

20 July 2020

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 2 2020/21

Purpose of the Report

1. To provide a summary of the Committee revenue budgets for 2020/21.
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 Background

4. The Council approved the 2020/21 budget at its meeting on 27 February 2020. As with previous financial years, progress updates will be closely monitored and reported to management and Committee each month.
5. It is important to note that this Financial Monitoring report has been put together at a time when the Council is responding to the consequences of COVID19. A large number of services, resources, functions, plans and programmes have been re- and de-prioritised as the Council has had to respond to a rapidly changing and fluid situation that has included the regular provision of new guidance and legislation. A report which sets out the impact of COVID19 crisis on the work of Nottinghamshire County Council and the Council's response was reported to Policy Committee on 17 June 2020.
6. A Financial Resilience Group has been set up to consider the financial impact arising from the COVID19 crisis. This Group will focus on reviewing variables such as additional costs, lost income, impact on savings plans, use of reserves and cash flow position as well as additional grant received from the Government in order to assess the impact upon the Medium-Term Financial Strategy. Regular reports will be provided to the Corporate Leadership Team and Members to keep them informed about the financial implications of the crisis.

Implications of the COVID19 Crisis

7. All Local Authorities are required by the Ministry for Housing, Communities and Local Government to report their forecast financial impact of the COVID19 emergency on a monthly basis. The most recent submission from Nottinghamshire County Council identified a total forecast financial impact of £49.5m in the current financial year.
8. These additional pressures on the 2020/21 budget are partially offset by both grant allocations received from Central Government and a call on the Authority's General Fund balance. The Authority has already received two tranches of COVID19 grant allocations. On 27 March 2020, £22.3m was received from the first tranche of funding. However, due a change in methodology, the Council received a much-reduced allocation of £14.7m from the second tranche. Total COVID19 grant funding of £37.0m has been received to date. An amount of £3.6m from the General Fund balance has also been identified that has been set aside on a risk assessment basis for emergencies and unforeseen circumstances.
9. Consequently, the shortfall submitted to Government totals £12.5m (£49.5m minus £37m).
10. The pro-forma submitted to the Government, however, does not include other potential significant forecast cost and cash flow implications including Council Tax and Business Rates falls in collection rates (£10m) and impacts upon the realisation of capital receipts (4m). There may also be significant increased costs associated with the capital programme which will emerge following a full review of the capital programme. These areas, as well as all other assumptions contained within the MTFS, are being reviewed as part of the work being undertaken by the Finance Resilience Group.
11. As set out above a Finance Resilience Group has been convened to consider the financial impact arising from the COVID19 crisis. The main themes of the areas of review are set out in the following paragraphs.
12. Departments are being asked to identify and monitor both additional costs arising from the COVID19 crisis as well as lost income. Where costs have been incurred but may need to be shared with other organisations, sufficient documentation is being maintained to evidence the recharge at a future date. This information is being reported back to the Ministry of Housing, Communities and Local Government on a monthly basis.
13. Council on 27 February 2020 approved savings proposals of £7.9m for delivery in 2020/21, with further savings identified for the period 2021-24. The Finance Resilience Group is undertaking a review of all approved savings proposals to identify the impact on 2020/21 and future years. The impact is to be split between unachievable savings and slippage of savings proposals. 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. The progress of the Council's current savings programme is reported to the Improvement and Change Sub-Committee on a regular basis. This report highlights all projects that are either experiencing obstacles or are at risk.
14. A thorough review of reserves, both corporate and departmental, is undertaken in each financial year. This exercise has been accelerated in this financial year to identify available resources that may be required to fund additional costs resulting from the COVID19 emergency that are over and above the COVID19 grants that have been received from the Government.

In liaison with service representatives and departmental leadership teams, finance colleagues are undertaking a review of all departmental reserves, including revenue grant reserves.

