

20 July 2015**Agenda Item: 4****REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT
FINANCIAL MONITORING REPORT: PERIOD 2 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. To provide a summary of Capital Programme expenditure to date and year-end forecasts.
3. To inform Members of the Council's Balance Sheet transactions.

Information and Advice**Background**

4. 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

5. Table 1 below summarises the revenue budgets and forecast outturn for each Committee. An overspend of £2.8m 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 2

Forecast Variance as at Period 1 £'000	Difference	Committee	Annual Budget £'000	Actual to Period 2 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
-	(3,984)	Children & Young People	138,929	16,267	142,913	3,984
-	(146)	Adult Social Care & Health	208,157	25,408	208,303	146
-	(270)	Transport & Highways	58,113	4,983	58,383	270
-	138	Environment & Sustainability	30,013	(1,101)	29,875	(138)
-	(291)	Community Safety	2,904	147	3,195	291
-	13	Culture	12,746	1,589	12,733	(13)
-	342	Policy	25,352	3,339	25,010	(342)
-	1,231	Finance & Property	32,615	4,624	31,384	(1,231)
-	56	Personnel	2,867	(1,305)	2,811	(56)
-	-	Economic Development	1,050	152	1,050	-
-	(799)	Public Health	5,165	411	5,964	799
-	(3,710)	Net Committee (under)/overspend	517,911	54,514	521,621	3,710
-	-	Central items	(5,799)	(6,592)	(5,799)	-
-	-	Contribution to Schools Expenditure	35	35	35	-
-	-	Contribution to/(from) Traders	(520)	489	(520)	-
-	(3,710)	Forecast prior to use of reserves	511,627	48,446	515,337	3,710
-	-	Transfer to / (from) Corporate Reserves	(10,303)	-	(10,303)	-
-	894	Transfer to / (from) Departmental Reserves	(8,060)	-	(8,954)	(894)
-	-	Transfer to / (from) General Fund	(6,038)	-	(6,038)	-
-	(2,816)	Net County Council Budget Requirement	487,226	48,446	490,042	2,816

Committee and Central Items

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

Children and Young People (forecast £4.0m overspend)

7. The main variances are explained below including reference to one change request totalling £0.8m for the Children's Disability Service for unachievable savings in the current year. This change request is to be submitted to the Corporate Leadership Team (CLT) for consideration.
8. Taking into account the change request, the underlying overspend within the Department is £2.8m (after the planned use of grant reserves). This is the first forecast for the financial year and historically this has tended to be overly cautious because of the assumptions which have to be made on demand led budgets e.g. agency staff and residential placements. As a result of this it is expected that the overspend will reduce over the coming months but, to ensure that the budget balances by the end of the financial year, a range of mitigating actions are to be developed and pursued. There is already a base budget review in process for high spending services within the department and meetings in place to identify other options, for example, budget control measures.

9. The Children's Social Care Division is reporting a forecast net overspend of £3.4m (£3.1m after the planned use of grant reserves), the major contributing variances being:

- £1.2m overspend on staffing due to the continued use of agency staff to cover vacancies in social work and safeguarding teams;
- £0.4m overspend on Provider Services (Looked after Children placements) due to the difficulty in moving children to lower cost in-house placements. There is also a continuing overspend in the Fostering Service due to the growth of Fostering Futures carers;
- £0.1m overspend on transport, as demand continues to exceed the budget;
- £0.6m overspend on the Children's Disability Service (CDS) Residential Homes due to a £0.8m unachievable saving target, offset by a temporary underspend of £0.2m due to vacancies. A change request for the unachievable saving is to be submitted to CLT for consideration;
- £0.3m overspend on the rest of CDS mainly due to the cost of flexible & targeted short breaks and associated childcare;
- £0.4m overspend on the social work practice pilot which includes a forecast extension to the original timescale of 6 months to 31 March 2016;
- £0.3m overspend on Child Arrangement and Special Guardianship Orders due to the continuing growth and the longevity of this financial commitment;
- £0.1m net underspend on all other budgets which includes a forecast £0.2m overspend for the historic abuse team.

