

30 November 2020

Agenda Item: 4

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

FINANCIAL MONITORING REPORT: PERIOD 6 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, year-end forecasts and approve a variation to the capital programme.
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 continuing to respond 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.

Implications of the COVID19 Crisis

6. Following recent announcements from Central Government, the Authority has been allocated an addition £5.0m main COVID19 grant as well as an additional £9.6m Infection Control Grant. A summary of the COVID19 related grants received by the Authority to date are set out in the table below:-

Grant	County Council Allocation (£m)	Conditions	Use
COVID19 Funding (1)	22.3	None	Reduce financial deficit
COVID19 Funding (2)	14.7	None	Reduce financial deficit
COVID19 Funding (3)	5.1	None	Reduce financial deficit
COVID19 Funding (4)	5.0	None	Reduce financial deficit
Infection Control (1)	11.5	Yes + clawback	Pass to providers for transmission reduction measures and support workforce resilience.
Infection Control (2)	9.6	Yes + clawback	Pass to providers for transmission reduction measures and support workforce resilience.
Test and Trace	3.8	Yes + clawback	Mitigation against and management of local outbreaks of COVID19
Emergency Assistance Grant	0.9	Subject to monitoring & evaluation	Support to those struggling to afford food and other essentials
Additional Home to School Transport	0.6	Subject to retrospective claim	New funding for additional dedicated school transport capacity.

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 DELTA6 submission from Nottinghamshire County Council was submitted on 2 October 2020 and identified a total gross forecast financial impact of £66.8m in the current financial year. The next return is due to be submitted on 6 November 2020.

The receipts of these grants are factored into the forecast financial position as set out in this report.

8. All Authorities received a letter from the Department of Health and Social Care (DHSC) on 4 September 2020 which explained revised arrangements for the distribution of PPE. It set out that the DHSC had procured sufficient PPE to meet national demand and would be able to supply Authorities directly with PPE for all COVID19 use, over and above any Business as Usual use, until 31 March 2021. This supply is being made available free of charge.
9. The Government have also announced a scheme that will help those Local Authorities that have lost income during the pandemic and boost cash flow. The first lost income return to the MHCLG was submitted on 30 September 2020. The value of this funding is expected to be in the region of £1.2m.

10. The pro-formas submitted to the Government do not include other potential significant forecast cost and cash flow implications including Council Tax and Business Rates falls in collection rates (£10m) as well as impacts upon the realisation of capital receipts (£4m). On 2 July, Central Government announced that Council Tax and Business Rates deficits are to be payable evenly over a three-year period rather than in one year as is currently the case.
11. A Finance Resilience Group has been established to consider the financial impact arising from the COVID19 crisis. This Group has identified factors that help to mitigate the in-year financial impact of COVID19. Reviews have also been undertaken on all assumptions that underpin the MTFS including areas such as the capital programme, capital receipts, pressures, savings forecasts and reserves. These areas will continue to be scrutinised as part of the budget monitoring and budget setting processes.
12. It is important to note that considerable uncertainty remains regarding the longer-term implications of responding to the emergency. For instance, we are beginning to see the emergence of another COVID19 wave which may continue through the Autumn and Winter period. In addition, information continues to be developed regarding significant areas of the Authority's budget including Home to School Transport, Looked After Children (LAC) and Adult Social Care and Health services.

Summary Revenue Position

13. As detailed above, the Authority has received four tranches of main COVID19 grant allocations totalling £47.1m. This amount was not factored into projections when setting the 2020/21 budget in February 2020. A revised budget estimate has therefore been set whereby COVID19 grant has been allocated across Committee budgets based on the current known financial impact of the COVID19 crisis. The revised budget estimate is reflected in Table 1.

14. The table below summarises the revenue budgets for each Committee for the current financial year. A forecast underspend of £2.5m is currently predicted. However, there are still significant financial challenges facing the Council over the medium-term which requires a continuing need to be vigilant. Uncertainty still exists and the key message to effectively manage budgets and, wherever possible, deliver in-year savings continues to be reinforced.