15. In addition to the above work, reviews of the capital programme and capital receipts forecasts are underway. The capital programme review will identify potential areas of increased cost, slippage and other amendments required to the programme. Under the capital flexibility directive the Council has forecasted to use an element of capital receipts to fund one-off costs of transformation. A review is underway to identify if the level of forecast capital receipts will be impacted upon by the COVID19 crisis.
16. Other areas being investigated include a review of pressures and contingency allocations, a review of permanent and temporary over / under spends from the previous financial year, a review of the impact on the tax base and a review of departmental action plans to identify the impact of any revised ways of working on the budget both during the emergency and in the future.
17. The outcome of this work will be reported back to future Finance and Major Contracts Management Committees.

Summary Revenue Position

18. The table below summarises the revenue budgets for each Committee for the current financial year. A £15.8m net overspend is currently predicted. As a consequence of the in-year overspend and the significant 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

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
-	12,789	Children & Young People	142,141	10,452	154,930	12,789
-	23,970	Adult Social Care & Public Health	211,788	7,017	235,758	23,970
-	6,406	Communities & Place	129,776	13,844	136,182	6,406
-	4,694	Policy	34,880	3,523	39,574	4,694
-	(173)	Finance & Major Contracts Management	2,929	4,854	2,756	(173)
-	(37)	Governance & Ethics	7,572	1,097	7,535	(37)
-	255	Personnel	15,697	2,123	15,952	255
43,300	-	Unallocated COVID19 Costs	-	-	-	-
43,300	47,904	Net Committee (under)/overspend	544,783	42,910	592,687	47,904
(36,994)	(36,994)	Central items	(26,539)	(25,880)	(63,533)	(36,994)
-	-	Contribution to Schools Expenditure	(59)	-	(59)	-
4,484	4,484	Contribution to/(from) Traders	(596)	1,210	3,888	4,484
10,790	15,394	Forecast prior to use of reserves	517,589	18,240	532,983	15,394
-	-	Transfer to / (from) Corporate Reserves	22	-	22	-
-	378	Transfer to / (from) Departmental Reserves	(4,432)	146	(4,054)	378
-	-	Transfer to / (from) General Fund	(631)	-	(631)	-
10,790	15,772	Net County Council Budget Requirement	512,548	18,386	528,320	15,772

Committee and Central Items

The main identified variances can be split between COVID19 and Non-COVID19 reasons as follows:

Table 2 – Variances Split Between COVID19 and Non-COVID19 Reasons

Committee	COVID19	Non-COVID19	Latest Forecast Variance
Children & Young People	10,596	2,193	12,789
Adult Social Care & Public Health	22,361	1,609	23,970
Communities and Place	6,303	103	6,406
Policy	4,264	430	4,694
Finance & Major Contract Management	0	(173)	(173)
Governance & Ethics	0	(37)	(37)
Personnel	366	(111)	255
Net Committee (under)/overspend *	43,890	4,014	47,904
COVID-19 Grant	(36,994)		(36,994)
Traders	4,605	(121)	4,484
Transfer to / (from) Departmental Reserve	0	378	378
Net County Council Budget Requirement	11,501	4,271	15,772

* In addition to the £43.9m COVID19 set out here, a further £5.6m of COVID19 costs were identified below the line. The total additional COVID19 costs reported to the MHCLG therefore totals £49.5m (see paragraph 7).

COVID19 Variations

19. The Ministry of Housing, Communities and Local Government requires all local authorities to submit a monthly DELTA data collection return. This return is designed to help departments across central government to understand the impact of the COVID19 pandemic on local authority finances. Nottinghamshire County Council's DELTA3 return was submitted on 19 June 2020 and forecast additional COVID19 pressures totalling £49.485m. These forecast additional pressures are highlighted in dark grey on the above table.

