

REPORT OF THE CHAIRMAN OF FINANCE & MAJOR CONTRACTS MANAGEMENT COMMITTEE

MANAGEMENT ACCOUNTS 2017/18

Purpose of the Report

- 1.1 To inform Council of the year end position for the 2017/18 Management Accounts.
- 1.2 To request that Council approves the transfer to the General Fund Balances of £3.2m.
- 1.3 To inform Council of the position on other reserves of the Authority.
- 1.4 To inform Council of the year end position for the 2017/18 Capital Programme and its financing.
- 1.5 To inform Council that capital expenditure and borrowing in 2017/18 were managed within the Council's Prudential Indicators.
- 1.6 To inform Council of Treasury Management activities during 2017/18.

Information and Advice

2. Background

- 2.1 The financial position of the County Council has been monitored throughout the financial year, with monthly reports to Corporate Leadership Team and Committee providing an update of progress, thus ensuring decision makers had access to financial information on a timely basis. Draft Management Accounts were reported to Finance and Major Contracts Management Committee on 18 June 2018, this report is the final out-turn for 2017/18, and this is in line with the forecast position.

3. Summary Financial Position

- 3.1 Through continued prudent financial management, Committee budgets have achieved a net underspend of £7.5m or 1.5% of net Committee budgets. This compares to a period 11 forecast of £6.6m. An exercise to fully understand the permanent or temporary nature of this underspend is currently being undertaken. Permanent underspends will be removed from the base budget. The remaining temporary underspend will be used to fund specific future priorities and support the strategy required to meet the £54.2m shortfall in funding across the medium term. This approach was approved as part of the 2018/19 Annual Budget Report to Full Council in February 2018.
- 3.2 The level of General Fund balances, subject to approval by County Council, will increase by £3.2m to £30.9m. This results in a closing balance that is £8.7m higher than the revised budget.

3.3 Table 1 shows the summary revenue position of the County Council. Further detail, including the position on reserves, is provided in the appendices to this report.

Table 1 – Summary Financial Position

Committee	Final Budget £000	Draft Out-turn £000	Draft Variance £000	Percentage Variance to Annual Budget
Children & Young People	119,042	119,241	199	0.2%
Adult Social Care & Public Health	199,062	194,062	(5,000)	(2.5%)
Communities & Place	122,299	122,179	(120)	(0.1%)
Policy	33,871	32,695	(1,176)	(3.5%)
Finance & Major Contracts Management	3,366	2,956	(410)	(12.2%)
Governance & Ethics	7,610	7,388	(222)	(2.9%)
Personnel	16,533	15,794	(739)	(4.5%)
Net Committee (under)/overspend	501,783	494,315	(7,468)	(1.5%)
Central items	(19,367)	(29,785)	(10,418)	
Contribution to Schools Expenditure	209	209	-	
Contribution to/(from) Traders	405	719	314	
Forecast prior to use of reserves	483,030	465,458	(17,572)	
Transfer to / (from) Corporate Reserves	(7,225)	(2,188)	5,037	
Transfer to / (from) Departmental Reserves	4,974	8,844	3,870	
Transfer to / (from) General Fund	(5,500)	3,165	8,665	
Net County Council Budget Requirement	475,279	475,279	-	

4. Net Committee Spend

The overall net underspend within the Committees is £7.5m and the principal reasons for the variations are detailed below.

4.1 Children & Young People (£0.2m overspend, 0.2% of Committee budget)

The £0.2m net overspend relates to a number of offsetting variances. The three main areas of overspend relate to staffing in hard to recruit teams (£0.5m), other Youth, Families and Social Work Division budgets (£0.8m) and external placements (£0.6m). These overspends are offset by a number of lesser underspends across the Committee's budgets.

4.2 Adult Social Care and Public Health (£5.0m underspend, 2.5% of Committee budget)

The major variances on care packages are as follows:

- Older Adults across the County are overspent by £2.5m. This is primarily due to increases in long term nursing and homecare commitments.
- Younger Adults across the County are underspent by £2.3m, due primarily to a sustained over achievement of Continuing Health Care income.
- The Strategic Commissioning, Accessing and Safeguarding Division is underspent by £1.4m due mainly to overachievement of client contribution income and an underspend on the advocacy contract.
- Residential Services are underspent by £0.6m. All services are underspent across staffing plus overachievement of income targets.

