



20 November 2017

Agenda Item: 4

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

FINANCIAL MONITORING REPORT: PERIOD 6 2017/18

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2017/18.
2. To provide a summary of Capital Programme expenditure to date, year-end forecasts and approve the variations to the capital programme.
3. To inform Members of the Council's Balance Sheet transactions.

Information and Advice

Background

4. 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.

Summary Revenue Position

5. The table below summarises the revenue budgets for each Committee for the current financial year. A £6.6m 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 5 £'000	Committee	Annual Budget £'000	Actual to Period 6 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
(8)	Children & Young People	120,463	62,136	120,615	152
(1,352)	Adult Social Care & Public Health	209,773	99,378	208,421	(1,352)
(168)	Community & Place	125,544	64,737	125,240	(304)
98	Policy	34,201	22,804	34,502	301
(179)	Finance & Major Contracts Management	3,229	1,491	3,033	(196)
(105)	Governance & Ethics	7,209	3,526	7,155	(54)
(657)	Personnel	16,262	9,330	15,835	(427)
(2,371)	Net Committee (under)/overspend	516,681	263,402	514,801	(1,880)
(5,850)	Central items	(10,665)	(41,027)	(16,500)	(5,835)
	- Schools Expenditure	20	-	20	-
	- Contribution to/(from) Traders	208	1,997	208	-
(8,221)	Forecast prior to use of reserves	506,244	224,372	498,529	(7,715)
219	Transfer to / (from) Corporate Reserves	(15,066)	-	(14,847)	219
44	Transfer to / (from) Departmental Reserves	(10,399)	(691)	(9,933)	466
	- Transfer to / (from) General Fund	(5,500)	-	(5,500)	-
(7,958)	Net County Council Budget Requirement	475,279	223,681	468,249	(7,030)

Committee and Central Items

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

Adult Social Care & Public Health (forecast £1.4m underspend, 0.6% of annual budget)

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

- Older Adults across the County are forecasting an increased overspend of £2.4m. This is primarily due to increased Long Term Residential/Nursing placements. Though demand and average package costs are increasing for all services and while this can be contained in year, it is likely to present a pressure in future years.
- Younger Adults across the County are continuing to forecast an underspend of £0.6m. Without the increased Continuing Health Care income Younger Adults would be overspending.
- Direct Services are forecast to underspend by £0.6m on staffing.
- Continuing Healthcare is reporting further additional income of £0.5m.

7. The Strategic Commissioning, Accessing and Safeguarding Division is reporting an underspend of £1.5m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.

8. The Transformation Division is forecasting an underspend of £0.6m on the Improved Better Care Fund (IBCF) and Care Act, through slippage on various schemes.

Central Items (forecast £5.8m underspend)

9. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
10. At the time of setting the 2017/18 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 £1.9m will be received in 2017/18.
11. At the Finance and Major Contracts Management Committee in September 2017, it was approved that the contingency budget would be increased by £3.9m to reflect the in-year savings identified in the ASCH Committee. Table 1 assumes that this additional contingency budget will not be spent thereby resulting in a £3.9m underspend.
12. The Council's budget includes a permanent contingency 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. There is currently £3.4m of the permanent contingency budget that remains uncommitted.

Transfer of budget responsibility

13. The new Place Department structure was approved at September 2017 Policy Committee with a view to maximising efficiencies and streamlining processes. In order to manage these budgets more effectively they have been transferred to Community and Place Committee. These changes are reflected in Table 1 above.

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.

Balance Sheet

General Fund Balance

15. 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.
16. Following approval at Finance and Major Contracts Management Committee in June 2017, a further £1.0m of General Fund balance is now earmarked for use to repair potholes across the County.