10. The Education Standards and Inclusion Division is reporting a forecast overspend of £0.5m, consisting of:

- £0.1m overspend in the Business Development & Support division due to an overspend on the Trade Union budget for the continued funding of an additional representative;
- £0.1m underspend on the Support to Schools Service, largely due to vacancies in the Schools Place Planning Team of £0.1m and a £0.1m underspend on mainstream Home to School Transport, partially offset by an overspend on the school pensions budget of £0.1m;
- £0.5m overspend on Special Educational Needs and Disability Policy and Provision.

11. The Youth, Families and Culture Division is forecasting an underspend of £0.1m (or £0.2m underspend after planned use of grant reserves). The main variances are:

- £0.5m underspend on Early Years & Early Intervention relating to contract savings, pensions refunds;
- £0.1m overspend in Quality & Improvement arising from OBC budget reductions for CFCS Management Structure Review;
- £0.1m overspend on school swimming mostly due to withdrawal of Short Breaks funding. Transport costs are currently being retendered;
- £0.1m overspend on the upgrade and development of the department's case recording system (Mosaic). This should be funded from remaining Contact Point reserves.

12. The Capital and Central Charges area is forecasting a £0.2m 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.

Finance & Property (forecast £1.2m underspend)

13. This forecast underspend is due to:

- £0.3m underspend within Finance and Procurement relating to staff vacancies in advance of saving requirements in 2016/17;
- £0.6m 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;
- £0.3m underspend on county offices and facilities management due to reduced business rates payable on county offices.

Public Health (forecast £0.8m overspend)

14. This forecast overspend is due mainly to:

- £0.4m for the Family Nurse Partnership which is a new programme funded from October 2015 and which was not included in the original budget;
- £0.3m for the Smoking & Tobacco project for which the A Stop Smoking In Schools Trial (ASSIST) and Smoking in Pregnancy programmes have started earlier than expected; together with funding an additional police officer post for tobacco control
- £0.1m other minor variances.

15. The overall County Council forecast assumes that this net overspend will be funded from the Public Health reserve.

16. On 4 June 2015 the Chancellor of the Exchequer announced an in-year saving of £200m in “non-NHS” spending. This represents 7.4% of the £2.7bn annual budget devolved to local authorities from the Department of Health via Public Health England. A similar percentage cut for Nottinghamshire would amount to approximately £2m. A consultation is being held with local authorities to decide on how the savings will be made and further details are expected later in the Summer.

Central Items (nil variance)

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

18. The Council's budget includes a contingency of £5.1m to cover redundancy costs, slippage of savings and unforeseen events. As part of the Period 1 Financial Monitoring Report, a number of requests were approved. No new requests have been submitted since. Table 1 assumes that the full contingency allocation will be used before year end as new requests are likely to emerge.

Transfer to / (from) reserves

19. Work is ongoing to identify surplus departmental reserves that may be released to support the budget.

Progress with savings (forecast shortfall £0.8m in 2015/16)

20. Given the continued financial challenge that the Council is facing, savings schemes were approved as part of the 2015/16 budget process.
21. As at period 2, current year unachievable savings of £0.8m have been identified with regard to the Children's Disability Service. Given the range of political challenges and parental resistance to previous attempts to change the residential sector for Disabled Children, it has been decided not to progress any of the residential options at this stage. The unachieved savings are predicted to be £0.8m in 2015/16, £1.2m in 2016/17 and £1.2m in 2017/18.
22. Issues with the achievement of savings relating to Provider Services (LAC Placements) and SEND Home to School Transport / Independent Travel Training are currently being reviewed.