- Day Services and employment are underspent by £0.5m. This is due to an underspend of £0.7m on staffing, offset partly by a continuing overspend on Fleet transport.
- The Transformation Division is underspent by £0.2m relating to the Care Act.
- Public Health is underspent by £3.0m, due to underspends on the staffing budget, less activity from Payment by Results on Health Check Programmes, Obesity and Smoking and Tobacco, together with underspends on children and Future in Mind services. The Public Health Grant is ring-fenced and, as such, the net underspend has been transferred to the Public Health reserve.
- An overspend of £0.5m that relates to the cost of redundancies borne by the Adult Social Care and Public Health Committee.

4.3 Communities and Place (£0.1m underspend, 0.1% of Committee budget)

The net underspend above is made up of a £0.3m underspend in the Transport Division mainly due to the reduction of concessionary fare payments, through reduced patronage, beneficial contractor agreements and changes in eligibility criteria. The underspend within Transport is offset by overspends in Country Parks for tree works (£0.1m) and Coroners (£0.1m).

4.4 Policy (£1.2 m underspend, 3.5% of Committee budget)

This underspending has arisen mainly from vacancy savings, together with a reduction in the cost of utilities at county offices.

4.5 Finance and Major Contracts Management (£0.4m underspend, 12.2% of Committee budget)

This underspend is mainly due to staffing vacancies within the Commercial Development Unit and across the Finance and Procurement division.

4.6 Governance and Ethics (£0.2m underspend, 2.9% of Committee budget)

The underspending is due to lower than anticipated spend on external legal fees attributable to ongoing efficiencies and reduced levels of property cases during the year than were originally expected.

4.7 Personnel (£0.7m underspend, 4.5% of Committee budget)

This underspending relates mainly to savings associated with holding vacancies in Business Support and in the Business Support Centre in anticipation of future years' budget reductions, together with additional income from the sale of services to schools.

4.8 Traders Services (£0.3m overspend, 0.7m overspend before transfers to /from reserves)

Traders are expected to be neutral in cost for the year, with any underspend being transferred to reserve to fund future expenditure and any overspend being covered by a use of reserve. The position without use of reserves is that there are overspends in County Supplies (£0.3m) and Cleaning and Landscapes (£0.6m), these are offset by an underspend in Catering (£0.2m). County Supplies have exhausted their reserves, the 2017/18 overspend is therefore a cost to the general fund.

5 Central Items (£10.4m underspend)

Central Items primarily consists of interest on cash balances and payments on borrowing, contingency, capital charges and various grants. Key variances are outlined below. There are various minor under and overspends (net total £0.3m underspend) within the rest of central items category, details of which can be found in Appendix A.

5.1 Contingency (£5.8m underspend) (for detail please refer to Appendix C)

The total 2017/18 contingency budget was originally set at £5.1m to cover both redundancy and general contingency requirements. Further adjustments, including the £3.9m in-year savings identified in Adult Social Care and Public Health, increased this by £5.3m during 2017/18. Requests are received throughout the year from Committees and are approved through the budget monitoring reports presented to Finance and Major Contracts Management Committee or by the Service Director – Finance, Infrastructure and Improvement.

5.2 Government Grants (£4.5m underspend)

Several non-ring fenced grants sit centrally, but values are not normally confirmed until after the budget is set in the February of each year, which results in year-end variances to budget. Overall these grants have resulted in a £1.5m underspend. Also, as previously reported, the Council's membership of the Nottinghamshire Business Rates Pool results in a proportion of local growth being retained by the Council. In 2017/18 there is net additional income of £3.0m. The overall impact (taking into account budgeted use) on the N2 pool reserve and the Authorities share of the pool are described below in the reserves section.

5.3 Statutory Provision for Debt Redemption (£1.4m overspend)

The Council is under a statutory duty "to determine for the current financial year an amount of Minimum Revenue Provision (MRP) which it considers to be prudent". The MRP charged to the General Fund in 2017/18 has been determined at £1.4m.

5.4 Interest (£1.2m underspend)

Interest payments depend upon Treasury Management decisions taken, expectations of future rates and anticipated slippage on the capital programme. Variances against each of these factors in 2017/18 has resulted in an underspend of £0.7m. Other interest and dividends received in year have achieved an underspend of £0.5m.

6 Movements on Balances and Reserves (for detail please refer to Appendix B)

6.1 Reserves Strategy

In line with the reserves strategy approved at the February 2017 Full Council meeting planned contributions have been made to a number of reserves to fund specific future activity. Also, it was approved that any in-year underspend would be transferred to reserves to fund specific future priorities and to the General Fund to inform the strategy required to meet the shortfall as identified in the Medium Term Financial Strategy. More detail of the movement on balances and reserves are shown below.