Capital Programme

17. 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	19,355	
		19,355
Variations funded from other sources : Net variation from 2016/17 and financing adjustments	5,622	
		5,622
Revised Gross Capital Programme		127,497

18. Table 3 shows actual capital expenditure to date against the forecast outturn at Period 6.

Table 3 – Capital Expenditure and Forecasts as at Period 6

Committee	Revised Capital Programme £'000	Actual Expenditure to Period 6 £'000	Forecast Outturn £'000	Expected Variance £'000
Children & Young People	42,419	9,286	35,859	(6,560)
Adult Social Care & Public Health	7,212	346	5,745	(1,467)
Community & Place	52,445	9,278	49,167	(3,278)
Policy	24,406	7,913	23,115	(1,291)
Finance & Major Contracts Mngt	220	(134)	220	-
Personnel	295	7	295	-
Contingency	500	-	500	-
Total	127,497	26,696	114,901	(12,596)

Children and Young People

19. In the Children and Young People's capital programme, a forecast underspend of £6.6m has been identified. This is mainly due to a £4.0m 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 is 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.

20. Also, in the Children and Young People's capital programme a £2.6m variation will be actioned in line with the Early Years 30 Hours programme 2017 report that was approved at October 2017 Policy Committee.

21. In light of the financial challenges facing the Council over the medium term financial strategy Children and Young People's Department is in the process of developing two key change programmes. Re-modelling both Children's Care and Social Work Practice. As part of this work the Council is planning to commission Newton Europe to undertake an independent review of current progress with savings and consider additional savings opportunities.

It is proposed that the Children and Young People's Committee capital programme is varied to reflect the one-off cost of £0.3m to develop a major transformational plan, funded from capital receipts flexibility in 2017/18.

Adult Social Care and Public Health

22. In the Adult Social Care and Public Health Committee capital programme, a forecast underspend of £1.5m has been identified. This mainly relates to a forecast underspend of £1.3m identified against the Supported Living capital programme.

Community and Place

23. In the Community and Place Committee capital programme an underspend of £3.3m has been identified. This is mainly as a result of a £2.3m underspend against the Harworth Access Links project. Phase 1 of the project has completed successfully but Phase 2 of the project is currently under review and is likely to slip into future financial years.

It is proposed that the Community and Place Committee capital programme is varied to reflect the re-phasing of the Harworth Access Links project.

24. Also, in the Community and Place capital programme further underspends have been identified against the A57 Roundabout, the Kingsmill Reservoir and the Environmental Weight Limit projects.

Policy

25. In the Policy Committee capital programme an underspend of £1.3m has been identified. This is mainly as a result of forecast underspends against the Gamston Development, Customer Service Centre and the Economic Development Capital Fund capital schemes.

Financing the Approved Capital Programme

26. 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	29,606	12,674	-	139	42,419
Adult Social Care & Public Health	6,165	984	-	63	7,212
Community & Place	16,320	35,090	600	435	52,445
Policy	23,320	817	-	269	24,406
Finance & Major Contracts Mngt	-	-	-	220	220
Personnel	295	-	-	-	295
Contingency	500	-	-	-	500
Total	76,206	49,565	600	1,126	127,497

27. It is anticipated that borrowing in 2017/18 will increase by £11.5m from the forecast in the Budget Report 2017/18 (Council 23/02/2017). This increase is primarily a consequence of:

- £19.4m of net slippage from 2016/17 to 2017/18 and financing adjustments funded by capital allocations.
- Net slippage in 2017/18 of £7.9m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