Non-COVID19 Variations

Children & Young People's (£2.2m overspend)

20. The Education, Learning & Skills Division is reporting a non-COVID19 overspend of £0.4m made up of a £0.5m overspend on school improvement sold service offset by a £0.1m underspend on other budgets. A review of the sold offer for 2020/21 is underway.
21. The Commissioning and Resources Division is forecasting a non-COVID19 overspend of £1.6m. This mainly arises due to an £1.2m that is mainly due to general cost increases observed towards the end of 2019-20 and the cost of additional support for complex cases etc. Net external LAC growth of 4 in May appeared normal compared with 11 in April which was "excessive" and probably due to the pandemic/lockdown. Further analysis on costs reveal that the overall average weekly placement cost increases from mid-March are largely due to the pandemic and the extra measures that need to be taken to keep young people, families and workers safe. There is a net £0.4m overspend across other budgets.
22. In addition, the Youth, Families and Social Work Division is reporting a non-COVID19 overspend of £0.2m.

Adult Social Care & Public Health (forecast £1.6m overspend)

23. The major variances in the Adult Social Care and Public Health Department are as follows:
- Strategic Commissioning and Integration is forecasting an overspend of £0.6m. This is made up of a £0.6m reduction in transport income.
 - Direct and Provider Services are forecasting an underspend of £0.8m across all services with a £0.3m underspend on Residential Services and a £0.6m underspending on Day Services, offset by a £0.1m overspend due to non-achievement of savings.
 - Living Well and Ageing Well are forecasting an overspend of £2.7m. This consists of an overspend of £3.9m in Living Well, offset by an underspend of £1.2m in Ageing Well.
 - Maximising Independence is forecasting an underspend of £0.6m.
24. Public Health is currently forecasting an underspend of £0.3m, mainly due to underspends on programmes curtailed by the pandemic. Any net underspend will be added to reserves at year end.

Trading Services

25. Schools Catering is forecasting a deficit of £3.6m as a result of COVID19. This will be reviewed once appropriate charges to NCC Schools have been calculated in consultation / agreement with NCC Schools and Government guidance. Cleaning & Landscapes also has a projected deficit of £0.3m as a result of COVID19 and there is currently no reserve to fund these overspends.
26. Clayfields is currently forecasting a shortfall against its income target of £0.5m as the facility is unable to accept new admissions due to the pandemic.

Central Items

27. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
28. As detailed above, the Authority has received two tranches of COVID19 grant allocations. On 27 March 2020, £22.3m was received from the first tranche of funding. However, due a change in methodology, the Council received a much-reduced allocation of £14.7m from the second tranche. Total COVID19 grant funding of £37.0m has been received to date. This is an amount in excess of what was expected to be received at the time of setting the 2020/21 budget.
29. Central Items includes a base contingency budget of £4.0m to cover redundancy costs, slippage of savings, additional funding requirements for the 2020/21 pay award and other unforeseen events. Also, in 2020/21 a number of demand and inflationary pressures have been identified that have a degree of uncertainty with regard to likelihood, value and profiling. As such, an additional provision of £2.6m has been made within the contingency to fund these pressures of which £1.7m has already been built into committee budgets at Period 2. All residual funding requirements are currently being reviewed and the Finance and Major Contracts Management Committee or the Section 151 Officer are required to approve the release of contingency funds.
30. Other Contingency requests approved previously total £1.0m to support communities in their response to the impact of Coronavirus. Table 1 assumes that the remaining contingency budget will be utilised in full for future requests.

Main areas of risk to the forecast

31. As well as the implications arising from the COVID19 emergency the usual budget monitoring process will continue to take place throughout the year to identify all major variations to budget. Progress updates will be closely monitored and reported to management and to Committee on a monthly basis. It is expected that as well as identifying additional costs, areas of reduced costs will also be identified as the Council adapts service delivery during the crisis.

32. The approved 2020/21 budget was set against a background of assumptions and on-going risks, specifically with regard to the demand for Council services in the areas of Children and Adult Social Care where safeguarding takes priority. In Children's Social Care specifically, significant pressures are continuing to be experienced in relation to the rise in Looked After Children external placements. This is due to sustained high numbers and little evidence that the position has stabilised. In addition, the average weekly cost of placements are rising due to complexity of need, market conditions, inflation and limited capacity within the Authority's own internal residential and foster care provision. These high-risk areas will continue to be monitored closely during the year through the robust monthly budget management process and reported back to Committee.
33. The 2019/20 Local Government Finance Settlement set out a one-year settlement only. As such, further considerable uncertainty beyond 2020/21 will remain until the outcome of the future Comprehensive Spending Review is known.