Capital Programme

23. 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	£'000
Approved per Council (Budget Report 2015/16)		112,039
Variations funded from County Council Allocations : Net slippage from 2014/15 and financing adjustments	8,886	
		8,886
Variations funded from other sources : Net slippage from 2014/15 and financing adjustments	5,820	
		5,820
Revised Gross Capital Programme		126,745

24. 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	48,023	2,897	46,138	(1,885)
Adult Social Care & Health	7,212	(15)	7,209	(3)
Transport & Highways	39,506	1,404	40,118	612
Environment & Sustainability	2,371	89	2,371	-
Community Safety	-	-	-	-
Culture	1,344	417	1,388	44
Policy	2,930	161	2,919	(11)
Finance & Property	15,817	2,124	14,927	(890)
Personnel	188	10	188	-
Economic Development	7,554	(1,787)	7,554	-
Contingency	1,800	-	1,800	-
Total	126,745	5,300	124,612	(2,133)

25. In the Children and Young People's Committee, there is a total forecast underspend of £1.9m. Improved budget monitoring and more accurate school places programme management has resulted in the early identification of project slippage.

26. Also in the Children and Young People's Committee, a number of section 106 contributions have been received into the Council to part fund projects in the Basic Need programme as follows:-

Heatherley Primary	£0.899m
Robin Hood Primary	£0.227m
Manor Park Primary	£0.091m
Ernehale Junior	£0.088m

It is proposed that the Children and Young People's Committee Capital Programme is varied to reflect the identified external funding.

27. In the Transport and Highways Committee, a forecast overspend of £0.6m has been identified. This is as a result of over-programming against the Road Maintenance and Renewal programme. Work is on-going to drive this forecast overspend down and to manage within the approved budget.

28. Also in the Transport and Highways Committee, a review of the capital programme has been undertaken to ensure that available funding is aligned to forecast activity. As such, a variation to the capital programme is proposed as detailed in the table below. This variation has no impact on the overall capital programme.

Budget Line	Budget Adjustment (£000's)
Street Lighting	32
Road Maintenance and Renewals	775
Road Safety	72
Integrated Transport Measures	(879)
Total	0

It is proposed that the Transport and Highways capital programme is varied to reflect the re-alignment of budgets as detailed in the table above.

29. In the Finance and Property Committee, a forecast underspend of £0.9m has been identified. This is as a result of slippage against the Stapleford Boundary Wall project as measures are put in place to monitor the structure of the wall prior to any necessary remediation works.

30. In the Finance and Property Committee, it is proposed that the Building Works capital budget makes a £1.0m contribution to fund condition costs associated with the Schools Capital Refurbishment Programme.

It is proposed that the Finance and Property capital programme and Children and Young People's capital programme are varied to reflect the identified contribution.

31. Also in the Finance and Property Committee, it is proposed that the capital programme is varied by £0.230m to fund risk management capital projects required to help minimise insurance costs.

It is proposed that the Finance and Property capital programme is varied by £0.230m to include a risk management programme, funded from reserves.

32. In the Economic Development Committee, to ensure the delivery of fibre broadband coverage to 95% of county properties, the Authority has been successful in securing additional external funding of £0.6m from Broadband Delivery UK (BDUK) on the basis of equal local match funding.

It is proposed that the Economic Development capital programme is varied to reflect the additional £1.2m contribution to the Superfast Broadband programme, £0.6m funded from external funding and £0.6m funded from capital allocation.

33. In the Adult Social Care and Health Committee, it is proposed that two old tractors currently in use at Brooke Farm are replaced with a new tractor, costing £35k, capable of being used more widely across the county.

It is proposed that the Adult Social Care and Health capital programme is varied to include the tractor purchase as detailed above, funded from reserves.

34. Also in the Adult Social Care and Health Committee, the Authority has been successful in securing external capital grant with a value of £0.366m from Public Health England. The grant will be used to fund to provide a base in Mansfield from which recovery services to users with drug and alcohol problems will be provided.

It is proposed that the Adult Social Care and Health capital programme is varied to reflect the external funding detailed above.

35. In the Policy Committee, during 2014/15 the IT department incurred costs totalling £0.420m associated with the Ways of Working programme. It is proposed therefore to transfer £0.420m capital funding from the Ways of Working programme to the ICT Strategy programme reflect this activity. This variation has no impact on the overall capital programme.