Table 1 – Summary Revenue Position

Forecast Variance as at Period 5 £'000	Committee	Revised Annual Budget £'000	Actual to Period 6 £'000	Year-End Forecast £'000	Latest Forecast Variance £'000
9,655	Children & Young People's	151,768	58,274	151,755	(13)
6,990	Adult Social Care & Public Health	212,785	90,735	212,431	(354)
9,531	Communities & Place	138,615	53,074	137,843	(772)
3,507	Policy	36,191	15,425	36,622	431
1,038	Finance & Major Contracts Management	4,433	4,805	4,339	(94)
(11)	Governance & Ethics	7,626	3,418	7,579	(47)
71	Personnel	16,362	8,430	15,628	(734)
30,781	Net Committee (under)/overspend	567,780	234,161	566,197	(1,583)
(36,825)	Central items	(52,551)	(30,061)	(53,731)	(1,180)
-	- Schools Expenditure	32	-	32	-
2,273	Contribution to/(from) Traders	3,530	1,004	3,473	(57)
(3,771)	Forecast prior to use of reserves	518,791	205,104	515,971	(2,820)
-	- Transfer to / (from) Corporate Reserves	(499)	-	(499)	-
556	Transfer to / (from) Departmental Reserves	(5,113)	129	(4,822)	291
-	- Transfer to / (from) General Fund	(631)	-	(631)	-
(3,215)	Net County Council Budget Requirement	512,548	205,233	510,019	(2,529)

Committee and Central Items

Communities and Place (£0.7m underspend, 0.6% of annual budget)

15. The major variances in the Communities and Place Committee relate to Highways and have primarily arisen due to reduced electricity costs due to implementation of energy efficient street lighting (£0.3m) and a lower than budgeted annual indexation figure from VIA due to the historically low interest rates applicable to RPI on which this is based (£0.4m).

Personnel (forecast £0.7m underspend, 4.5% of annual budget)

16. The major variances in the Personnel Committee relate to staffing vacancies in the BSC (£0.1m), reduced apprentice costs due to recruitment difficulties in the current circumstances (£0.1m) and Business Support vacancies (£0.3m).

Central Items (forecast £1.1m underspend)

17. Central Items primarily consists of interest on cash balances and borrowing, together with various grants, contingency and capital charges.
18. As set out above, a revised budget estimate has been set whereby COVID19 grant has been allocated across Committee budget based on current, known financial impact of the COVID19 crisis. Any grant not allocated to Committees at this time has been set aside to fund further in-year COVID related issues and to cover future shortfalls in collection rates of both Council Tax and Business Rates. Overall, the County Council's share of this shortfall is estimated to be approximately £13m.
19. The reported underspend is made up of a number of variations relating to interest, general government grant income, pension contributions and the Minimum Revenue Provision.

Contingency Budget

20. 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. All 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.
21. Contingency requests that have been previously approved and distributed to Committees total £3.6m and Table 1 assumes that the remaining contingency budget will be utilised in full for future requests.

Main areas of risk to the forecast

22. 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.
23. 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.

24. 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

25. Members approved the 2019/20 closing General Fund Balance of £22.0m at Council on 23 July 2020. The 2020/21 budget assumes the 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

26. 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	1,722	
		1,722
Variations funded from other sources : Net variation from 2019/20 and financing adjustments	18,773	
		18,773
Revised Gross Capital Programme		137,879

27. 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's	35,578	14,515	35,841	263
Adult Social Care & Public Health	1,176	810	1,225	49
Communities & Place	67,109	11,414	66,886	(223)
Policy	32,493	9,565	32,066	(427)
Finance & Major Contracts Mngt	180	-	180	-
Governance & Ethics	354	77	299	(55)
Contingency	989	-	989	-
Total	137,879	36,381	137,486	(393)

Children & Young People's

28. In the Children and Young People's Committee, a section 106 contribution totalling £0.2m has been received. It is proposed that this funding will be used to create additional pupil places in West Bridgford as a result of local property developments.