6.2 General Fund Balance

The Council meeting on 23 February 2017 approved the use of £4.5m of General Fund Balances. Further use of £1.0m was approved in year by Finance and Major Contracts Management Committee to fund further expenditure to repair potholes. Given the underspend that has been achieved, it is recommended that a contribution of £3.2m is made to the General Fund. Subject to Council approval, the closing balance of the Council's General Fund will increase from £27.7m to £30.9m.

6.3 Other Earmarked Reserves

At the end of 2017/18 other 'earmarked' reserves totalled £116.2m, an increase of £4.5m since 31 March 2017. This consists of the following:

- **PFI Reserves**

£29.5m of reserves are held for PFI schemes and this equates to 25.4% of other earmarked reserves. The arrangements for calculating PFI grant result in more grant being received in the early years of a PFI scheme than is needed to meet the payments to providers of the service. These surpluses need to be kept in an earmarked reserve to cover the corresponding deficits in later years. The amounts set aside at the end of 2017/18 are shown in the table below.

Table 2 – PFI set aside as at 31/03/2018

PFI Scheme	£'000
East Leake Schools	3,235
Bassetlaw Schools	665
Waste	25,583
Total	29,483

- **Insurance Reserve**

The Authority operates a self-insurance scheme and covers risks up to an agreed amount. External insurers cover risks in excess of this figure. The Insurance Reserve is set aside to cover possible insurance claim losses that are not yet known. The closing balance of this reserve is £21.0m.

- **Capital Projects Reserve**

The Capital Projects Reserve supports the Medium Term Financial Strategy as well as current and future capital commitments. In 2017/18 there was a net use of the reserve of £1.1m. As at 31 March 2018, the balance on the Capital Projects Reserve is £12.5m. Of this, £8.1m is planned to be utilised in 2018/19.

- **Strategic Development Fund**

It was approved that costs associated with the Programme and Projects team are funded from the capital receipts flexibility directive from 2017/18 to 2021/22. There has, however, been a net usage of the Strategic Development Reserve of £1.8m as part of the reserves strategy to support the overall Council budget.

- **Redundancy Reserve**

The Redundancy Reserve was created in 2009/10 and, since then, a proportion of year end underspends, combined with the release of the former Corporate Pay Review Reserve have increased the reserve value resulting in an opening balance of £6.2m. As reported to the 16th October 2017 Finance and Major Contracts Management report any underspending on the amount set aside from contingency for redundancy in year would be transferred into this reserve. A contribution of £1.9m has therefore been made to this reserve.

- **Earmarked for Services Reserves**

All departments have reserves for identified purposes. In addition, Financial Reporting Standards require grant income to be carried on the Balance Sheet as a reserve balance. This includes Public Health and Section 256 grants. During the year, these departmental balances increased by a net £7.2m to £48.8m. The ring-fenced Public Health grant (£1.6m) and Section 256 grants (£3.8m) account for the majority of the increase.

- **NDR Pool Reserve**

The pool was established in April 2013 when a new funding mechanism was introduced with the seven District and Borough Councils. There was a net increase of £2.1m in 2017/18. Of the £8.1m year-end balance £3.0m is the County's share of the pool surplus; the remaining balance (£5.1m) is the money set aside for N2.

- **Earmarked Reserve**

Earmarked reserves contain balances of reserves previously held under services but have been deemed no longer required for their original purpose. As part of the reserves strategy a revised budget of £4.5m was set and used in year. Following an exercise in the summer additional earmarked for services reserves have transferred in to leave the balance at £3.4m.

7 Capital Expenditure

7.1 Capital Expenditure in 2017/18 totalled £87.547m. Table 3 shows the final 2017/18 Capital Programme broken down by Committee.

Table 3 – 2017/18 Capital Expenditure

Committee	Revised Budget £'000	Total Outturn £'000	Variance £'000
Children & Young People	28,370	24,600	(3,770)
Adult Social Care & Public Health	4,958	4,190	(768)
Communities & Place	43,654	42,148	(1,506)
Policy	20,827	16,435	(4,392)
Finance & MCM	180	135	(45)
Governance & Ethics	219	39	(180)
Total	98,208	87,547	(10,661)

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

The major areas of investment in 2017/18 are listed in Table 4 below.

Table 4 – Major investment areas 2017/18

Committee	Scheme	2017/18 Capital Expenditure £'000
Children & Young People	School Places Programme	10,877
	School Capital Refurbishment Programme	7,222
	Clayfields House	3,651
Adult Social Care & Public Health	Living at Home	3,200
	Communities & Place	17,952
	Road Maintenance & Renewals	4,988
Policy	Integrated Transport Measures	2,913
	Street Lighting	5,500
	Challenge Fund A38 / A617	3,513
	Building Works	3,386
	Superfast Broadband	3,296
	Various IT Capital Projects	

Capital Programme Variations

7.2 The changes in the gross Capital Programme for 2017/18, since its approval at Council (23/02/17) are summarised in Table 5 below.