It is proposed that the Policy capital programme and the Finance and Property capital programme are varied to reflect the transfer detailed above.

36. In the Personnel Committee, the buy-back levels of the county's landscape services continues to remain stable. A variation to the capital programme totalling £0.110m is proposed to enable the replacement of a number of essential pieces of equipment. This expenditure will be funded from within the traders reserve.

It is proposed that the Personnel capital programme is varied to reflect the purchase of essential landscape equipment as detailed above, funded from reserves.

Financing the Approved Capital Programme

37. 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	16,724	25,181	717	5,401	48,023
Adult Social Care & Health	6,733	434	45	-	7,212
Transport & Highways	15,757	22,607	-	1,142	39,506
Environment & Sustainability	1,187	684	500	-	2,371
Community Safety	-	-	-	-	-
Culture	1,044	70	-	230	1,344
Policy	2,926	-	-	4	2,930
Finance & Property	14,058	50	-	1,709	15,817
Personnel	-	118	-	70	188
Economic Development	4,109	3,445	-	-	7,554
Contingency	1,800	-	-	-	1,800
Total	64,338	52,589	1,262	8,556	126,745

38. It is anticipated that borrowing in 2015/16 will increase by £6.8m from the forecast in the Budget Report 2015/16 (Council 26/02/2015). This increase is primarily a consequence of:

- £8.9m of net slippage from 2014/15 to 2015/16 and financing adjustments funded by capital allocations.
- Net slippage in 2015/16 of £2.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

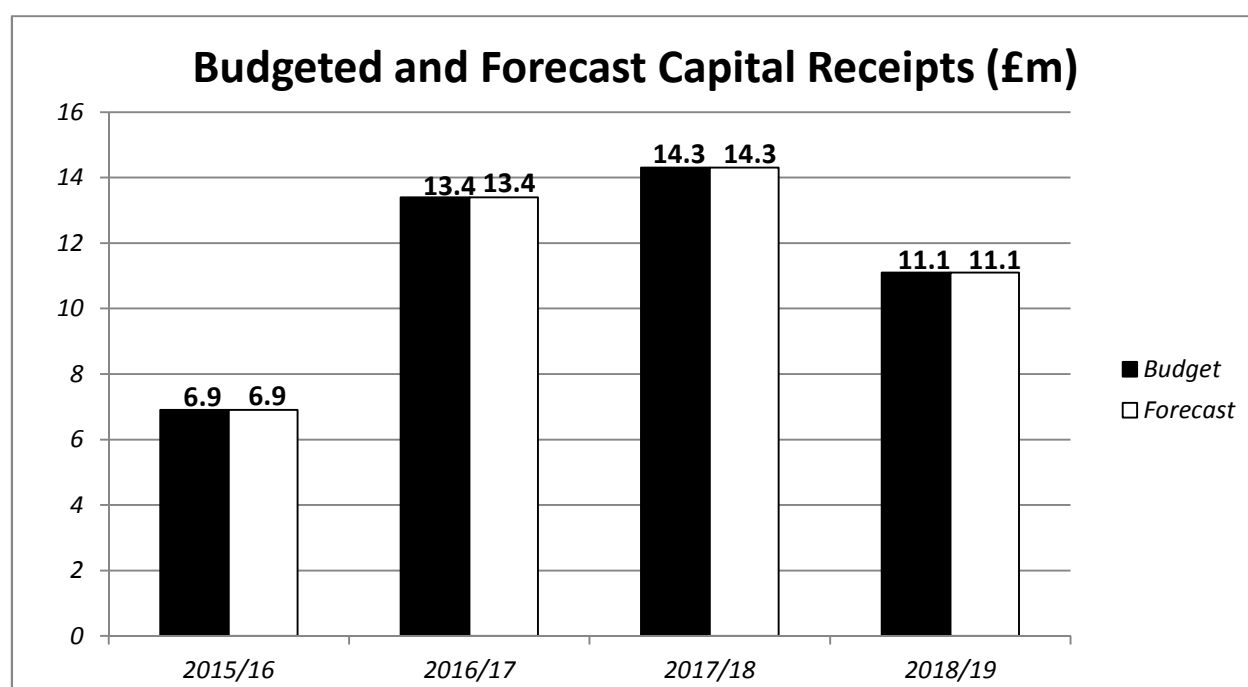
Prudential Indicator Monitoring

39. 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

40. 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.