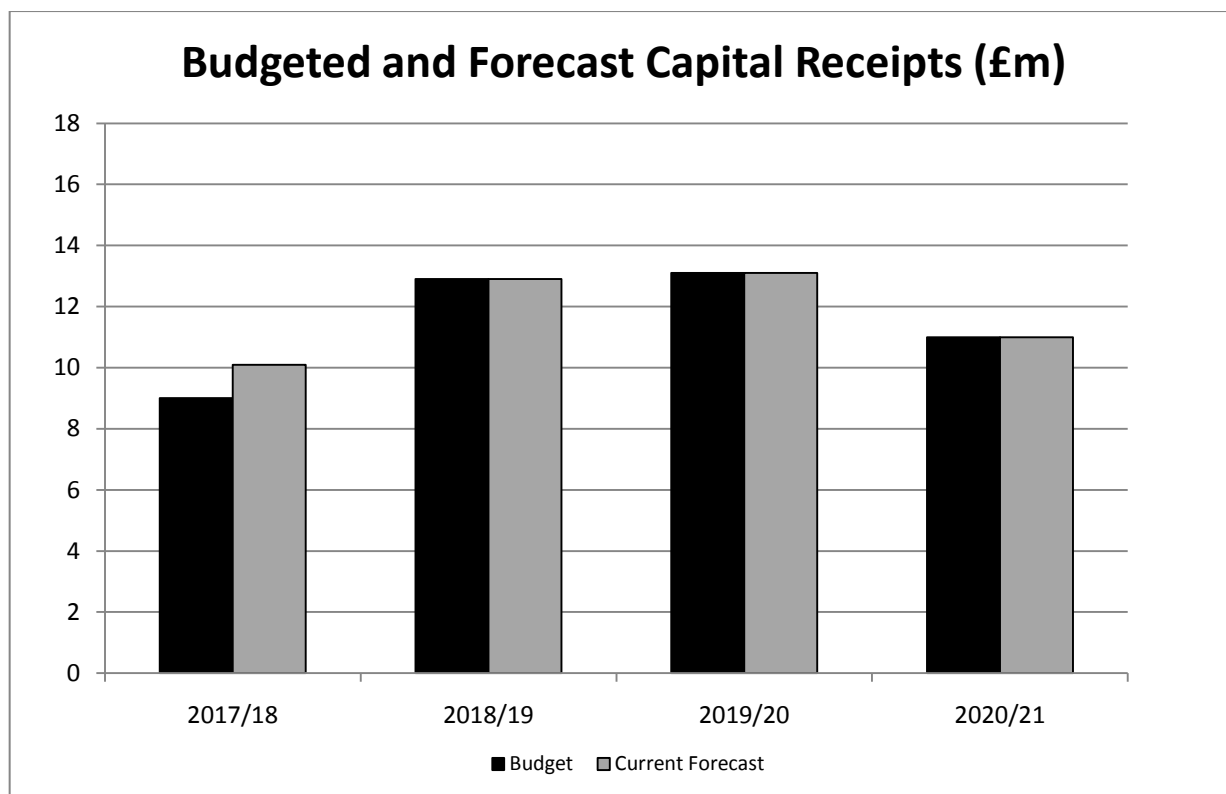
Prudential Indicator Monitoring

28. 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

29. 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.

