

## **REPORT OF THE CABINET MEMBER FOR FINANCE**

### **FINANCIAL MONITORING REPORT: PERIOD 2 2022/2023**

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

1. To provide Cabinet with a summary of the budget monitoring position as at Period 2.

#### **Information and Advice**

##### **Background**

2. The Council approved the 2022/23 budget at its meeting on 24 February 2022. As with previous financial years, progress updates will be closely monitored and reported to management, the Cabinet Member for Finance or Cabinet each month.

##### **Summary Revenue Position**

3. The table below summarises the revenue budgets for each Portfolio for the forthcoming financial year. An overspend of £4.4m is currently projected against the budget approved by Full Council in February 2022. As a consequence of this adverse variance and the significant levels of uncertainty and 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**

<b>Portfolio</b>	<b>Annual Budget £'000</b>	<b>Actual to Period 2 £'000</b>	<b>Year-End Forecast £'000</b>	<b>Latest Forecast Variance £'000</b>
Children & Young People	166,975	13,442	169,264	2,289
Adult Social Care & Public Health	234,103	3,796	233,678	(425)
Transport & Environment	116,612	2,129	117,391	779
Communities	18,508	4,976	18,653	145
Economic Development & Asset Management	25,165	1,088	25,353	188
Deputy Leader & Transformation	5,067	762	5,148	81
Finance	15,594	2,466	15,549	(45)
Personnel	26,018	4,178	26,485	467
<b>Net Committee (under)/overspend</b>	<b>608,042</b>	<b>32,837</b>	<b>611,521</b>	<b>3,479</b>
Central items	(36,678)	(3,674)	(36,678)	-
Schools Expenditure	126	-	126	-
Contribution to/(from) Traders	(2,012)	328	(1,338)	674
<b>Forecast prior to use of reserves</b>	<b>569,478</b>	<b>29,491</b>	<b>573,631</b>	<b>4,153</b>
Transfer to / (from) Corporate Reserves	(5,463)	-	(5,463)	-
Transfer to / (from) Departmental Reserves	(4,543)	-	(4,273)	270
Transfer to / (from) General Fund	-	-	-	-
<b>Net County Council Budget Requirement</b>	<b>559,472</b>	<b>29,491</b>	<b>563,895</b>	<b>4,423</b>

## Committee Variations

### Children & Young People's (£2.3m overspend)

4. The Children and Young People's portfolio is currently forecasting an overspend of £2.3m after the planned use grant reserves. This mainly relates to a £2.0m overspend in Commissioning and Resources and a further £0.3m overspend across tother areas in the Department.
5. The Commissioning and Resources Division relates to a forecast overspends against external Looked After Children placement costs and Internal Residential Homes budgets offset by underspends in Children's Centre and internal foster care payment budgets.
6. A summary of key actions that are being undertaken to help manage the forecast overspend and large variances:
  - Review of a high-cost recharge from Clayfields to External Residential placements to ensure that an equitable rate is being used and consideration being given to introducing a

rebate. This could potentially reduce the Clayfields excess surplus and reduce the placements/departmental overspend by up to £0.25m.

- The Public Health income budget line within Children's Centres be increased by £0.24m to reflect the actual recharge income level (that increased from 2021-22).
- Review of cost and income generation within current Internal Residential Homes.
- Continued focus and prioritisation of Whole Family Safeguarding projects to help maximise benefits in 2022-23 and incorporation into longer term trends/forecasts.

### **Transport & Environment (£0.8m overspend)**

7. The Transport and Environment portfolio is currently reporting a forecast overspend of £0.8m. This is mainly due to a forecast overspend against the Via East Midlands contract of £0.9m with a £0.1m underspend reported against other portfolio budgets.
8. The £0.9m forecast overspend reported against the VIA East Midlands contract is due to increased inflationary pressures across the highways sector. The VIA contract includes for inflationary payments based on a suite of relevant inflation indices for plant, labour and material costs. A review of revenue activity has been initiated with a view to maintaining service levels whilst reducing overall costs. A further company-wide review of operations and efficiencies over the coming months will also take place.

