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NOTTINGHAM CITY COUNCIL
EXECUTIVE BOARD

Date: Tuesday, 19 December 2017

Time: 2.00 pm

Place: Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG

Councillors are requested to attend the above meeting to transact the following business

Corporate Director for Strategy and Resources

Governance Officer: Noel McMenamin, Constitutional Services, Tel: 0115 8763288
Direct Dial: 0115 8764304

AGENDA **Pages**

ALL ITEMS LISTED 'UNDER EXCLUSION OF THE PUBLIC' WILL BE HEARD IN PRIVATE FOR THE REASONS LISTED IN THE AGENDA PAPERS. THEY HAVE BEEN INCLUDED ON THE AGENDA AS NO REPRESENTATIONS AGAINST HEARING THE ITEMS IN PRIVATE WERE RECEIVED

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ON THE AGENDA, PLEASE CONTACT THE GOVERNANCE OFFICER SHOWN ABOVE, IF POSSIBLE BEFORE THE DAY OF THE MEETING

CITIZENS ATTENDING MEETINGS ARE ASKED TO ARRIVE AT LEAST 15 MINUTES BEFORE THE START OF THE MEETING TO BE ISSUED WITH VISITOR BADGES

CITIZENS ARE ADVISED THAT THIS MEETING MAY BE RECORDED BY MEMBERS OF THE PUBLIC. ANY RECORDING OR REPORTING ON THIS MEETING SHOULD TAKE PLACE IN ACCORDANCE WITH THE COUNCIL'S POLICY ON RECORDING AND REPORTING ON PUBLIC MEETINGS, WHICH IS AVAILABLE AT WWW.NOTTINGHAMCITY.GOV.UK. INDIVIDUALS INTENDING TO RECORD THE MEETING ARE ASKED TO NOTIFY THE GOVERNANCE OFFICER SHOWN ABOVE IN ADVANCE.

NOTTINGHAM CITY COUNCIL

EXECUTIVE BOARD

MINUTES of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 21 November 2017 from 2.00 pm - 2.10 pm

Membership

Present	Absent
Councillor Graham Chapman (Vice Chair)	Councillor Jon Collins (Chair)
Councillor David Mellen	Councillor Dave Liversidge
Councillor Toby Neal	Councillor Sally Longford
Councillor Dave Trimble	Councillor Nick McDonald
Councillor Jane Urquhart	
Councillor Sam Webster	

Colleagues, partners and others in attendance:

Noel McMenamin	-	Governance Officer
Daniel Ayrton	-	Business Development Manager
Wayne Bexton	-	Head of Energy Projects
David Bishop	-	Deputy Chief Executive/Corporate Director for Development and Growth
Candida Brudenell	-	Corporate Director, Strategy and Resources
Gill Callingham	-	Regeneration Specialist
Ian Curryer	-	Chief Executive
Rebecca Langton	-	Executive Officer to the Leader
Craig Stanley	-	Political Assistant, Majority Group
Keri Usherwood	-	Portfolio Communications Manager

Call-in
Unless stated otherwise, all decisions are subject to call-in. The last date for call-in is Thursday 30 November 2017. Decisions cannot be implemented until the working day after this date.

51 APOLOGIES FOR ABSENCE

Councillor Jon Collins (Chair) – Other Council business
Councillor Dave Liversidge – Other Council business
Councillor Sally Longford – unwell
Councillor Nick McDonald – work commitments

In the absence of Councillor Collins, the Chair was taken by the Vice-Chair, Councillor Graham Chapman.

52 DECLARATIONS OF INTERESTS

None.

53 MINUTES

The minutes of the meeting held on 24 October 2017 were agreed as a true record and they were signed by the Chair presiding at the meeting.

54 NOTTINGHAM SCIENCE PARK - NO.2 BUILDING - KEY DECISION

The Deputy Leader/Portfolio Holder for Resources and Neighbourhood regeneration introduced the report on behalf of the Leader/ Portfolio Holder for Strategic Infrastructure and Communications, seeking approval for No.2 Building, Nottingham Science Park.