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

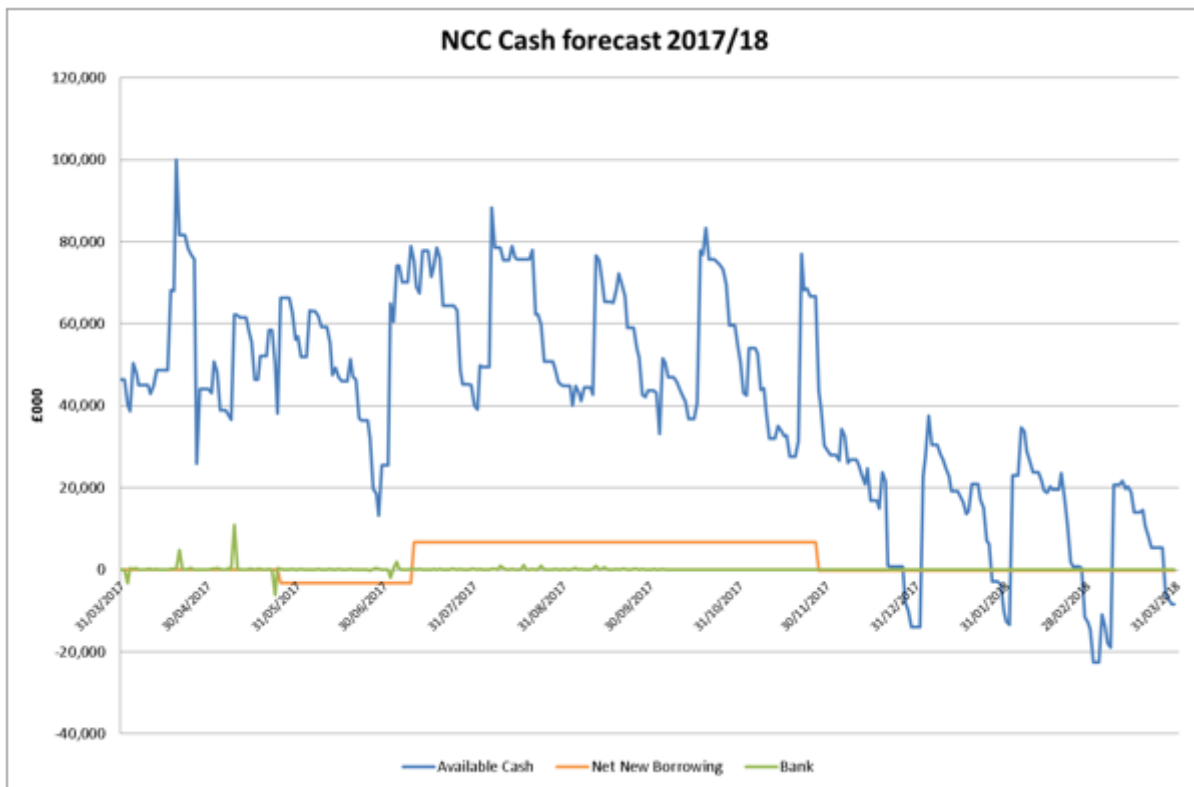


31. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2017/18 (Council 23/02/2017). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.
32. The capital receipt forecast for 2017/18 is £10.1m. To date in 2017/18, capital receipts totalling £1.4m have been received.
33. 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.
34. A full review of capital receipts is currently being undertaken. The results of this review will be reported in due course and forecasts amended accordingly.
35. 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

36. 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.

37. 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.