### **Trading Services**

9. Schools Catering is forecasting a deficit of £0.7m as operations are continuing to function below pre-Covid levels. The business is also anticipating further financial challenges as a result of inflationary pressures and recruitment issues which are expected to continue throughout the financial year.

### **Central Items**

10. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
11. The Council's budget includes a base contingency budget of £4.0m to cover redundancy costs, slippage of savings and other potential unforeseen events. Also, in 2022/23 further demand and inflationary pressures have been identified that have a degree of uncertainty with regard to likelihood, value and profiling; including assumption on pay awards. As such, an additional provision of £13.3m has been made within the contingency to fund these pressures should they arise. The Cabinet, Cabinet Member for Finance or the Section 151 Officer are required to approve the release of contingency funds.

## Requests for Contingency

12. In March 2022, agreement was reached with regard to the Local Government Services' Pay Agreement for 2021/22. Under the agreement, local government accepted a 1.75% pay increase for 2021/22. This equates to an additional cost of £3.3m and Cabinet approval is sought to fund this uplift from provision made within the Council's contingency budget.
13. In addition, there is already a call on the 2022/23 contingency budget from requests that have been approved by the previous Finance Committee or the Section 151 Officer. These are as follows: -
- Tour of Britain – Communities Portfolio - £100,000
  - Graduate Trainees – Personnel Portfolio - £58,000
  - Armed Forces Community Budget – Communities Portfolio - £20,000
  - Platinum Jubilee / Nottinghamshire Day – Personnel Portfolio - £100,000
  - Revised Governance Arrangements – Personnel Portfolio - £160,000
  - Council Tax – Single Person Discount Review – Finance Portfolio -£66,482

Table 1 assumes that the remaining contingency budget will be utilised in full for future requests

## Main Areas of Risk within the 2022/23 budget

14. As reported previously, there are significant risks and uncertainties associated with the current environment that local authorities are operating within, both in the short and medium terms. The main financial risks emerging for the Council are as follows:-
- Any on-going financial impact of the COVID19 pandemic and the implications that this may have on the delivery of Council services.
  - The cost pressures factored into the Council's budget may not be sufficient to meet the underlying cost and demand pressures that actually arise, particularly with regard to Adults and Children's Social Care Services, Transport Services, the impact of the National Living Wage, agreement of the pay award, the impact of the proposed Adult Social Care reform as well as any additional burdens identified by Central Government.
  - The COVID19 pandemic coupled with the UK leaving the EU has had a significant impact on the availability of staffing resource particularly in the social care sector as recruiting and retaining care staff across social care services remains difficult. Staff shortages have also been experienced in catering, facilities management and waste services.
  - Whilst the Council is somewhat protected from immediate inflation on direct energy costs through the advanced purchasing arrangement with Crown Commercial Services (CCS), wider inflationary pressures driven by energy costs could have a detrimental impact across a whole range of service areas.
  - Fuel prices which are at a record high, will also be felt across all areas of the organisation in due course, with the potential for contracts to become unaffordable for the council or unviable for some service providers.
  - The 2022/23 Settlement reflected a one-year settlement only. As a result, estimated future increases in Central Government grants that are set out in the MTFS may not be in line with future announcements.

- Higher costs associated with the capital programme due to material shortages and increases in the cost of construction and other key materials.

15. These emerging pressures that will affect in-year budget, as well as across the Medium-Term Financial Strategy, will be monitored throughout the year. Future impacts will need to be considered as part of the budget setting process for future years.

### Balance Sheet General Fund Balance

16. Cabinet will be asked to approve the 2021/22 closing General Fund Balance of £35.2m on 14 July 2022. This balance represents 6.2% of the net budget requirement.