RESOLVED to delegate authority to:

(1) the Deputy Chief Executive/Corporate Director for Development and Growth to accept the Building Foundations for Growth grant funding and subject to legal advice, enter into a funding agreement;

(2) the Deputy Chief Executive/Corporate Director for Development and Growth, in consultation with the Leader/Portfolio Holder for Strategic Infrastructure and Communications, to approve the final business case for No.2 building;

(3) the Deputy Chief Executive/Corporate Director for Development and Growth, in consultation with the Leader/Portfolio Holder for Strategic Infrastructure and Communications, to enter into contracts for the works contracts and with the Council's professional advisers and to commit to any other expenditure required during the preconstruction and construction phases subject to the costs being contained within the parameters of the financial model, and grant being confirmed by the D2N2 Local Enterprise Partnership;

(4) the Director of Strategic Assets and Property to market No.2 building, appoint a management team to manage the building and conference facility and procure a conference/café operator.

Reasons for Decisions

The development of a new building at Nottingham Science Park is unviable without grant funding. Grant funding is available for this project via the D2N2 Local Enterprise Partnership.

Building No.2 will be submitted for planning permission following Executive Board approval. The final business case will not be available until the completion of the negotiations with the build contractor and the final tender price has been agreed.

The Council will enter into a build contract, the terms of which need to be negotiated through the SCAPE framework and continue to contract with Perfect Circle, via SCAPE to provide services for the preconstruction and construction stages.

The project needs to be funded through Council resources with any viability gaps being met by the grant.

The full scheme is not currently in the capital programme, although there is a small scheme in the capital programme which can be amended.

There is deficit in the first 3 years following completion of construction. The funding of this deficit needs to be found from internal Council resources.

The early marketing and appointment of a conference/café operator will ensure that the internal design of the building meets users' needs.

Other options considered

Do nothing – the site has been left undeveloped for over 12 years. The site is identified as having strategic importance in supporting the research and develop in the science sector and is part of the D2N2 Enterprise Zone.

Private sector delivery - The private sector by itself will not deliver multi-let workspace as it would not be commercially attractive. A traditional development appraisal demonstrates that the rental levels that could be achieved coupled with the investment market's perception of risk (reflected in a high yield) does not result in a viable commercial development. However, it can be demonstrated that there is demand for this space from companies that do want to expand or invest in Nottingham. Therefore, it is evident that there is market failure to provide this type of development.

55 EXCLUSION OF THE PUBLIC

RESOLVED to exclude the public form the meeting during consideration of the remaining items in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

56 NOTTINGHAM SCIENCE PARK - NO.2 BUILDING - EXEMPT APPENDICES

RESOLVED to note the information in the exempt appendices of the report of the Leader/Portfolio Holder for Strategic Infrastructure and Communications.

Reasons for Decision

As detailed in minute 54.

Other options considered

As detailed in minute 54.

57 METRO STRATEGY - CREATING MORE EFFICIENT PUBLIC SERVICES - KEY DECISION

The Board considered the Portfolio Holder for Energy and Sustainability's exempt report.

RESOLVED to approve the recommendations in the report.

Reasons for Decisions

As detailed in the report.

Other options considered

As detailed in the report.

58 SOLAR PHOTOVOLTAIC PROJECT DELIVERY CONTRACT - KEY DECISION

The Board considered the Portfolio Holder for Energy and Sustainability's exempt report.

RESOLVED to approve the recommendations in the report.

Reasons for Decisions

As detailed in the report.

Other options considered

As detailed in the report.

EXECUTIVE BOARD - 19 DECEMBER 2017

Subject:	Treasury Management 2017/18 Half Yearly Update
Corporate Director(s)/Director(s):	Laura Pattman, Strategic Director of Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer Tel: 0115 8764157 Email : theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☒ Yes ☐ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): Throughout the financial year to date

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☒
Schools	☒
Planning and Housing	☒
Community Services	☒
Energy, Sustainability and Customer	☒
Jobs, Growth and Transport	☒
Adults, Health and Community Sector	☒
Children, Early Intervention and Early Years	☒
Leisure and Culture	☒
Resources and Neighbourhood Regeneration	☒

Summary of issues (including benefits to citizens/service users):

This report sets out details of treasury management actions and performance from 1 April 2017 to 30 September 2017. In summary:

- £40m of new long-term borrowing has been undertaken in the period to 30 September 2017;
- The average interest rate payable on the debt portfolio was 3.4% at 30 September 2017;
- no debt rescheduling had been undertaken to 30 September 2017;
- the average return on investments to 30 September 2017 was 0.25% against a benchmark rate of 0.120% (7-day LIBID);
- there has been compliance with Prudential Indicators for 1 April to 30 September 2017;
- a revision to the existing Operational Boundary and the Authorised Limit for external debt within the Prudential Indicators has been proposed and a report will seek Full Council approval on 22 January 2018;

Exempt information: None

Recommendation(s):

1 To note the treasury management actions taken in 2017/18 to 30 September 2017

2 To note and endorse the recommendation to Full Council to approve the revision of the prudential indicators within the 2017/18 Treasury Management Strategy.

1 REASONS FOR RECOMMENDATIONS

1.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated council. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year. The Code also requires that the reports be considered by relevant scrutiny or executive committees, and that the City Council approves any treasury management strategy decisions.

1.2 Additional commercial capital investment is to be undertaken in line with the medium term financial plan (MTFP) which will require the prudential indicators for Operational Boundary and the Authorised Limit for External Debt to be increased to allow for further borrowing to be undertaken.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury management is defined as the management of an organisation's cash flows, borrowings and investments, together with the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. Since 1 April 2004, local authorities have been required to have regard to the Prudential Code. This Code requires treasury management to be carried out in accordance with good professional practice. The Council retains external advisors to support this activity.

2.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2.3 In respect of external investments, the Council is also required to ensure that the Department for Communities and Local Government (DCLG) guidance is followed, with the priorities being, in order:

- security of the invested capital;
- liquidity of the invested capital; and
- commensurate with security and liquidity, an optimum return on those investments.

2.4 The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities is measured. Treasury management risks are identified in the Treasury Management Practices document. The main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and, thereby, in the revenue impacts of loans and investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years);
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

2.5 The increased level of borrowing facilitates the generation of income from commercial activities. The level of government funding is continuing to reduce and including 2017/18 c.£137m of savings have been made in the past 6 years. These non-treasury investments support the increasing requirement for the generation of income from commercial activities including the strategic management of assets. This income generation is subject to a robust business case, and the yield attained has allowed the council to continue to fund services to vulnerable citizens of Nottingham.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 No other options were considered as the report is required by the Treasury Management Code of Practice and the compliance of the Authorised Limit for External Debt is a statutory requirement.

4 TREASURY MANAGEMENT ACTIVITY TO 30 SEPTEMBER 2017

4.1 The Economy and Interest rates during 2017/18

- Growth and Inflation:

After the UK economy surprised with strong growth in 2016, growth in 2017 has been disappointingly weak with quarters 1 & 2 year on year growth of 1.7% & 1.5% respectively which was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. Inflation (CPI) is forecast to peak at 3% in 2017 before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August.

- UK Monetary Policy:

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017 so the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action.
At the MPC meeting on 2nd November 2017 the MPC increased Bank Rate from 0.25% to 0.50% and gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This forward guidance on Bank Rate is in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

- Forecast Interest rates

The Council's treasury advisor, Link Asset Services, has provided the following forecast as at 7 November 2017:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
5yr PWLB rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%
10yr PWLB rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%
25yr PWLB rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
50yr PWLB rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%

Appendix B shows the money market interest rates and the PWLB borrowing rates for the half-year to 30 September 2017.

4.2 Local Context

At 31/03/2017 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,280.5m. The forecast CFR at 31/03/2018 has increased since the original estimate and is now expected to be £1,449.5m due to a number of in-year additional approvals to the capital program including further investment in commercial property.

