

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

### **MANAGEMENT ACCOUNTS 2018/19**

#### **Purpose of the Report**

- 1.1 To inform Council of the year end position for the 2018/19 Management Accounts.
- 1.2 To request that Council approves the transfer from the General Fund Balances of £6.8m.
- 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 2018/19 Capital Programme and its financing.
- 1.5 To inform Council that capital expenditure and borrowing in 2018/19 were managed within the Council's Prudential Indicators.
- 1.6 To inform Council of Treasury Management activities during 2018/19.

#### **Information and Advice**

##### **2. Background**

- 2.1 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 Finance and Major Contracts Management Committee on 17 June 2019, this report is the final out-turn for 2018/19, 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 social care services, overall budgets are showing a net overspend of £3.1m or 0.6% of net Committee budgets. This compares to a period 11 forecast of £4.1m. An exercise to fully understand the permanent or temporary nature of both overspends and underspends is currently being undertaken. Permanent underspends will be removed from the base budget to fund specific future priorities and support the strategy required to meet the £34.2m shortfall in funding across the medium term. This approach was approved as part of the 2019/20 Annual Budget Report to Full Council in February 2019.
- 3.2 The level of General Fund balances, subject to approval by County Council, will decrease by £6.8m to £24.1m. This results in a closing balance that is £5.3m lower than 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	120,990	127,256	6,266	5.2%
Adult Social Care & Public Health	202,802	200,348	(2,454)	(1.2%)
Communities & Place	122,168	122,449	281	0.2%
Policy	34,337	34,090	(247)	(0.7%)
Finance & Major Contracts Management	3,411	2,963	(448)	(13.1%)
Governance & Ethics	7,306	7,280	(26)	(0.4%)
Personnel	15,111	14,851	(260)	(1.7%)
<b>Net Committee (under)/overspend</b>	<b>506,125</b>	<b>509,237</b>	<b>3,112</b>	<b>0.6%</b>
Central items	(17,237)	(21,056)	(3,819)	
Contribution to Schools Expenditure	397	397	-	
Contribution to/(from) Traders	7	356	349	
<b>Forecast prior to use of reserves</b>	<b>489,292</b>	<b>488,934</b>	<b>(358)</b>	
Transfer to / (from) Corporate Reserves	(9,077)	(5,423)	3,654	
Transfer to / (from) Departmental Reserves	2,544	4,518	1,974	
Transfer to / (from) General Fund	(1,529)	(6,799)	(5,270)	
<b>Net County Council Budget Requirement</b>	<b>481,230</b>	<b>481,230</b>	<b>-</b>	

#### 4. Net Committee Spend

The overall net overspend within the Committees is £3.1m and the principal reasons for the variations are detailed below.

##### 4.1 Children & Young People (£6.3m overspend, 5.2% of Committee budget)

The £6.3m 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. Child in Need cases have also increased significantly. This increased demand is also being experienced nationally and consequently adds additional market pressures.

The major contributing variances are:

- Staffing in Hard to Recruit Teams (including leaving care, looked after children (LAC), emergency duty, etc.) and other Social Work teams has overspent by £1.8m due to a combination of staffing changes including permanent recruitment to vacancies, temporary staff to respond to workload issues and agency workers. This includes the Assessment and District Child Protection Teams which continue to have high demand and caseloads. The agency challenge panel continues to approve all usage of agency staff.
- External Placements for LAC overspent by £5.4m, of which £2.2m is due to the recent and sustained growth in the number of Independent Fostering Agency (IFA) placements which are not expected to significantly reduce over the medium term, together with £3.1m Residential and £0.7m on semi-independent spot placements. This is partially offset by a contribution from the Troubled Families Reserve of £0.6m. Overall external placements increased by 66 over the last 12 months, with growth

across all categories. As reported previously there are a range of initiatives being undertaken to help manage the longer-term budget demands in this area (reported to October 2018 CYP Committee).

There is an underspend of £0.6m in Early Help Services due to increased income generated by outdoor education in accordance with their commercial development, together with underspends in the Family Service.