Table 5 2017/18 Capital Programme

	£'000
Approved per Council (Budget Report 2017/18)	102,520
Variations funded from County Council Allocations : Net slippage from 2016/17 and financing adjustments	(25,187)
Variations funded from other sources : Net slippage from 2016/17 and financing adjustments	10,214
Revised Gross Capital Programme	87,547

7.3 Maximising the use of grants in 2017/18

Sometimes when there is slippage on a scheme funded by grant, rather than slipping the grant funding for use in the next year, it is possible to use the grant to finance the expenditure on a different scheme in the current year. This does not affect the total expenditure on individual schemes, nor their phasing, but delays the use of prudential borrowing and the

consequent impact on the revenue budget of having to set aside a Minimum Revenue Provision (MRP).

Grant funding unapplied totalling £12.3m has been used to fund capital expenditure on projects in 2017/18 that would otherwise have been funded from borrowing.

7.4 Slippage/re-phasing of Capital Schemes

In addition to the slippage and re-phasing of schemes incorporated into the Budget Report 2017/18 there has been £10.7m of further slippage.

Main Areas of Slippage

- School Places Programme (£1.6m)
- Schools Building Improvement Programme (£1.2m)
- Smarter Ways of Working (£0.8)
- Economic Development Capital Fund (£0.9m)

It’s also worth noting that the Policy Committee budget is showing a £4.5m underspend. The main reason for this is that it included the £2.5m transformation capital budget (funded from capital receipts flexibility). The expenditure funded by this line is revenue in nature and was treated as such at year end.

Capital Financing

7.5 Table 6 below outlines how the 2017/18 capital expenditure has been financed.

Table 6 - 2017/18 Capital Financing

	Revised Budget (£000)	Out-turn (£000)	Variance (£000)
Funding Source:			
Prudential Borrowing	51,626	28,364	(23,262)
Capital Grants	44,385	56,124	11,739
Revenue / Reserves	2,197	3,059	862
Gross Capital	98,208	87,547	(10,661)

7.6 Capital receipts for 2017/18 totalled £6.8m, of which £3.7m is deferred until 2018/19. This is £2.2m less than anticipated in the 2017/18 budget report. This is mainly as a result of a small number of high value capital receipts that were not completed in 2017/18. £2.7m of the capital receipts have been used, per the capital flexibility directive, to fund one-off transformational costs incurred during the year. The remaining £0.4m has been set against the principal of borrowing in previous years.

7.7 Total borrowing for the year is £28.4m, which is £23.2m less than the revised borrowing for 2017/18 of £51.6m. This is as a result of maximising the use of additional capital grants received in 2017/18 and the slippage/re-phasing of capital expenditure to be funded from prudential borrowing. The corresponding funding (capital allocations) will be carried forward and incorporated into the Capital Programme for 2018/19.

7.8 The Capital Programme for 2018/19 will be monitored to ensure that borrowing for 2018/19 is managed within the prudential limits for the year. Funding by borrowing in 2018/19 is now projected to be £68.5m. Although this is £18.9m more than the budgeted borrowing figure in the February 2018 Budget Report, any new capital expenditure slippage in 2018/19 will offset this and the Council's overall level of indebtedness is not expected to exceed previous forecasts. The size of the revised Capital Programme for 2018/19 is £126.5m.

8 Treasury Management Activities

8.1 All treasury management activities during 2017/18 were carried out within approved limits and adhered to approved policies and practices. Appendix E provides a full report on these activities.

9 Statement of Accounts

The pre-audited Statement of Accounts were certified by the Section 151 Officer on 30th May 2018 and were published on the Council's website to meet statutory requirements. The external audit is currently underway, therefore figures will be provisional, pending the completion of the audit.

Statutory and Policy Implications

This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

1. To comment on the provisional 2017/18 year end revenue position.
2. To approve the level of County Fund Balances as set out in section 6.2 and Appendix A.
3. To comment on the movements in reserves as detailed in section 6 and Appendix B.
4. To comment on the Capital Programme and its financing.
5. To comment on the Council's 2017/18 Prudential Indicators out-turn as detailed in Appendix D.
6. To comment on the Treasury Management outturn report in Appendix E.

Councillor Richard Jackson

Chairman of Finance and Major Contracts Management Committee

For any enquiries about this report please contact:

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Constitutional Comments (KK 03/07/2018)

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

Financial Comments (GB 03/07/2018)

The financial implications are set out in the report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All