It is proposed that the Children and Young People's capital programme is varied to reflect the additional £0.2m section 106 contribution

Financing the Approved Capital Programme

29. 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	21,677	13,262	-	639	35,578
Adult Social Care & Public Health	371	805	-	-	1,176
Communities & Place	13,481	52,189	1,119	320	67,109
Policy	18,255	13,438	-	800	32,493
Finance & Major Contracts Mngt	-	-	-	180	180
Personnel	354	-	-	-	354
Contingency	989	-	-	-	989
Total	55,127	79,694	1,119	1,939	137,879

30. It is anticipated that borrowing in 2020/21 will increase by £1.8m from the forecast in the Budget Report 2020/21 (Council 27/02/2019). This increase is primarily a consequence of:

- £1.7m of net slippage from 2019/20 to 2020/21 and financing adjustments funded by capital allocations.
- Net acceleration in 2020/21 of £0.1m of capital expenditure funded by capital allocation identified as part of the departmental capital monitoring exercise.

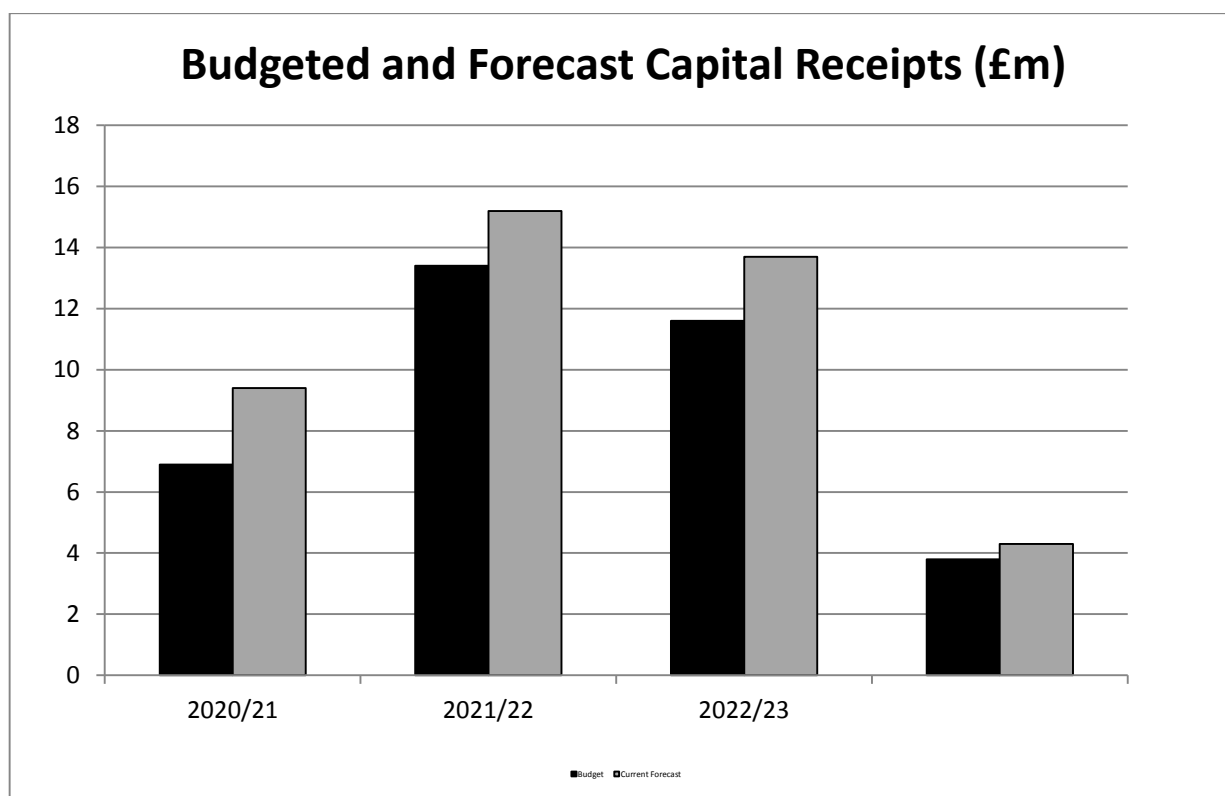
Prudential Indicator Monitoring

31. 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

32. 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.