### Capital Programme

17. Table 2 summarises changes to the gross Capital Programme for 2022/23 since approval of the original Programme in the Budget Report (Council 24/02/22):

**Table 2 – Revised Capital Programme for 2022/23**

	2021/22	
	£'000	£'000
Approved per Council (Budget Report 2020/21)		126,879
Variations funded from County Council Allocations : Net slippage from 2020/21 and financing adjustments	22,321	
		22,321
Variations funded from other sources : Net variation from 2020/21 and financing adjustments	192	
		192
<b>Revised Gross Capital Programme</b>		<b>149,392</b>

18. Table 3 shows actual capital expenditure to date against the forecast out-turn at Period 2.

Portfolio	Revised Capital Programme £'000	Actual Expenditure to Period 2 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People's	46,323	4,739	46,370	47
Adult Social Care & Public Health	277	76	320	43
Transport & Environment	53,562	2,056	52,481	(1,081)
Communities	3,225	128	3,232	7
Economic Devt & Asset Mngt	28,820	(76)	28,820	-
Finance	12,530	926	12,430	(100)
Personnel	106	-	106	-
Contingency	4,549	-	4,549	-
<b>Total</b>	<b>149,392</b>	<b>7,849</b>	<b>148,308</b>	<b>(1,084)</b>

### Variations to the Capital Programme

19. Under the Council's new governance arrangements, the Section 151 officer has approved variations to the capital programme as set out in the following paragraphs:

20. **Fostering Capital Programme** – At the Corporate Asset Management Group (CAMG) meeting held on 20 June 2022, a capital bid was submitted relating to two Fostering Family projects whereby the sibling groups had outgrown the space available for them. CAMG agreed that the project could proceed as an invest to save programme. The Children and Young People's portfolio capital programme has been varied by £0.27m, funded from capital contingency, to reflect the inclusion of the two Fostering Family projects.

21. **Clayfields House** - At the Corporate Asset Management Group (CAMG) meeting held on 20 June 2022, a capital bid was submitted seeking £0.36m, to complement the £2.85m capital grant secured from the Department for Education to further facilities at Clayfields House. CAMG agreed that the project could proceed as an invest to save programme with the investment being recovered from future surpluses at Clayfields House. The Children and Young People's portfolio capital programme has been varied by £0.36m, funded from capital contingency, to reflect the additional works to be undertaken at Clayfields House

22. **Disabled Facilities Grant** - The Authority has received a Disabled Facilities Grant totalling £0.64m to fund the purchase of equipment that can enable adults with special needs to remain in their homes. The Adult Social Care and Public Health portfolio capital programme has been varied to reflect the £0.64m capital grant received by the Authority.

23. **Integrated Transport Measures / Road Safety** - It has been identified that £0.457m of costs relating to the Road Safety capital budget were incurred on the Integrated Transport Measures budget in error in 2021/22. The Transport and Environment portfolio capital budget has been varied to amend 2022/23 budget allocations.

24. **Green Investment Fund** – The establishment of a £15m Highways and Environment reserve was approved as part of the Annual Budget Report 2022/23 that was submitted to Full Council in February 2022. It has been agreed that £0.75m (£0.25m per annum commencing 2022/23)

will be used to part-fund the Green Investment Fund capital budget. The Transport and Environment portfolio capital programme has been varied by £0.75m, funded from reserves, to reflect this additional allocation to fund Green Investment Fund initiatives.