Balance Sheet

General Fund Balance

34. Members will be asked to approve the 2019/20 closing General Fund Balance of £22.0m at Council on 23 July 2020. The 2020/21 budget approves utilisation of £0.6m of balances which will result in a closing balance of £21.4m at the end of the current financial year. This is 4.4% of the budget requirement.

Capital Programme

35. Table 2 summarises changes in the gross Capital Programme for 2020/21 since approval of the original Programme in the Budget Report (Council 27/02/20):

Table 2 – Revised Capital Programme for 2020/21

	2020/21	
	£'000	£'000
Approved per Council (Budget Report 2020/21)		117,384
Variations funded from County Council Allocations : Net slippage from 2019/20 and financing adjustments	9,403	
		9,403
Variations funded from other sources : Net variation from 2019/20 and financing adjustments	5,524	
		5,524
Revised Gross Capital Programme		132,311

36. 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's	35,815	3,139	35,836	21
Adult Social Care & Public Health	612	449	661	49
Communities & Place	57,787	491	57,791	4
Policy	35,363	989	36,527	1,164
Finance & Major Contracts Mngt	180	-	180	-
Governance & Ethics	354	-	299	(55)
Contingency	2,200	-	2,200	-
Total	132,311	5,068	133,494	1,183

Financing the Approved Capital Programme

37. Table 4 summarises the financing of the overall approved Capital Programme for 2020/21.

Table 4 – Financing of the Approved Capital Programme for 2020/21

Committee	Capital Allocations £'000	Grants & Contributions £'000	Revenue £'000	Reserves £'000	Gross Programme £'000
Children & Young People's	22,664	12,512	-	639	35,815
Adult Social Care & Public Health	371	241	-	-	612
Communities & Place	15,636	40,712	1,119	320	57,787
Policy	21,583	12,980	-	800	35,363
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	354	-	-	-	354
Contingency	2,200	-	-	-	2,200
Total	62,808	66,445	1,119	1,939	132,311

38. It is anticipated that borrowing in 2020/21 will increase by £10.5m from the forecast in the Budget Report 2020/21 (Council 27/02/2019). This increase is primarily a consequence of:

- £9.4m of net slippage from 2019/20 to 2020/21 and financing adjustments funded by capital allocations.
- Net acceleration in 2020/21 of £1.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