33. The chart below shows the budgeted and forecast capital receipts for the four years to 2023/24.

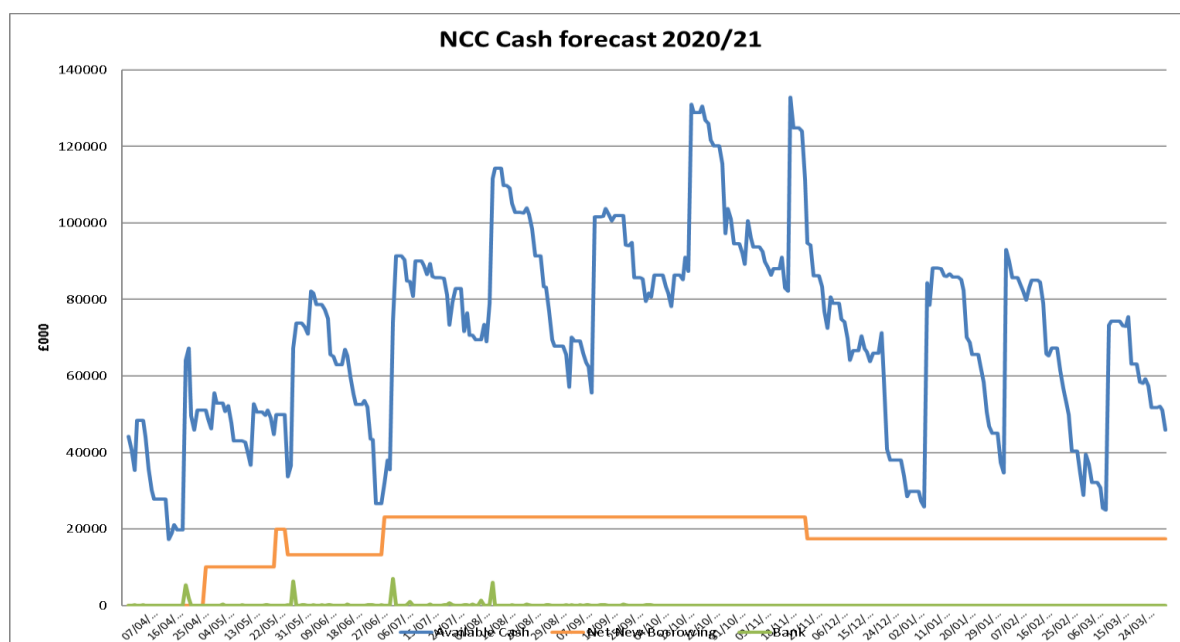


34. The dark bars in the chart show the budgeted capital receipts included in the Budget Report 2020/21 (Council 27/02/2020). These capital receipts budgets prudently incorporated slippage, giving a degree of “protection” from the risk of non-delivery.
35. The capital receipt forecast for 2020/21 is £6.9m. To date in 2020/21, £0.5m of capital receipts have been received.
36. 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.
37. 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

38. 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.
39. 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.