**Financing of the Approved Capital Programme**

25. Table 4 summarises the financing of the overall approved capital programme for 2022/23

**Table 4 – Financing of the Approved Capital Programme for 2022/23**

Portfolio	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	26,925	19,348	-	50	46,323
Adult Social Care & Public Health	43	211	-	23	277
Transport & Environment	12,549	40,013	726	274	53,562
Communities	3,035	170	20	-	3,225
Economic Devt & Asset Mngt	22,979	4,667	100	1,074	28,820
Finance	8,555	2,040	-	1,935	12,530
Personnel	106	-	-	-	106
Contingency	4,549	-	-	-	4,549
<b>Total</b>	<b>78,741</b>	<b>66,449</b>	<b>846</b>	<b>3,356</b>	<b>149,392</b>

26. It is anticipated that borrowing in 2022/23 will increase by £21.2m from the forecast in the Budget Report 2022/23 (Council 24/02/22). This increase is primarily a consequence of:

- £22.3m of net slippage from 2021/22 to 2022/23 and financing adjustments funded by capital allocations.
- Net slippage in 2022/23 of £1.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

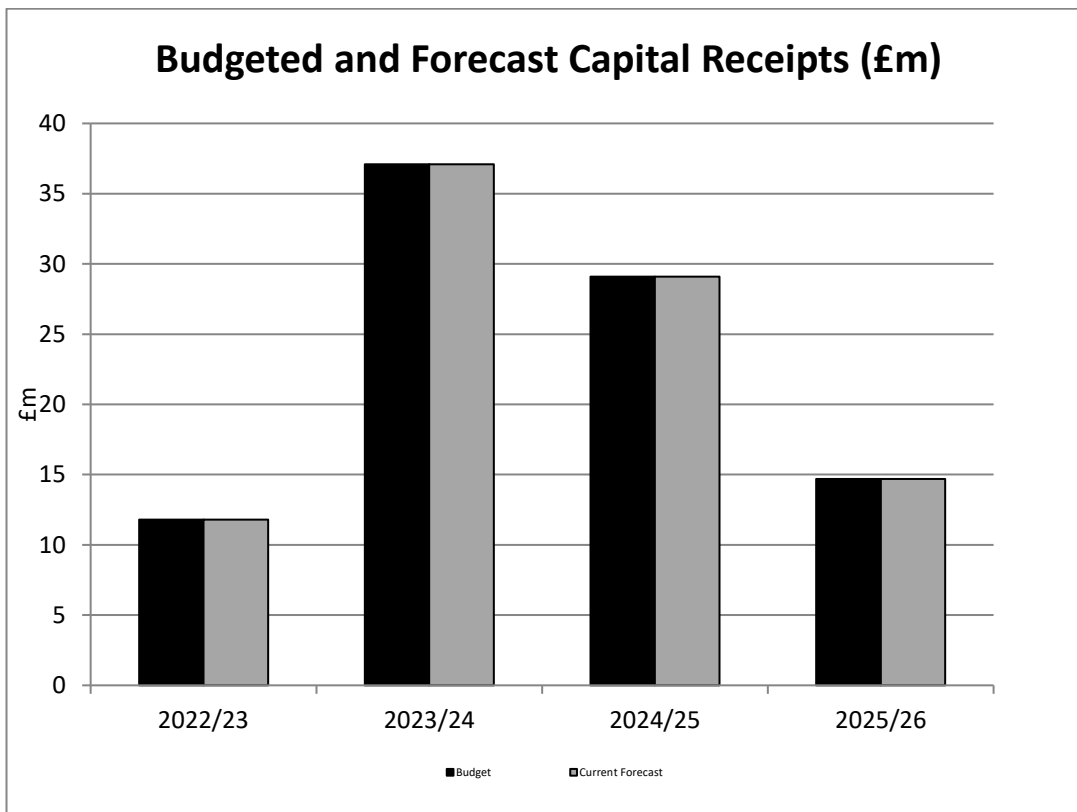
**Prudential Indicator Monitoring**

27. 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**

28. 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.