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



42. 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.

43. The capital receipt forecast for 2015/16 is £6.9m. To date in 2015/16, capital receipts totalling £3.4m have been received.

44. 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.
45. 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.

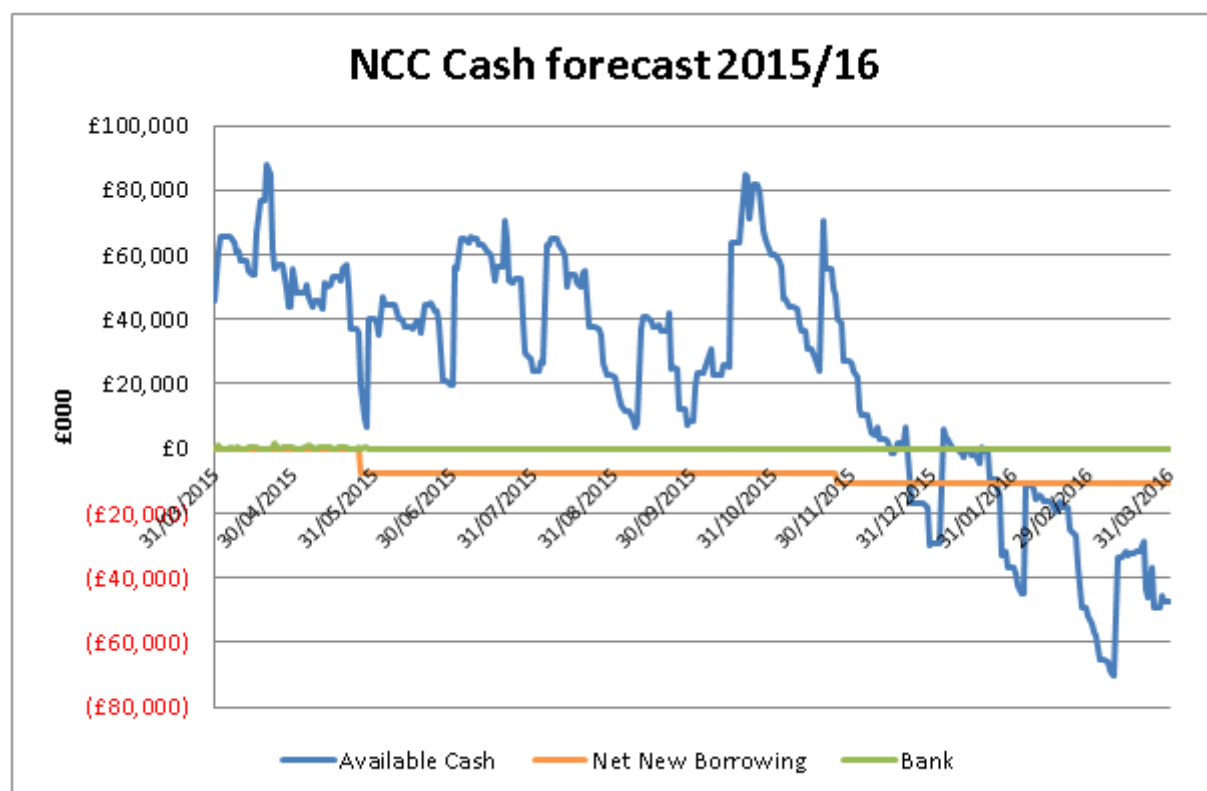
Balance Sheet

General Fund Balance

46. Members approved the 2014/15 closing General Fund Balance of £27.0m at Council on 9 July 2015. The 2015/16 budget approves utilisation of £6.0m of balances which will result in a closing balance of £21.0m at the end of the current financial year. This is 4.3% of the budget requirement. Should an underspend result at year end, the required use of reserves will reduce, which will ensure balances are available to fund future years expenditure.