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

#### **4.2 Adult Social Care and Public Health (£2.5m underspend, 1.2% of Committee budget)**

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

- £1.5m underspend within Strategic Commissioning, Access & Safeguarding primarily due to £1.3m additional Client Contributions as a result of increased care packages and an underspend on the Advocacy contract.
- £1.0m overspend on Direct Services after incurring additional £1.8m redundancy costs in connection with the closure of the remaining Care & Support centres.
- A net £1.1m underspend across Community Care, primarily due to an additional £3.6m Continuing Health Care income, early delivery of future savings on reviews and an underspend on Direct Payments offsetting overspends on Residential and Nursing Care, Supported Accommodation and Homecare.

Within the above figures, Younger Adults were underspent by £1.3m due to additional income while Older Adults were £0.2m overspent.

In addition, there was a £0.9m underspend in Public Health, primarily on children services which was partly offset by a small overspend on smoking and tobacco activities. As the Public Health Grant is ringfenced, this underspend has been transferred to reserves for use in future years.

#### **4.3 Communities and Place (£0.3m overspend, 0.2% of Committee budget)**

There is an overspend of £1.5m against the SEND / home to school transport budget. A review of transport provision is currently taking place with reference to changing demand and the efficiency of routes.

The budget for concessionary fares has underspent by £0.5m following favourable contract settlement values with transport operators.

The highways retained client budget has underspent by £0.3m due mainly to an underspend on electricity and signals.

There is a net £0.4 underspend across a range of other budgets.

#### **4.4 Policy (£0.2m underspend, 0.7% of Committee budget)**

The underspend has arisen due to staff savings arising from the restructuring of the Chief Executives Department and underspends on the Local Government Reorganisation and IICSA budgets. These are offset by additional costs in the delayed transfer from Vodafone to EE as the mobile telecoms provider and additional costs on data network.

#### **4.5 Finance and Major Contracts Management (£0.4m underspend, 13.1% of Committee budget)**

The underspend has mainly arisen due to vacancy savings, lower than forecast audit fees and bank charges, and increased payroll insurance income, slightly offset by a shortfall in income from services provided to schools.

#### **4.6 Governance and Ethics (£0.0m underspend, 0.4% of Committee budget)**

There are no major variances to report.

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

The underspend has arisen due to savings in the Business Support Centre and in Business Support, where there was a proactive holding of vacant posts to meet future savings targets, offset by an overspend on the Customer Services Centre budget to meet increases in demand.

#### **4.8 Traders Services (£0.3m 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. The position without use of reserves is that there is an overspend in County Supplies (£0.6m) and an underspend for Cleaning and Landscapes (£0.3m). County Supplies have exhausted their reserves, the 2018/19 overspend is therefore a cost to the general fund.

### **5 Central Items (£3.8m 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. There are various minor under and overspends (net total £0.8m underspend) within the rest of central items category, details of which can be found in Appendix A.

#### **5.1 Contingency (£4.2m underspend) (for detail please refer to Appendix C)**

The total 2018/19 contingency budget was originally set at £9.6m, with £5.5m to cover both redundancy and general contingency requirements. A further £4.1m was set aside to provide for a number of demand and inflationary pressures identified that had a high degree of uncertainty with regard to likelihood, value and profiling. Requests were received throughout the year from Committees are approved through the budget monitoring reports presented to Finance and Major Contracts Management Committee or by the Service Director – Finance, Infrastructure and Improvement.

#### **5.2 Government Grants (£6.5m underspend)**

Several non-ring fenced 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 £3.8m underspend. Also, as previously reported, the Council's membership of the Nottinghamshire Business Rates Pool results in a proportion of local growth being retained by the Council. In 2018/19 there is net additional income of £2.7m. The overall impact (taking into account budgeted use) on the N2 pool reserve and the Authorities share of the pool are described below in the reserves section.

#### **5.3 Statutory Provision for Debt Redemption (£8.3m 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 2018/19 has been determined at £8.3m. This includes a re-alignment adjustment of £1.7m to reflect MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016.