29. The chart below shows the budgeted and forecast capital receipts for the four years to 2025/26.



30. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2022/23 (Council 24/02/2022). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

31. The capital receipt forecast for 2022/23 is £11.8m. To date in 2022/23, no capital receipts have been received.

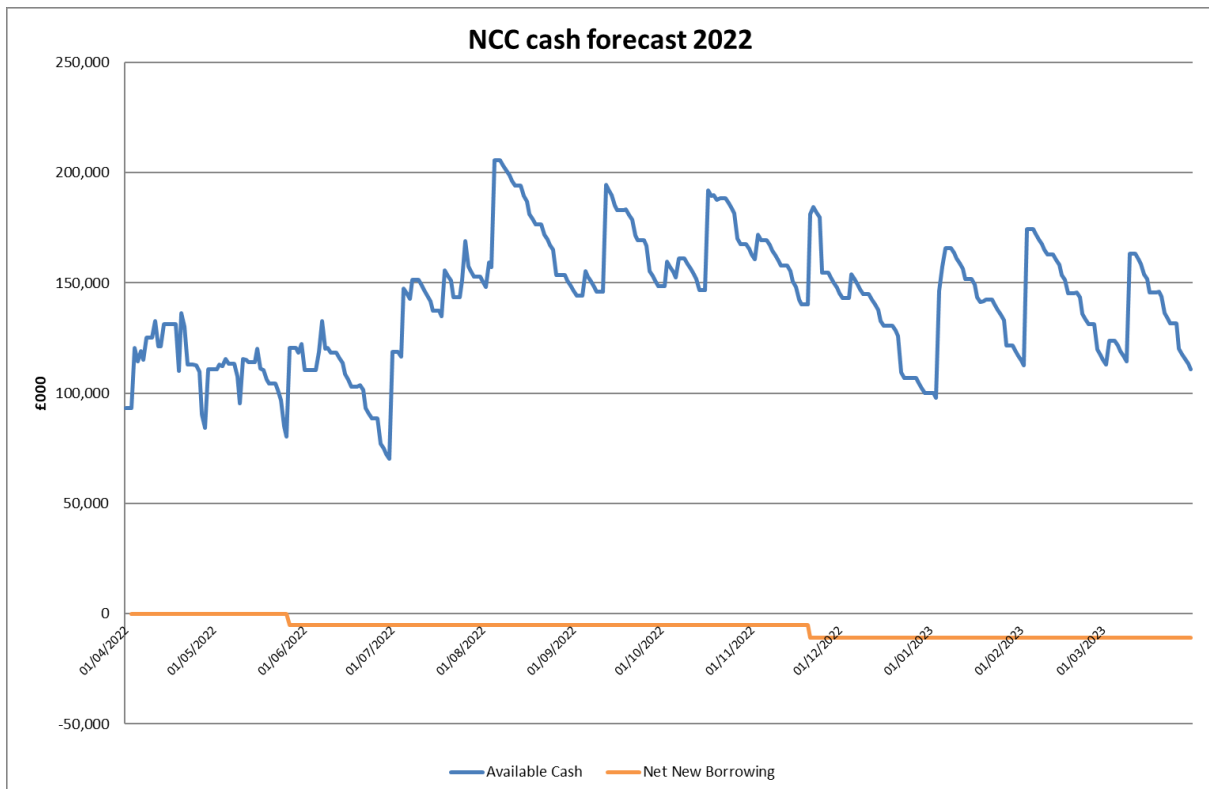
32. The number and size of large anticipated receipts increase the risk that income from property sales will be below the revised forecasts over the next three years. Although the forecasts incorporate an element of slippage, a delay in receiving just two or three large receipts could result in sales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

33. Current Council policy (Budget Report 2022/23), to minimise the impact of the cost of borrowing on the revenue budget, is to use capital receipts to the value approved as part of the 2021/22 Budget Report to set against previous years’ borrowing thereby reducing the impact of the Minimum Revenue Provision on the revenue accounts. This will enable excess capital receipts to be used to fund future additional capital investment.