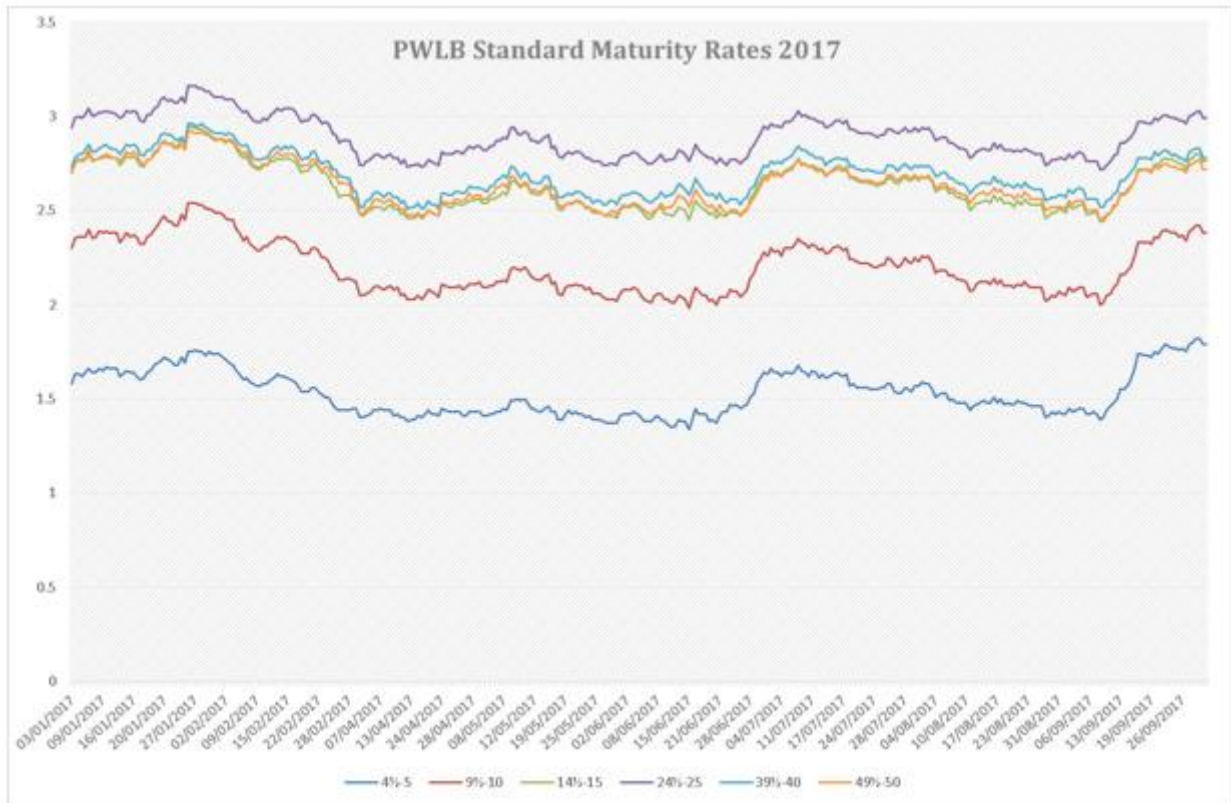


38. The chart above gives the following information:

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.

39. 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. The first £10m tranche of this was taken from PWLB on 10 July. 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 2017 so far.



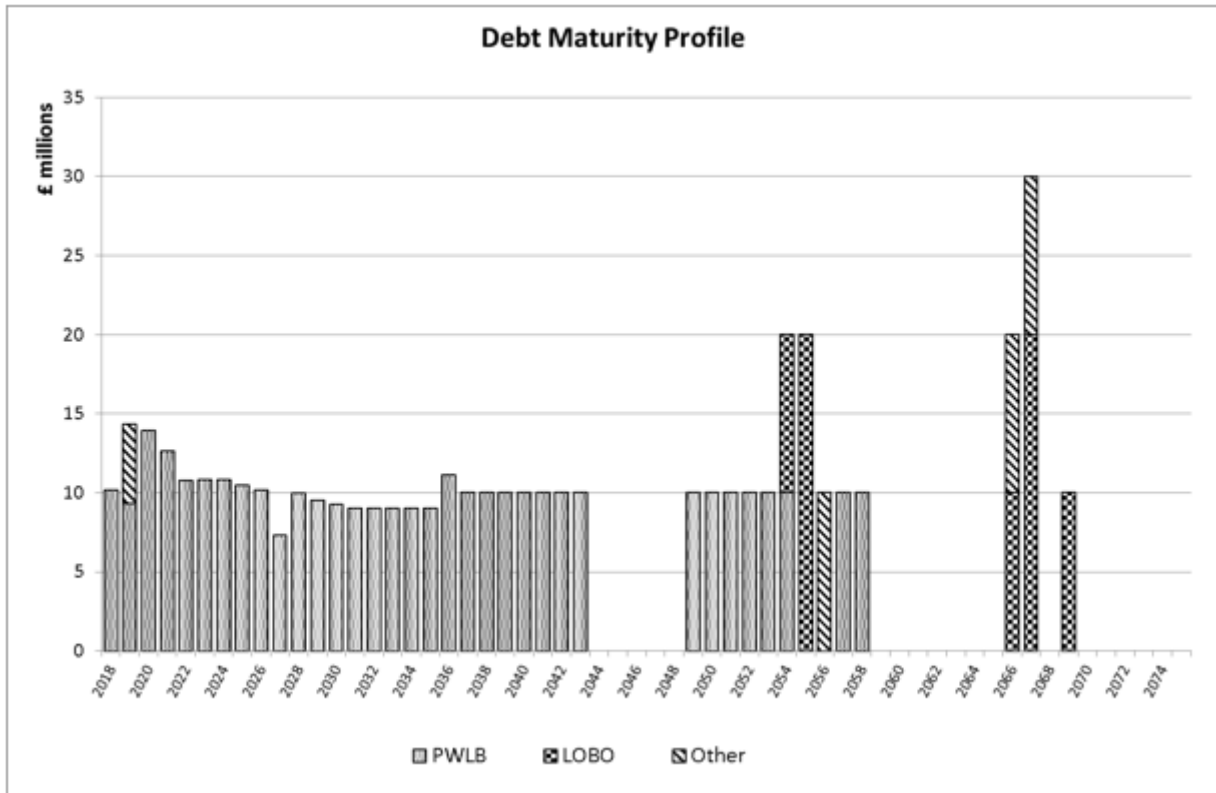
40. Borrowing decisions will take account of a number of factors including:

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

41. 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.