Treasury Management

47. Cash flow is monitored by the Senior Accountant (Pensions & Treasury Management) with the overall position reviewed quarterly by the Treasury Management Group. The following chart 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.

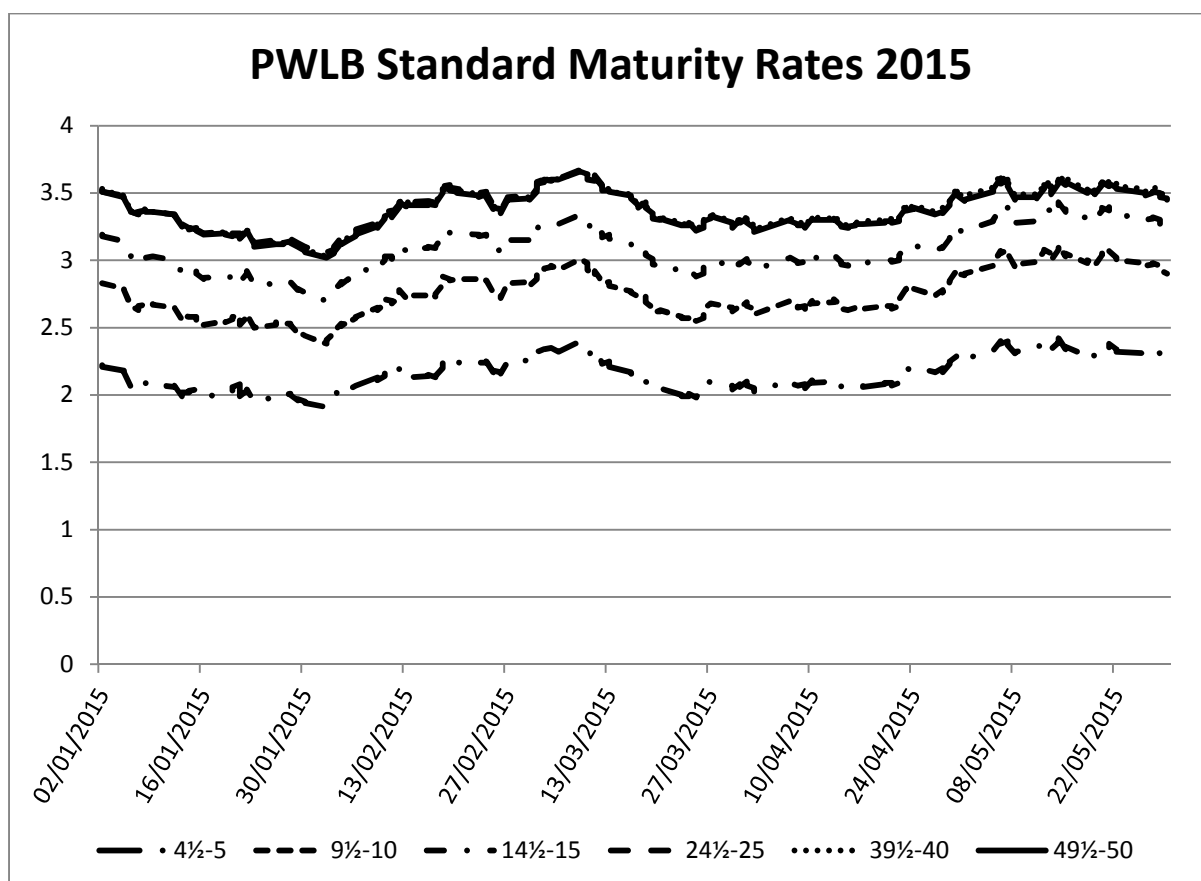


48. The chart above gives the following information:

Bank balance	Daily cleared balance across the pooled bank accounts.
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.