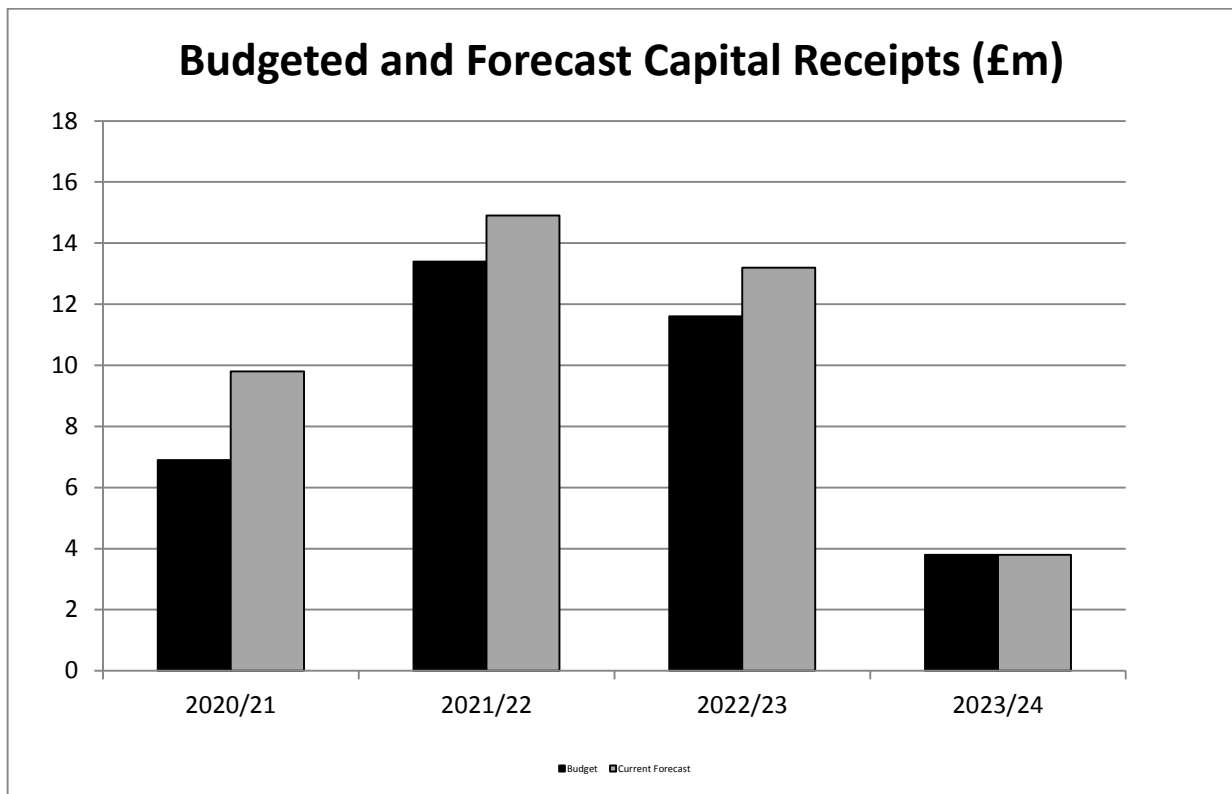
Prudential Indicator Monitoring

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 2023/24.



42. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2020/21 (Council 27/02/2020). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.

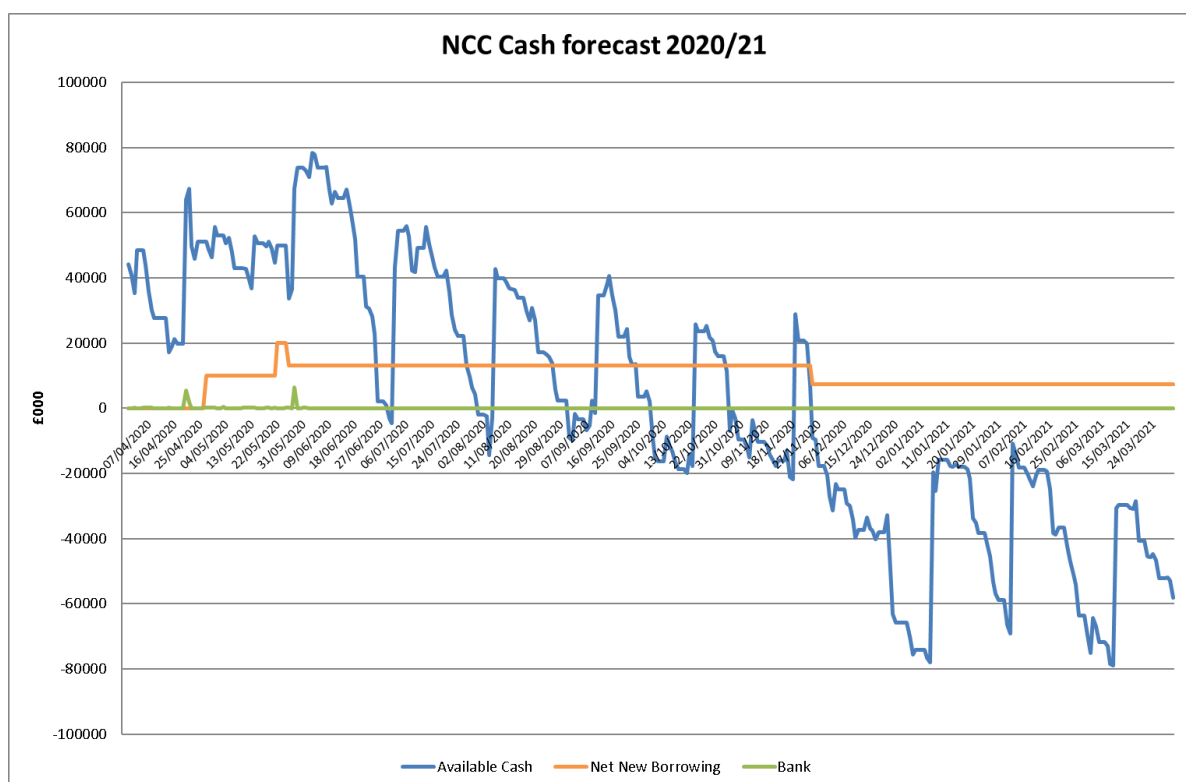
43. The capital receipt forecast for 2020/21 is £6.9m. To date in 2020/21, no capital receipts have been received.