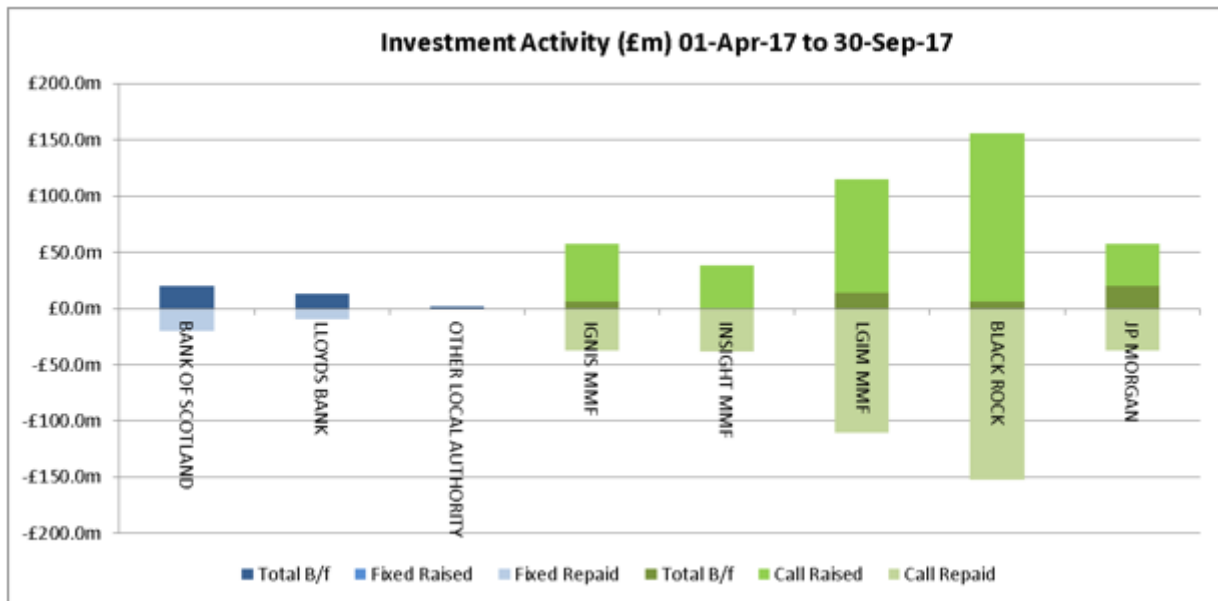
42. Longer-term borrowing (maturities up to 52 years) was obtained from the market some years ago in the form of ‘Lender’s Options, Borrower’s Options’ loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the 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.

43. 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 in 2016.



44. The investment activity for 2017/18 to the end of September 2017 is summarised in the chart and table below. Outstanding investment balances totalled £81m at the start of the year and £52m 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 contributions 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	51,050	(37,050)	20,000
Insight MMF	-	38,550	(38,550)	-
LGIM MMF	13,950	100,700	(110,750)	3,900
Black Rock	6,500	149,650	(152,400)	3,750
JP Morgan	20,000	37,250	(37,250)	20,000
Total	80,950	377,200	(406,000)	52,150



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

Debt Recovery and Accounts Payable Performance

46. 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 7 report

Procurement Performance

47. The Procurement Group 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 7 report.

Statutory and Policy Implications

48. 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, year-end forecasts and approve the variations to the Capital Programme.
- 3) To comment on the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Procurement and Improvement

For any enquiries about this report please contact:
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Constitutional Comments (KK 06/11/2017)

49. The proposals in this report are within the remit of the Finance and Major Contracts Management Committee. If Committee resolves that any actions are required it must be satisfied that such actions are within the Committee's terms of reference.

Financial Comments (GB 18/10/2017)

50. 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'