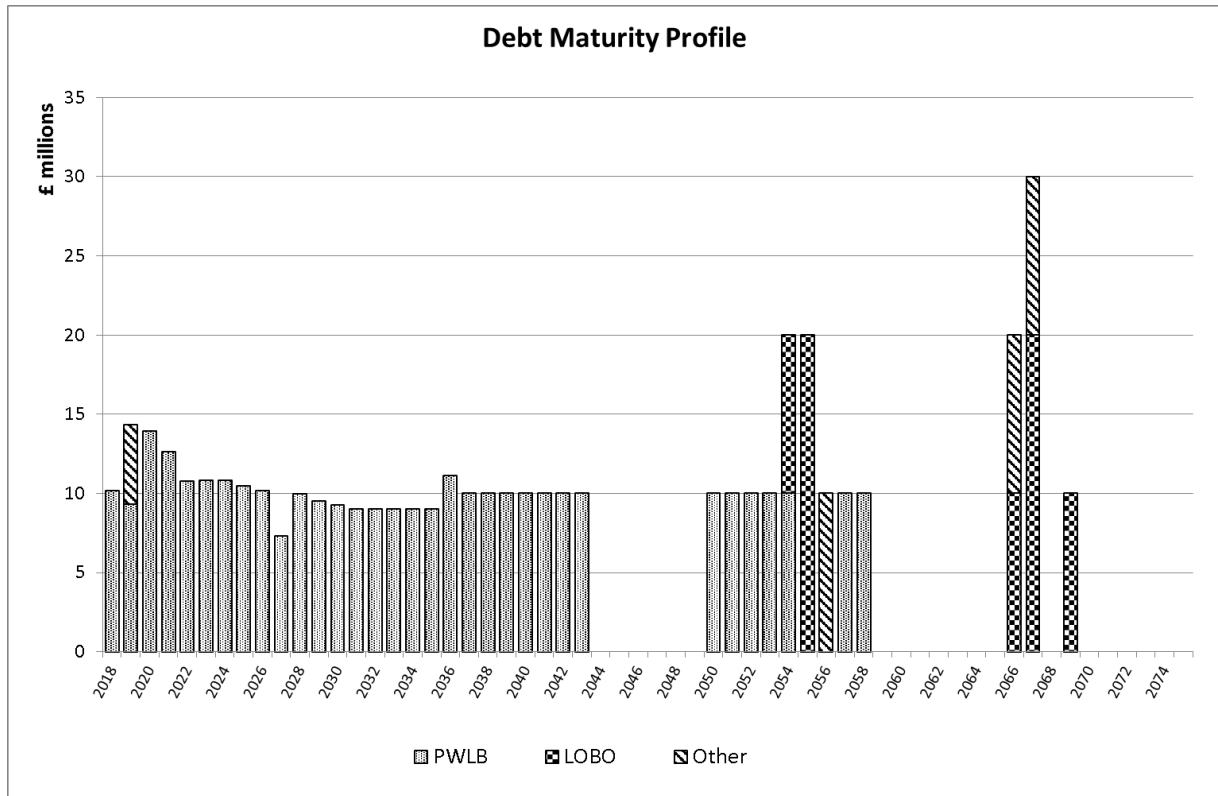
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

35. 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 41 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.

36. Longer-term borrowing (maturities up to 52 years) was obtained from the market some years ago in the form of ‘Lender’s Options, Borrower’s Options’ loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken at rates lower than the prevailing PWLB rate at

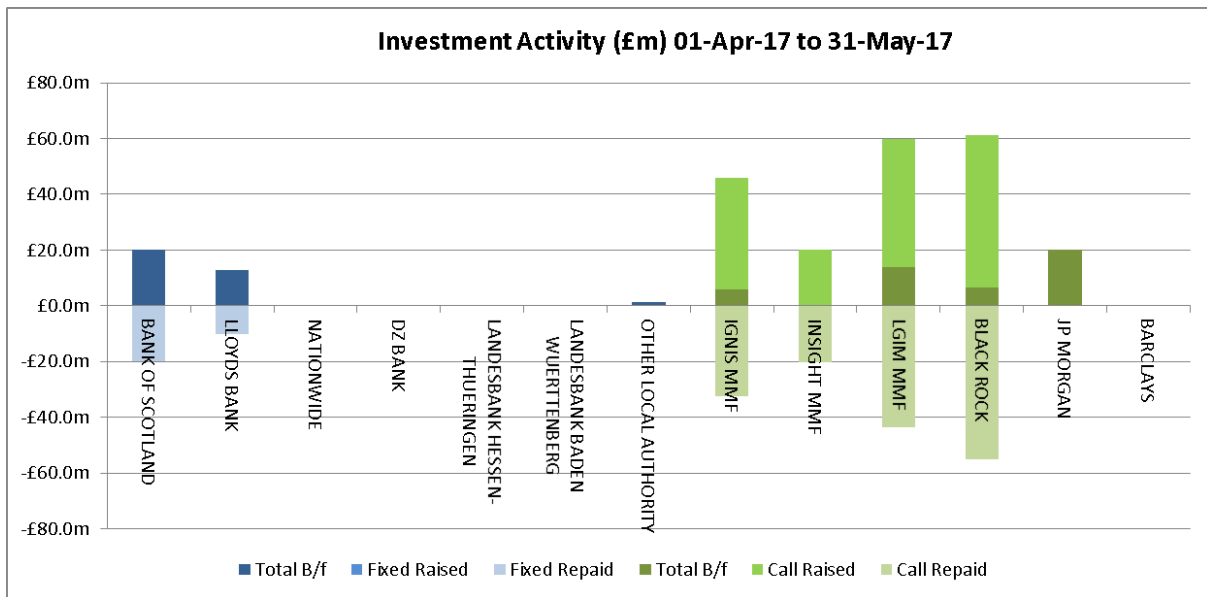
the time. However, LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

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



38. The investment activity for 2017/18 to the end of May 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and approximately £61m at the end of the period. This reduction includes the effect of making a £39m contribution to the Nottinghamshire Pension Fund in order to reduce the deficit.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
Bank of Scotland	20,000	-	(20,000)	-
Lloyds Bank	13,000	-	(10,000)	3,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	6,000	40,000	(32,550)	13,450
Insight MMF	-	20,200	(20,200)	-
LGIM MMF	13,950	45,800	(43,500)	16,250
Black Rock	6,500	54,900	(55,000)	6,400
JP Morgan	20,000	-	-	20,000
Total	80,950	160,900	(181,250)	60,600



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

Statutory and Policy Implications

40. 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.
- 4) To note the Council's Balance Sheet transactions.

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

Constitutional Comments (KK 05/06/2017)

41. The proposals in this report are within the remit of the Finance and Major Contracts Management Committee.

Financial Comments (GB 22/06/2017)

42. 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