49. Daily cash management aims for a nil balance across the Council's pooled bank accounts with any surplus cash invested in accordance with the approved Treasury Management Policy. The net new borrowing will include new loans from Public Works Loan Board (PWLB), the market or other local authorities, but to date for 2015/16 there has been no new borrowing.

50. PWLB rates are monitored closely during the year and new borrowing is taken when rates are at a relatively low point. Longer term rates fell during Jan-Feb 2015, but are currently similar to where they were at the beginning of the calendar year. The chart below shows the movement in standard PWLB maturity rates during 2014/15 (the Council is able to take advantage of the PWLB "certainty rate" which is 0.2% below the standard rates).

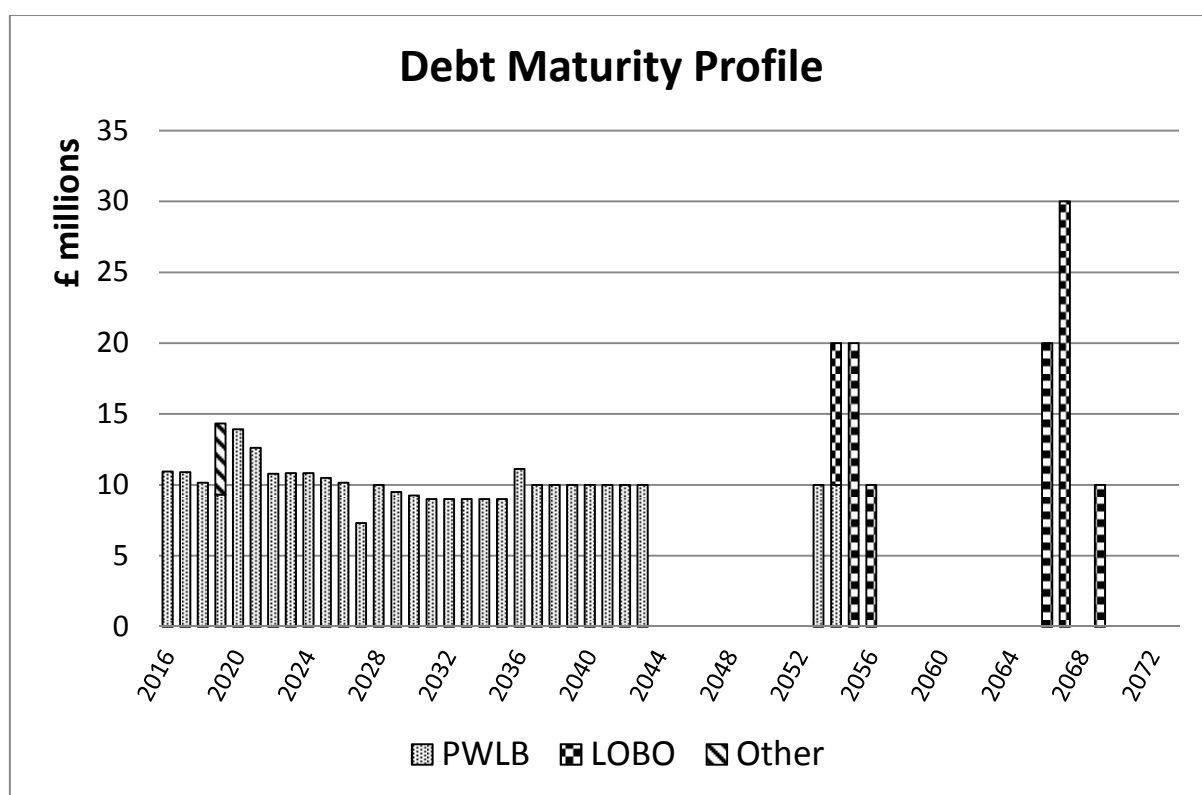


51. The Treasury Management Strategy for 2015/16 identified a need for additional borrowing of £78m to fund the capital programme, replenish internal balances and to replace maturing debt. This has since been adjusted to £58m in light of 2014/15 capital out-turn and revised forecast for capital expenditure during 2015/16.