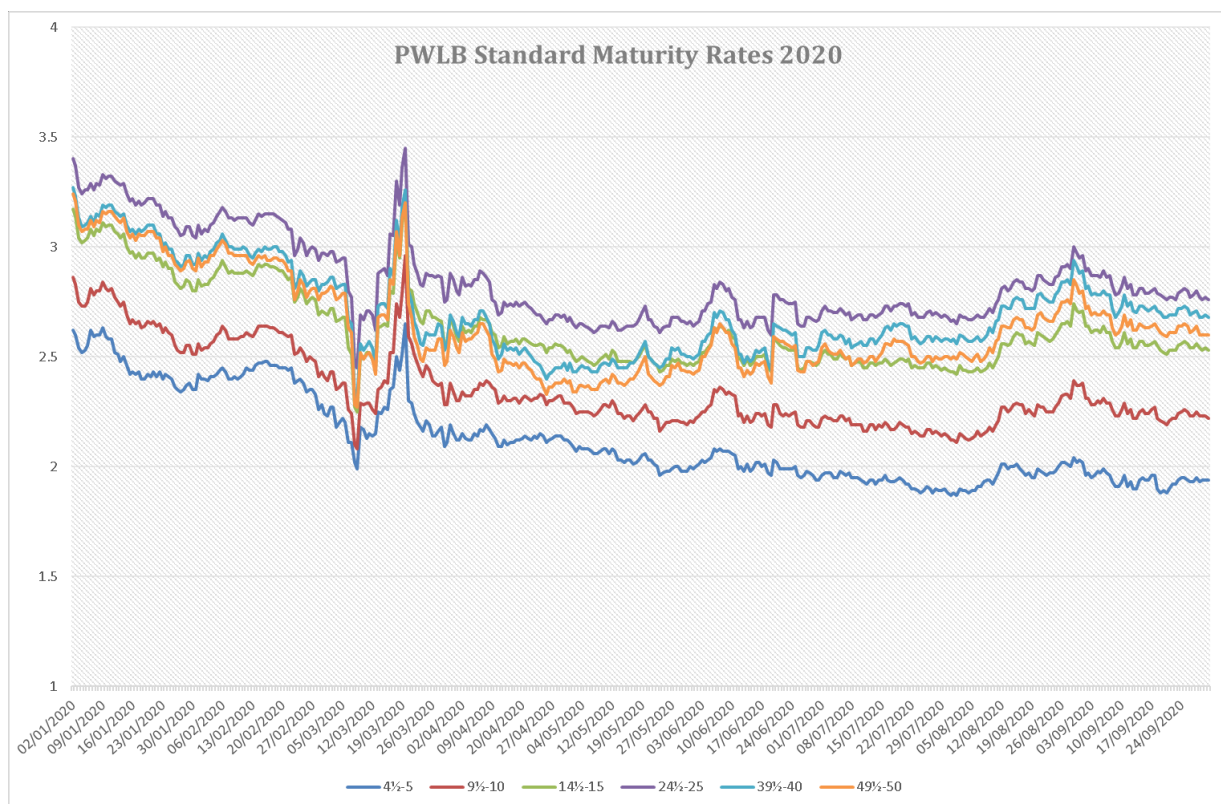


40. The chart above gives the following information:

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.

41. 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 further £10m tranches in May and June.

42. 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 returning only recently to their pre-pandemic levels.



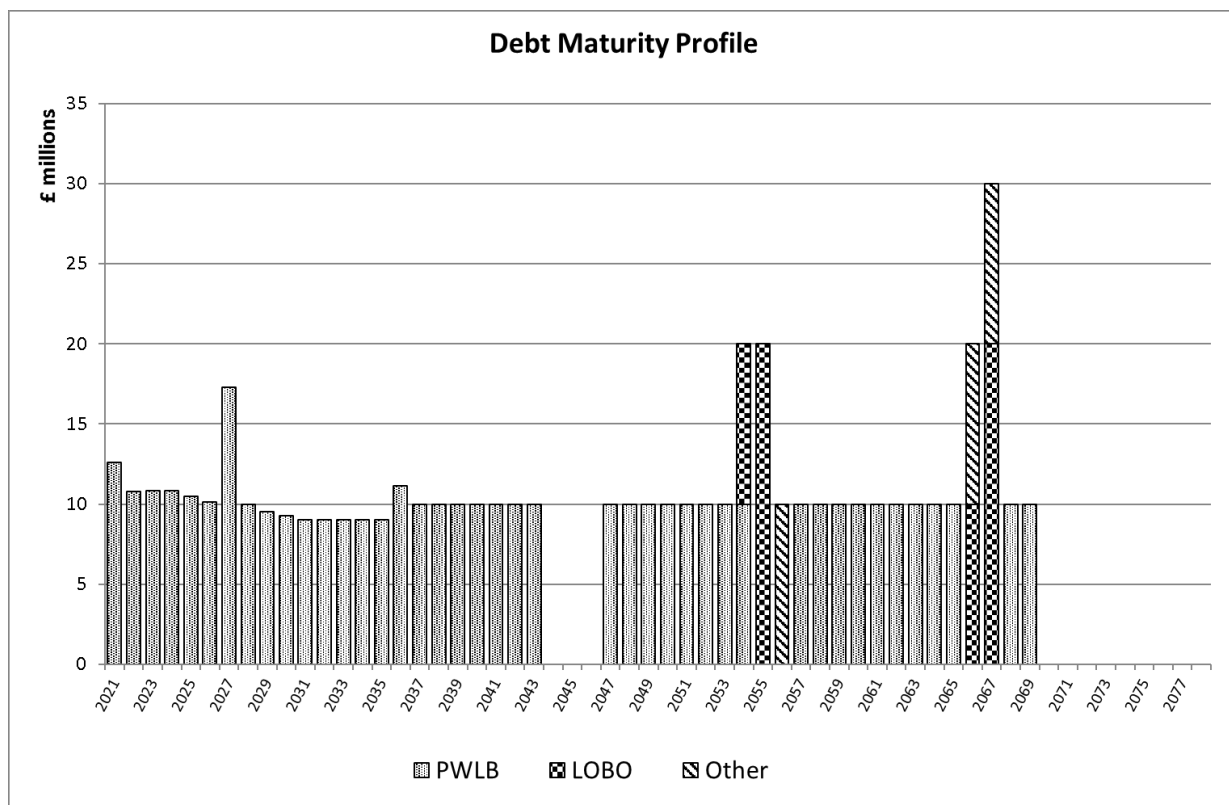
43. Borrowing decisions will take account of a number of factors including:

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

44. 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.

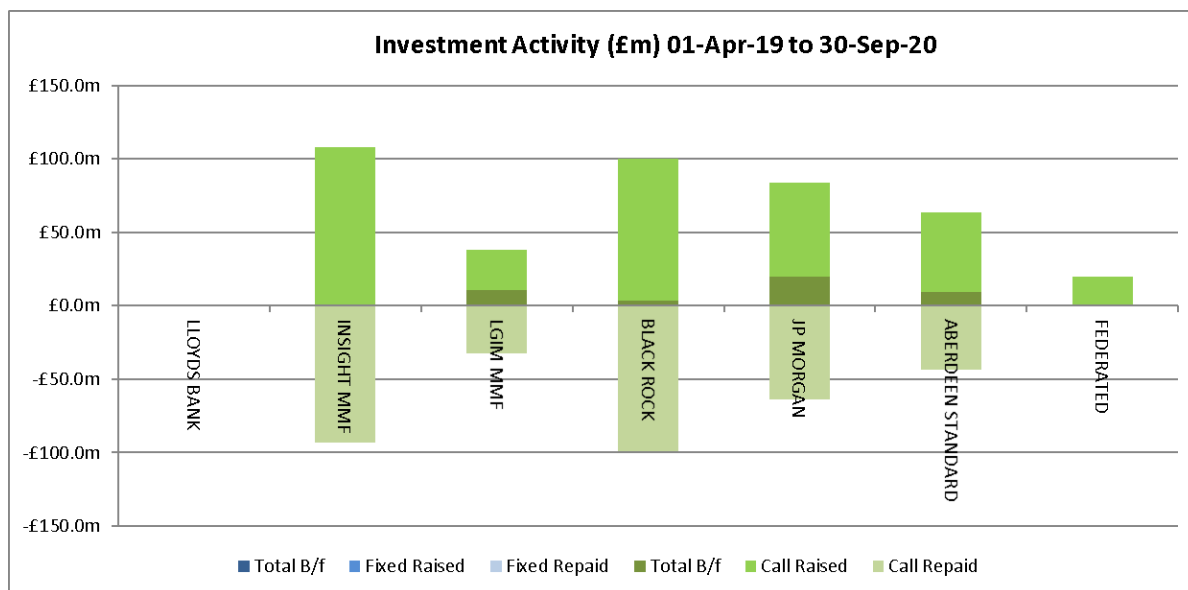
45. Long-term borrowing was also obtained from the market some years ago in the form of 'Lender's Options, Borrower's Options' loans (LOBOs). These loans are treated as fixed rate loans (on the basis that, if the lender ever opts to increase the rate, the Council will repay the loan) and were all taken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

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



47. 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 £82m at the month-end.

	Total B/F £ 000's	Raised £ 000's	Repaid £ 000's	Outstanding £ 000's
INSIGHT MMF	750	107,150	(93,300)	14,600
LGIM MMF	10,700	27,450	(32,200)	5,950
BLACK ROCK	3,800	96,600	(99,100)	1,300
JP MORGAN	19,800	64,200	(64,000)	20,000
ABERDEEN STANDARD	9,150	54,350	(43,600)	19,900
FEDERATED	-	20,000	-	20,000
Total	44,200	369,750	(332,200)	81,750



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

Statutory and Policy Implications

49. 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 a variation to the capital programme.
- 3) To comment on the Council's Balance Sheet transactions.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 30/10/2020)

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

Financial Comments (GB 23/10/2020)

51. 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