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 2020/21) is to use the first tranche of capital receipts to fund in-year transformation costs. Any capital receipts in excess of this will be 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

46. 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.
47. The Cash forecast chart below shows the current estimated cash flow position for the financial year 2020/21. 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.

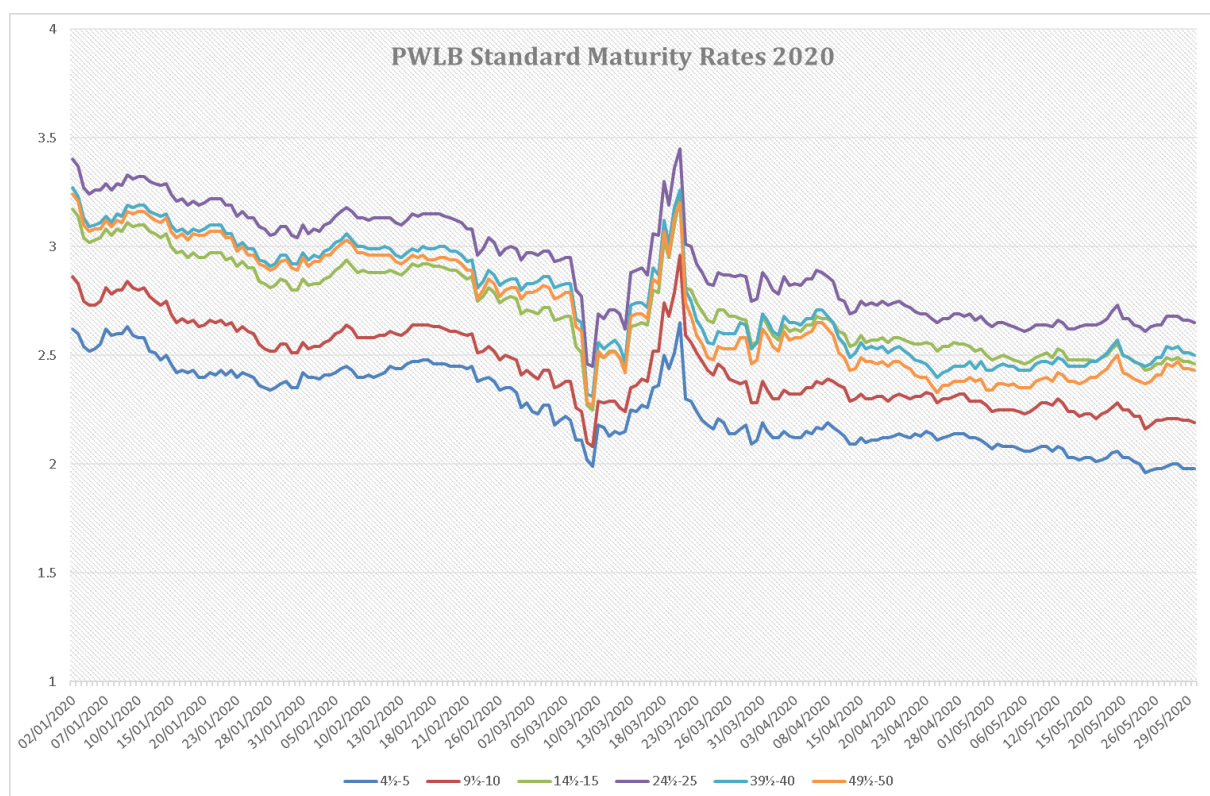


48. The chart above gives the following information:

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.