Table 1 below shows the original and expected financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	**2017/18 Original Estimate £m**	**2017/18 Revised Estimate £m**
Total capital expenditure	**209.091**	**281.091**
Financed by:		
Capital receipts	42.783	25.906
Capital grants & Contributions	51.708	64.969
Internal Funds / Revenue (inc. Major Repairs Reserve)	34.619	57.405
Total financing	**129.11**	**148.28**
Borrowing requirement	**79.981**	**132.811**

Table 2 summarises the Council's outstanding external debt at 30 September 2017 showing the value of debt and the average interest rate payable on the debt:

TABLE 2: DEBT PORTFOLIO (Excluding PFI)				
	01-Apr-17		**30-Sep-17**	
DEBT	**£m**	**%**	**£m**	**%**
PWLB borrowing	623.6	3.7	656.1	3.7
Market loans	49.0	4.3	49.0	4.3
Local bonds & Stock	0.6	3.0	0.6	3.0
Temporary borrowing	115.7	0.3	86.2	0.4
TOTAL DEBT	**788.9**	**3.3**	**791.9**	**3.4**

At 30/09/2017, the Council had £1,014.6m of external borrowing including £222.7m of Private Finance Initiative (PFI) Debt and £28.8m of investments. The Council has continued to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m.

The Council has now utilised the balance sheet including working capital, reserves and provisions to internally finance c.£265m of capital expenditure as at 01 April 2017. When reserve balances are utilised or working capital levels are reduced this will now require further borrowing to be taken to maintain the required liquidity levels.

The level of borrowing as at 30 September remains within the Operational Boundary for external debt, but based on the revised capital program estimates and other expected cash flow requirements up to 31 March 2018, the Operational Boundary and the Authorised Limit for external debt will need to be increased to ensure the council has adequate liquidity to make payments as they fall due.

4.3 Borrowing strategy

At 30/9/2017 the Council has increased the balance of external loans by £3.030m on the 31/3/2017 balance, as part of its strategy for funding previous years' capital programmes. The Council expects to borrow up to a further £252m in 2017/18 based on the revised capital program and forecast cash flow requirements as shown in Table 3 below.

TABLE 3: FORECAST BORROWING REQUIREMENT FOR 6 MONTHS TO 31 MARCH 2018	**£m**
Qtr 2 Revised capital expenditure financed by borrowing	132.8
Qtr 2 Revised capital expenditure financed by reserves and balances	57.4
Further Commercial investments	77.7
Cash flow requirements including maturing debt	29.2
Less actual capital spend financed by borrowing or reserves at Qtr 2	-42.2
Less Increase in total debt at Qtr 2	-3.0
	252.0

The chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. To date short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates. The Council determined it to be more cost effective in the short-term to maintain the use internal resources and borrow short-term loans for some of its borrowing requirement this year. This was a prudent approach and has been cost effective. Given the uncertain economic climate the strategy will require ongoing review and monitoring to ensure the most appropriate approach is applied going forward.

The expected path for the interest rates on new fixed rate long term loans is a very gradual increase over the coming years, but with this time frame there will be some volatility and therefore opportunities to fix new loans at low rates when in periods where the UK Gilt yields fall.

The Council borrowed two tranches of £20m from the Public Works Loans Board (PWLB) on fixed rates of 2.30% & 2.32% respectively, both on a 50 year maturity loan basis to fund capital expenditure and maturing loans. The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

To date a further £50m of fixed rate long term borrowing has been taken since 30 September 2018.

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. In the 6 months to 30 September £231m of such loans were borrowed at an average rate of 0.390% and an average life of 3 months which includes the replacement of maturing loans.

Overall the debt portfolio has seen an increase in fixed rate debt and reduction in the balance of short term loans in 2017/18 meaning the average rate on the debt portfolio has risen slightly, but has reduced the exposure to variable interest rates and has continued to minimising the exposure to credit risk by holding a liquidity balance only of unsecured investments.

4.4 Debt rescheduling

The penalties (premia) for the early repayment of Public Works Loan Board (PWLB) debt, which constitutes over 90% of the Council's existing long-term borrowing, have remained prohibitively high. Therefore, no opportunities for debt rescheduling arose in the first half of 2017/18

4.5 PWLB Certainty Rate and Project Rate Update

The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2016. In April the Council submitted its application to the DCLG along with the 2017/18 Capital Estimates Return to access this reduced rate for a further 12 month period from 01/11/2017.

4.6 Lender's Option Borrower's Options (LOBO) Loans

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

4.7 Housing Revenue Account (HRA) Treasury Management Strategy

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing, and not being replaced, the HRA accumulates an internal borrowing position. The interest payable in 2017/18 is expected to be £12.137m at an average rate of 4.33%. This includes £37.161m of fixed rate internal borrowing maturing 01 October 2044.