#### 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 in 2018/19 has resulted in an underspend of £0.5m. Other interest and dividends received in year have achieved an underspend of £0.1m.

### 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 2018/19 Annual Budget Report to Full Council in February 2018. 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 2018/19 accounts the necessary adjustments have been made. In addition, as also approved, the in-year overspend has been funded from the use of General Fund balances. 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 shown below.

#### 6.2 General Fund Balance

The Council meeting on 28 February 2018 approved the use of £1.5m of General Fund Balances. Given the overspend that has materialised, it is recommended that a further contribution of £5.3m is made from the General Fund. Subject to Council approval, the closing balance of the Council's General Fund will reduce from £30.9m to £24.1m.

#### 6.3 Other Earmarked Reserves

At the end of 2018/19 other 'earmarked' reserves totalled £105.8m, a decrease of £10.4m since 31 March 2018. This consists of the following:

- **PFI Reserves**

£30.2m of reserves are held for PFI schemes and this equates to 28.6% 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 2018/19 are shown in the table below.

**Table 2 – PFI set aside as at 31/03/2019**

<b>PFI Scheme</b>	<b>£'000</b>
East Leake Schools	3,328
Bassetlaw Schools	1,905
Waste	24,993
<b>Total</b>	<b>30,226</b>

- **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 £29.6m.

- **Capital Projects Reserve**

The Capital Projects Reserve supports the Medium Term Financial Strategy as well as current and future capital commitments. In 2018/19 there was a net use of the reserve of £7.2m. As at 31 March 2019, the balance on the Capital Projects Reserve is £5.3m.

- **Strategic Development Fund**

It was approved that costs associated with the Programme and Projects team are funded from the capital receipts flexibility directive from 2017/18 to 2021/22. There remains £2.9m of reserve to fund transformation costs.

- **Workforce Reserve**

Following approval at February 2019 Full Council meeting, the Redundancy Reserve was combined with the surplus pension contribution reserves to make a wider ranging workforce reserve. This expanded reserve will cover potential pay protection, National Living Wage increases and Pension Strain, as well as covering Pension Contributions and Redundancy. There was a £0.4m contribution to this reserve resulting in a balance as at 31 March 2019 of £8.7m.

- **Earmarked for Services Reserves**

All departments have reserves for identified purposes. In addition, Financial Reporting Standards require 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 £1.4m to £47.4m.

- **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 decrease of £0.1m in this reserve during 2018/19. Of the £8.0m year-end balance £6.6m relates to the County's share of the pool surplus; the remaining balance (£1.4m) is funding set aside for N2.

- **Earmarked Reserve**

Earmarked reserves contain balances of reserves previously held under services but have been deemed no longer required for their original purpose. As part of the reserves strategy a revised budget of £2.9m was set and used in year. Following an exercise in the summer additional earmarked for services reserves have transferred in to leave the balance at £1.4m.

## 7 Capital Expenditure

7.1 Capital Expenditure in 2018/19 totalled £89.928m. Table 3 shows the final 2018/19 Capital Programme broken down by Committee.

**Table 3 – 2018/19 Capital Expenditure**

<b>Committee</b>	<b>Revised Budget £'000</b>	<b>Total Outturn £'000</b>	<b>Variance £'000</b>
Children & Young People	24,705	20,146	(4,559)
Adult Social Care & Public Health	3,523	2,823	(700)
Communities & Place	54,160	54,729	569
Policy	15,100	12,147	(2,953)
Finance & MCM	180	83	(97)
Governance & Ethics	7	-	(7)
<b>Total</b>	<b>97,675</b>	<b>89,928</b>	<b>(7,747)</b>

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

The major areas of investment in 2018/19 are listed in Table 4 below.