49. The Treasury Management Strategy for 2020/21 identified a need to borrow approximately £50m over the course of the year to (a) fund the capital programme, (b) replenish internal balances and to (c) replace maturing debt. However, the estimate was revised and increased to £80m after the 2019/20 accounts closure (taking account of slippage). £10m of this was taken in late April, with a further £10m in late May.

50. 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 2020 so far. The initial effects of the coronavirus pandemic and the Government’s budgetary response can be seen in early March, with rates declining slowly but steadily since.



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

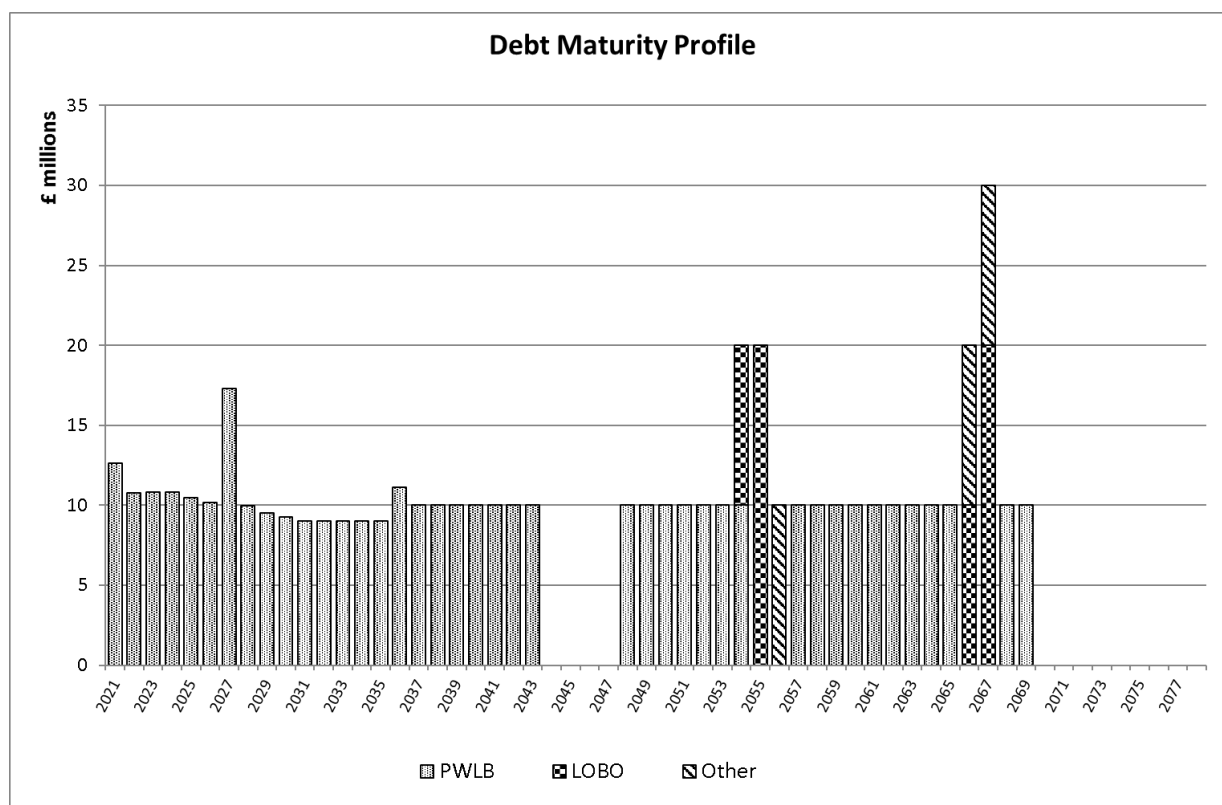
- expected movements in interest rates
- current maturity profile
- the impact on revenue budgets and the medium term financial strategy
- the treasury management prudential indicators.