4.8 Investments

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

It has continued to be a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates were very low and in line with the 0.25% Bank Rate in the first half of the year.

The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £28.8m of investments as at 30 September 2017 (£27.0m at 31 March 2017) and the investment portfolio yield for the first 6 months of the year is 0.25% against a benchmark (Average 7-day LIBID as shown in Appendix B) of 0.120%.

As the Council has maintained a reduced level of investments it remains insulated from the low interest rates on short-dated money market instruments. The relatively low investment balance is a reflection of the overall strategy to reduce credit risk exposure by reducing investment balances to fund the capital programme and the repaying of maturing debt.

Appendix A provides details of the Council's external investments at 30 September 2017, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.

Table 3 below summarises investment activity in 2017/18.

TABLE 3 - Investment Activity in 2017/18

Investments	Balance on 01/04/2017 £m	Balance on 30/09/2017 £m	Avg Rate/Yield (%) Avg days to maturity
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	 5.0 10.0	 10.0 10.0	 0.32% / 32 0.22% / 2
Long term Investments	0.0	0.0	N/A
Money Market Funds	12.0	8.8	0.21% / 1
TOTAL INVESTMENTS *	**27.0**	**28.8**	**0.25% / 12**
- Increase/ (Decrease) in Investments £m		1.8	

Note: * excludes remaining balance held in Icelandic ISK Escrow account

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2017/18.

The Council's budgeted investment return for 2017/18 is £0.120m, and performance for the year to date is £0.013m below budget, but the full year outturn is expected to be slightly above budget at £0.125m as the short term money market interest rates are forecast to increase in the second half of 2017/18.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

4.9 Icelandic Bank deposits – update

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) of this sum had been paid in ISK and due to currency restrictions in Iceland, this sum had been retained in an interest-bearing account with the Central Bank of Iceland. On 27 June 2017 the Council received £3.2m as proceeds from the sale of the restricted ISK balance including accrued interest as the Central Bank of Iceland starts to remove the currency controls and normalise their economy.

The council has now received 100% of the principal balance deposited with Glitnir Bank.

4.10 Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2017/18 set on 6 March 2017 as part of the Council's Treasury Management Strategy Statement.

The Council measures and manages its exposures to treasury management risks using the following additional indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The limits on net fixed and variable rate interest rate exposures are:

	2017/18 £m	2018/19 £m	2019/20 £m
Upper limit on fixed interest rate exposure	900	900	900
Actual	622		
Upper limit on variable interest rate exposure	300	300	300
Actual	142		

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	12%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	25%	12%
5 years and within 10 years	0%	50%	16%
10 years and within 25 years	0%	50%	23%
25 years and within 40 years	0%	25%	21%
40 years and above	0%	75%	11%

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18 £m	2018/19 £m	2019/20 £m
Limit on principal invested beyond year end	20	20	20
Actual	0		

4.11 Changes to the Prudential Indicators for the Operational Boundary and the Authorised Limit for External Debt

Operational Boundary and Authorised Limit for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.
The table below shows the revised forecast debt position for 2017/18.

	2017/18 Original Estimate £m	**Current Position £m**	**2017/18 Revised Estimate £m**
Borrowing	831.5	791.9	1043.9
Other long term liabilities*	215.8	222.7	215.8
Total debt (year end position)	**1047.3**	**1014.6**	**1259.7**
Operational Boundary for external debt	**1107.2**	**1107.2**	**1275.0**
Authorised limit for external debt	**1147.2**	**1147.2**	**1300.0**

** On balance sheet PFI schemes and finance leases etc.*

The increase in estimated level of borrowing required by year end in 2017/18 since the original estimate is due to additional approvals within the capital program including further capital investment in commercial properties.

The additional capital expenditure will have been subject to an affordability assessment as part of the business case approval from the Section 151 Officer. The revision to these limits requires Full Council approval as part of an amendment to the 2017/18 Treasury Strategy.

4.12 Adoption of the CIPFA Treasury Management Code

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

4.13 Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to councilors to give a high level summary of the overall capital strategy and to enable councilors to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to councilors when the new codes have been agreed and issued and on the likely impact on this authority.