## Treasury Management

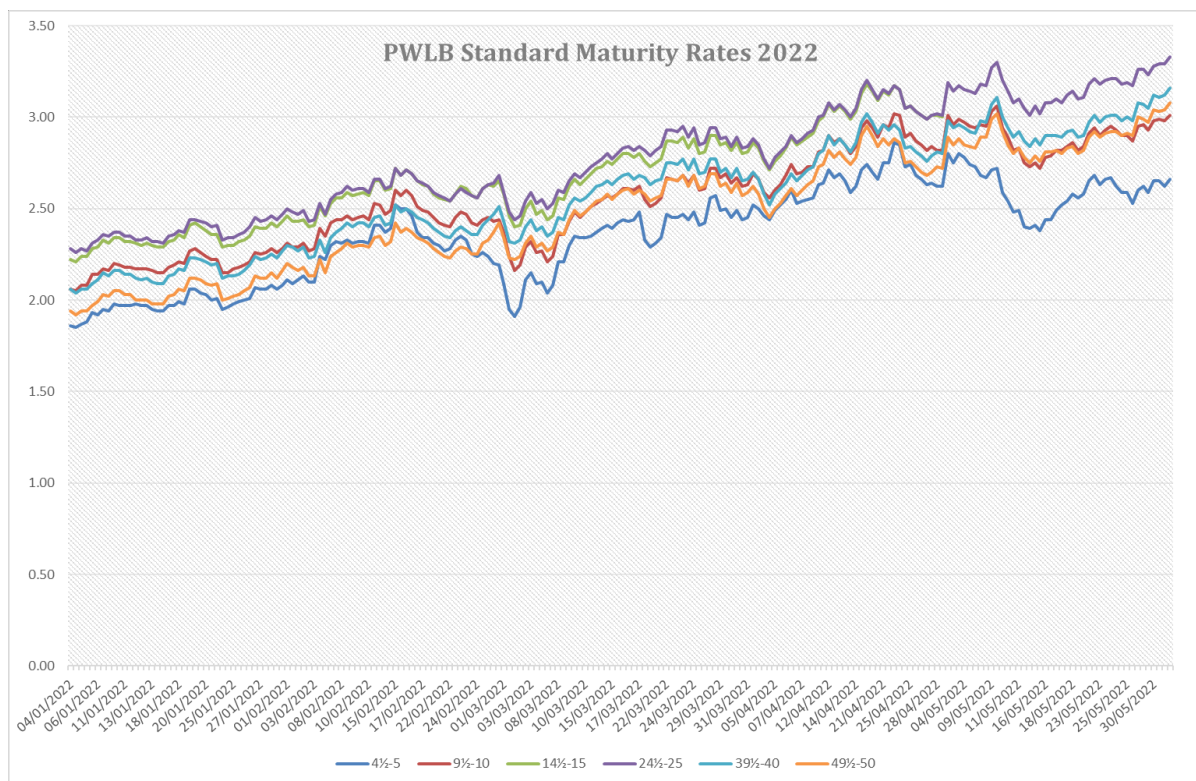
34. Daily cash management aims for a closing nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group (TMG).
35. The cash forecast chart below shows the current estimated cash flow position for the financial year 2022/23. 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. Also, expected borrowing in support of capital expenditure is not included in the forecast. The chart thereby helps highlight the points in the year when such borrowing will be necessary, and it is monitored daily so that treasury management staff can act comfortably in advance of the cash being required, the aim being to maintain adequate but not excessive liquidity.



36. 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.

37. The Treasury Management Strategy for 2022/23 identified a need to borrow approximately £20m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. 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 2022 so far.