**Table 4 – Major investment areas 2018/19**

<b>Committee</b>	<b>Scheme</b>	<b>2018/19 Capital Expenditure £'000</b>
Children & Young People	School Places Programme	6,039
	School Capital Refurbishment Programme	5,030
	Bestwood Hawthorne New School	2,863
	Watnall Road New School	2,081
Communities & Place	Road Maintenance & Renewals	27,047
	VIA Purchase of Shares	5,025
	Integrated Transport Measures	5,742
Policy	Street Lighting	2,788
	Building Works	2,395
	Smarter Ways of Working	2,259
	Various IT Capital Projects	4,288

## Capital Programme Variations

7.2 The changes in the gross Capital Programme for 2018/19, since its approval at Council (28/02/18) are summarised in Table 5 below.

**Table 5 2018/19 Capital Programme**

	£'000
Approved per Council (Budget Report 2018/19)	112,771
Variations funded from County Council Allocations : Net slippage from 2017/18 and financing adjustments	(21,875)
Variations funded from other sources : Net slippage from 2017/18 and financing adjustments	(968)
<b>Revised Gross Capital Programme</b>	<b>89,928</b>

### 7.3 Maximising the use of grants in 2018/19

Sometimes when there is slippage on a scheme funded by grant, rather than slipping the grant funding for use in the next year, it is possible to use the grant to finance the expenditure on a different scheme in the current year. This does not affect the total expenditure on individual schemes, nor their phasing, but delays the use of prudential borrowing and the consequent impact on the revenue budget of having to set aside a Minimum Revenue Provision (MRP).

Grant funding unapplied totalling £9.2m has been used to fund capital expenditure on projects in 2018/19 that would otherwise have been funded from borrowing.

### 7.4 Slippage/re-phasing of Capital Schemes

In addition to the slippage and re-phasing of schemes incorporated into the Budget Report 2018/19 there has been £8.8m of further slippage.

#### **Main Areas of Slippage**

- School Places Programme (£1.9m)
- Schools Building Improvement Programme (£1.8m)
- Gedling Access Road (£2.3m)



## Capital Financing

7.5 Table 6 below outlines how the 2018/19 capital expenditure has been financed.

**Table 6 - 2018/19 Capital Financing**

	Revised Budget (£'000)	Out-turn (£'000)	Variance (£'000)
<b>Funding Source:</b>			
Prudential Borrowing	41,846	27,767	(14,079)
Capital Grants	52,496	58,246	5,750
Revenue / Reserves	3,333	3,915	582
<b>Gross Capital</b>	<b>97,675</b>	<b>89,928</b>	<b>(7,747)</b>

7.6 Capital receipts for 2018/19 totalled £4.3m. This is £2.6m less than anticipated in the 2018/19 budget report. This is mainly as a result of a small number of high value capital receipts that were not completed in 2018/19. £3.6m of the capital receipts have been used, per the capital flexibility directive, to fund one-off transformational costs incurred during the year. The remaining £0.7m has been set against the principal of borrowing in previous years.

7.7 Total borrowing for the year is £27.8m, which is £14.0m less than the revised budget for 2018/19 of £41.8m. This is as a result of maximising the use of additional capital grants received in 2018/19 and the slippage/re-phasing of capital expenditure to be funded from prudential borrowing. The corresponding funding (capital allocations) will be carried forward and incorporated into the Capital Programme for 2019/20.

7.8 The Capital Programme for 2019/20 will be monitored to ensure that borrowing for 2019/20 is managed within the prudential limits for the year. Funding by borrowing in 2019/20 is now projected to be £66.0m. Although this is £21.1m more than the budgeted borrowing figure in the February 2019/20 Budget Report, any new capital expenditure slippage in 2019/20 will offset this and the Council's overall level of indebtedness is not expected to exceed previous forecasts. The size of the revised Capital Programme for 2019/20 is £133.1m.

## 8 Treasury Management Activities

8.1 All treasury management activities during 2018/19 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 30th May 2019 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 2018/19 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 2018/19 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 01/07/2019)**

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

**Financial Comments (GB 01/07/2019)**

The financial implications are set out in the report.

**Background Papers**

None

**Electoral Division(s) and Member(s) Affected**

All