52. 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.

53. 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

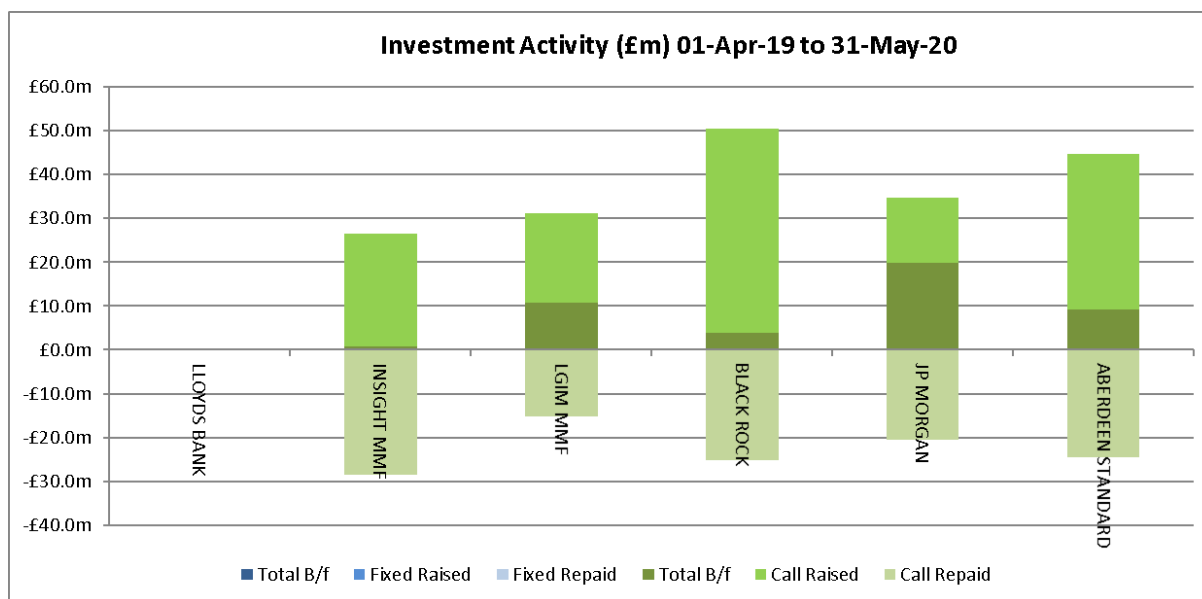
loan) and were all taken at rates lower than the prevailing PWLB rate at the time. However, LOBOs could actually mature at various points before then, exposing the Council to some refinancing risk.

54. The 'other' loans shown in the chart consists of LOBO loans from Barclays Bank that were converted to standard fixed-term loans in 2016.



55. The investment activity for 2020/21 to date is summarised in the chart and table below. Outstanding investment balances totalled approximately £44m at the start of the year and approximately £74m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
INSIGHT MMF	750	25,800	(28,550)	(2,000)
LGIM MMF	10,700	20,550	(15,150)	16,100
BLACK ROCK	3,800	46,750	(25,100)	25,450
JP MORGAN	19,800	14,950	(20,450)	14,300
ABERDEEN STANDARD	9,150	35,450	(24,600)	20,000
Total	44,200	143,500	(113,850)	73,850



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

Statutory and Policy Implications

57. 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 and year-end forecasts.
- 3) To comment on the Council's Balance Sheet transactions.

Nigel Stevenson Service Director – Finance, Infrastructure and Improvement

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

Constitutional Comments (KK 07/07/2020)

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

Financial Comments (GB 07/07/2020)

59. 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