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

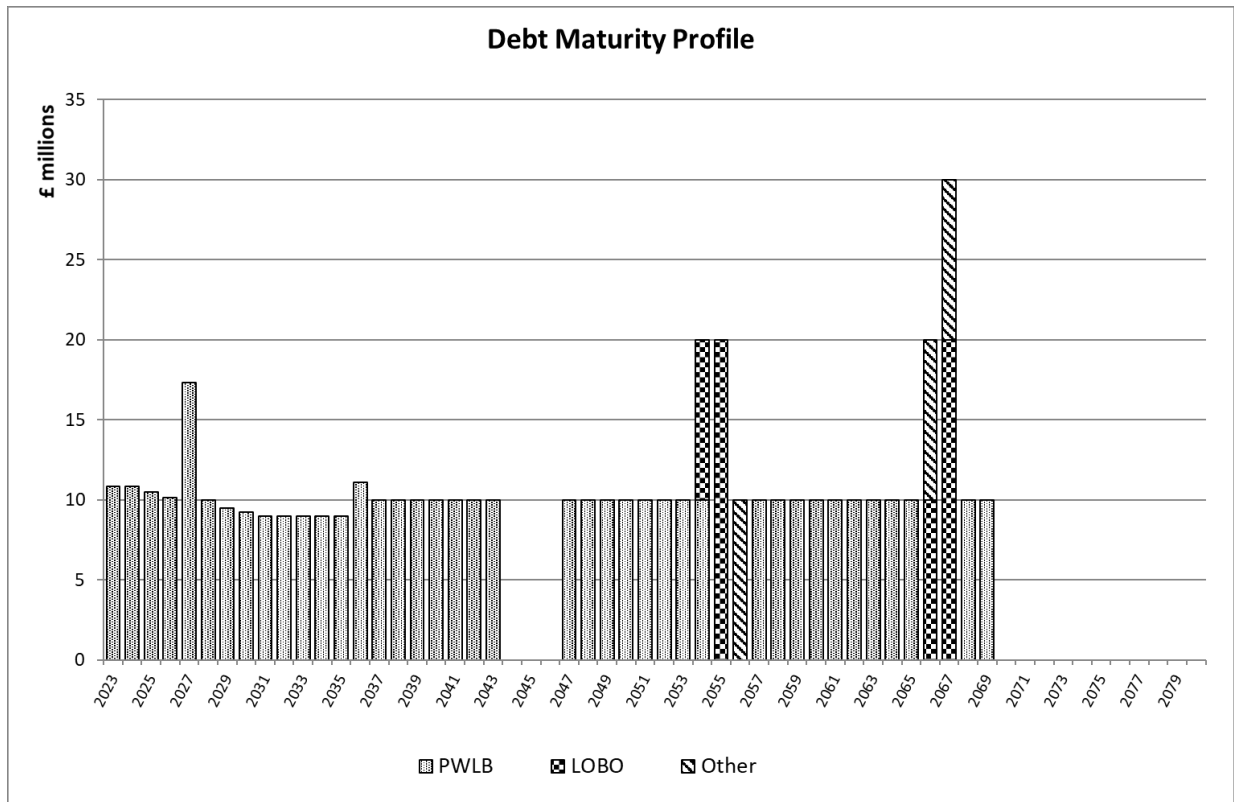
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium-term financial strategy
- the treasury management prudential indicators.

39. 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.