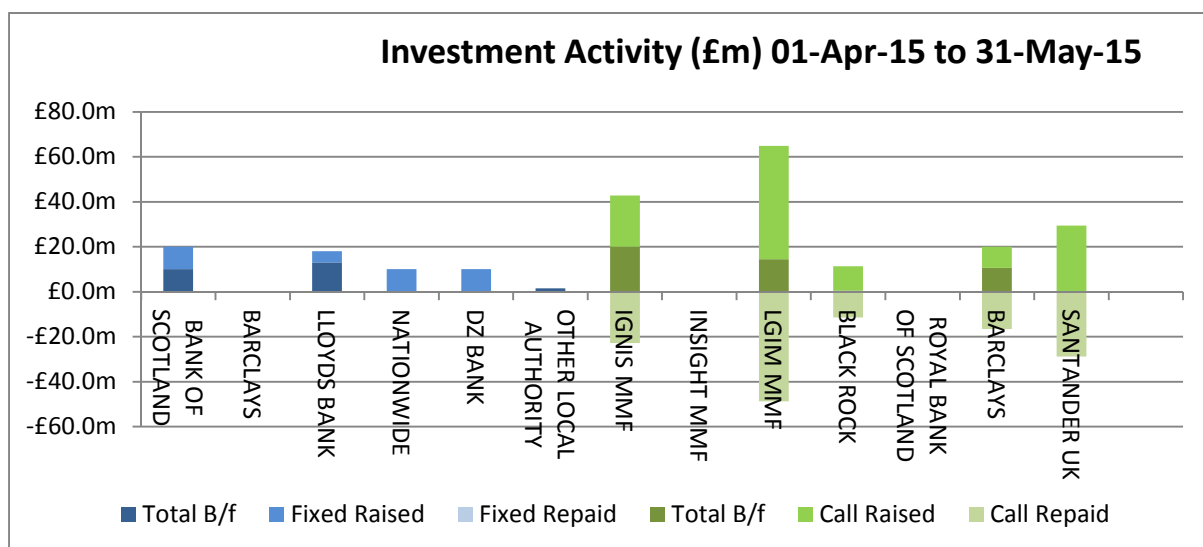
Borrowing decisions will take account of a number of factors including:

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

52. As the cashflow forecast above indicates, additional borrowing is likely to be undertaken later in the calendar year, once balances start to fall. 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). The 'other' loans denote 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.



53. The investment activity for 2015/16 to the end of May 2015 is summarised in the chart and table below. Outstanding investment balances totalled £23.0m at the start of the year and £99.7m at the end of the period. This increase is in line with the forecast cash flow profile for the year. As anticipated when the budget was approved, changes to bank credit ratings have been made to Fitch ratings and a revised Treasury Management Policy was approved by Council on 9 July 2015 to reflect this.



	Total B/F £ 000's	Total Raised £ 000's	Total Repaid £ 000's	Oustanding £ 000's
Bank of Scotland	10,000	10,000	-	20,000
Lloyds Bank	13,000	5,000	-	18,000
Nationwide	-	10,000	-	10,000
DZ Bank	-	10,000	-	10,000
Other Local Authority	1,500	-	-	1,500
IGNIS MMF	20,000	22,800	(22,800)	20,000
LGIM MMF	14,550	50,300	(48,700)	16,150
Black Rock	500	10,900	(11,400)	-
Barclays	10,650	9,350	(16,600)	3,400
Santander UK	-	29,500	(28,850)	650
Total	70,200	157,850	(128,350)	99,700

Procurement Performance

54. The Procurement Section 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 4 report.

Debt Recovery Performance and Accounts Payable (AP) Performance

55. 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 4 report.

Statutory and Policy Implications

56. 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 note the Capital Programme expenditure to date and year end forecasts and approve variances to the Capital Programme
- 3) To note the Council's Balance Sheet transactions

Nigel Stevenson Service Director – Finance & Procurement

For any enquiries about this report please contact:

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Constitutional Comments (HD 10/07/15)

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

Financial Comments (GB 06/07/2015)

58. 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'