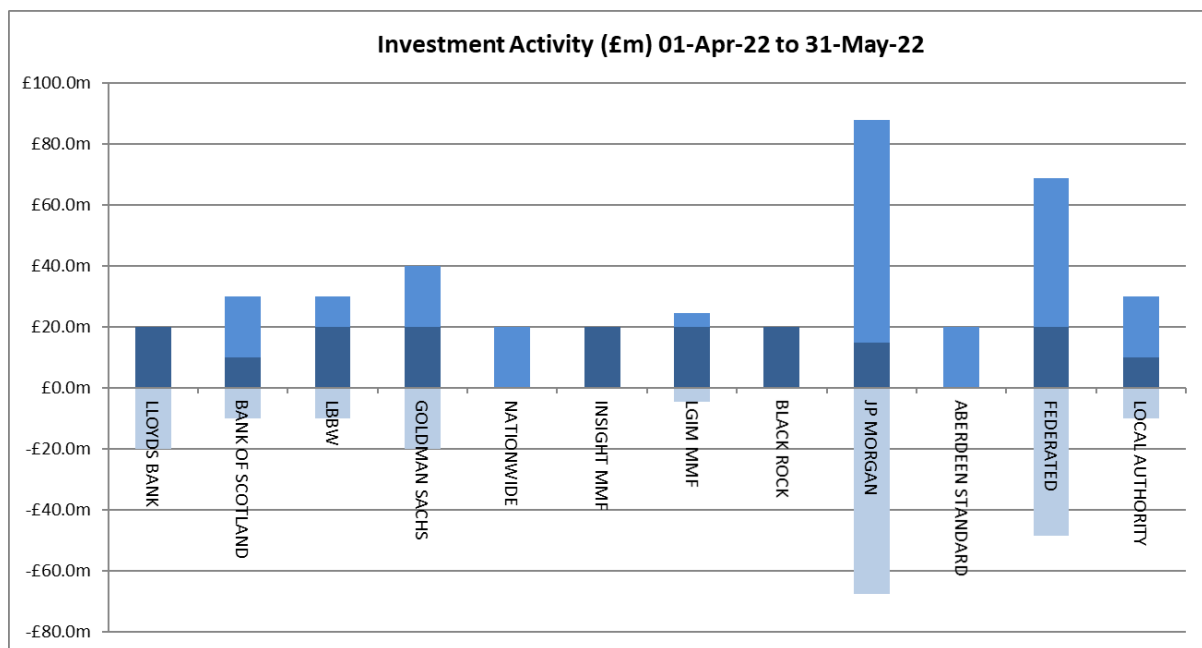
40. Long-term borrowing was also obtained from the market some years ago in the form of ‘Lender’s Options, Borrower’s Options’ loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken 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.

41. The ‘other’ loans shown in the chart consists of fixed-term loans from Barclays Bank.



42. The investment activity for 2022/23 to date is summarised in the chart and table below. Outstanding investment balances totalled approximately £175m at the start of the year and £220m at the end of May.

	Total B/f £000	Total Raised £000	Total Repaid £000	Outstanding £000
LLOYDS BANK	20,000	0	-20,000	0
BANK OF SCOTLAND	10,000	20,000	-10,000	20,000
LBBW	20,000	10,000	-10,000	20,000
GOLDMAN SACHS	20,000	20,000	-20,000	20,000
NATIONWIDE	0	20,000	0	20,000
INSIGHT MMF	20,000	0	0	20,000
LGIM MMF	20,000	4,500	-4,500	20,000
BLACK ROCK	20,000	0	0	20,000
JP MORGAN	14,800	72,950	-67,750	20,000
ABERDEEN STANDARD	0	20,000	0	20,000
FEDERATED	20,000	48,600	-48,600	20,000
LOCAL AUTHORITY	10,000	20,000	-10,000	20,000
	<b>174,800</b>	<b>236,050</b>	<b>-190,850</b>	<b>220,000</b>



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

### Other Options Considered

44. The report sets out the budget monitoring position as at Period 2 and seeks the approval of a contingency request required to fund the pay award that was reached regarding the Local Government Services' Pay Agreement for 2021/22. Under the agreement, local government accepted a 1.75% pay increase for 2021/22. No other options have been considered.

### Reasons for Recommendations

45. The report sets out the current budgeting monitoring position as at Period 2 and seeks approval for a contingency request.

## **Statutory and Policy Implications**

46. 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**

For the Cabinet to:-

- 1) Note the individual Portfolio revenue budgets for 2022/23.
- 2) Note the contingency requests submitted to date.
- 3) Approve the £3.3m contingency request as set out in paragraph 12.
- 4) Note the summary of capital expenditure to date, year-end forecasts and variations to the capital programme.
- 5) Note the Council's Balance Sheet transactions.

## **Councillor Richard Jackson – Cabinet Member for Finance**

For any enquiries about this report please contact:

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## **Constitutional Comments (GR 28/06/2022)**

47. This report is for noting only.

## **Financial Comments (GB 22/06/2022)**

48. 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'