4.14 MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

4.15 Risk Management

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is prepared for the treasury function.

The treasury management risk register's overall risk rating at 30 September 2017 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 31 March 2017. The Treasury Management working group continue to manage this risk and take appropriate actions as required.

5 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

5.1 Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £46.837m for 2017/18.

5.2 An estimated outturn for 2017/18 is included in the quarter 2 revenue monitoring report on the 19 December 2017 Executive Board agenda. The budget for 2018/19 will be submitted with the 2018/19 treasury management strategy, in February 2018.

6 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 Not applicable.

7 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

7.1 Not applicable.

8 SOCIAL VALUE CONSIDERATIONS

8.1 Not applicable.

9 REGARD TO THE NHS CONSTITUTION

9.1 Not applicable.

10 EQUALITY IMPACT ASSESSMENT (EIA)

10.1 Has the equality impact of the proposals in this report been assessed?

No ☒
An EIA is not required because:
It is deemed outside the scope for the equality impact assessment.

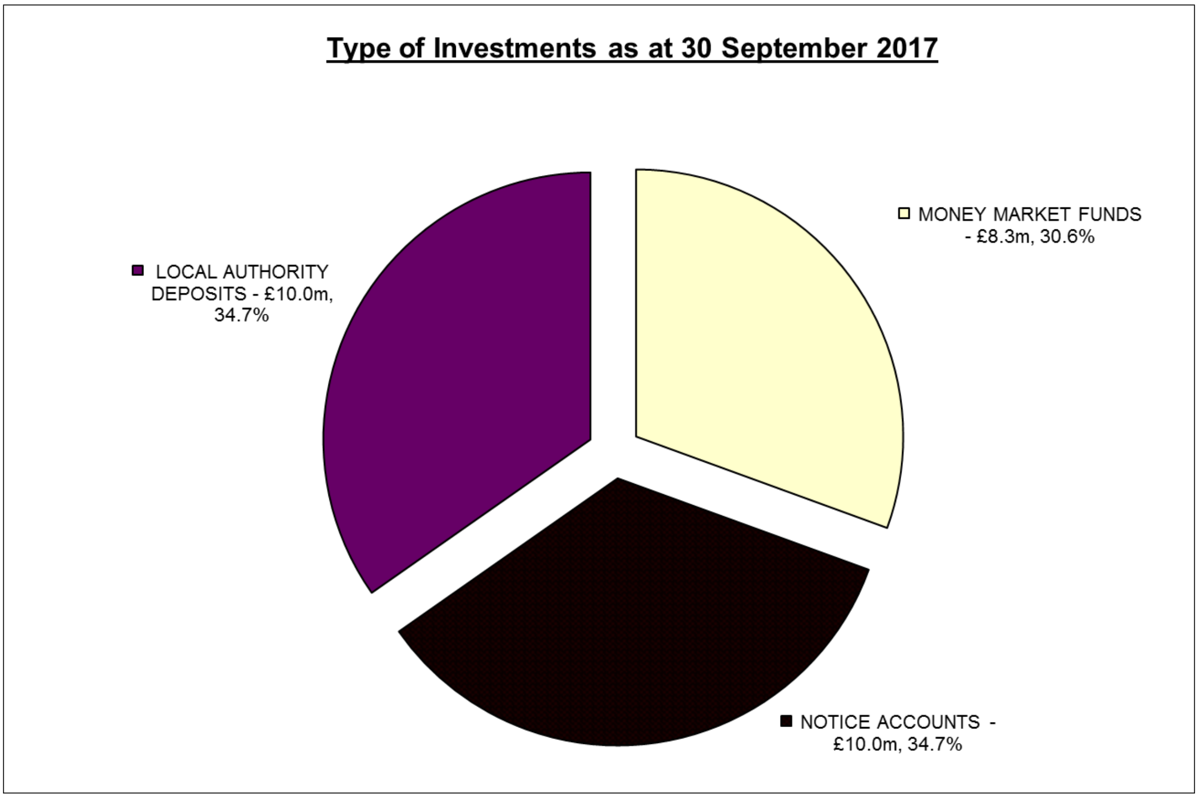
11 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

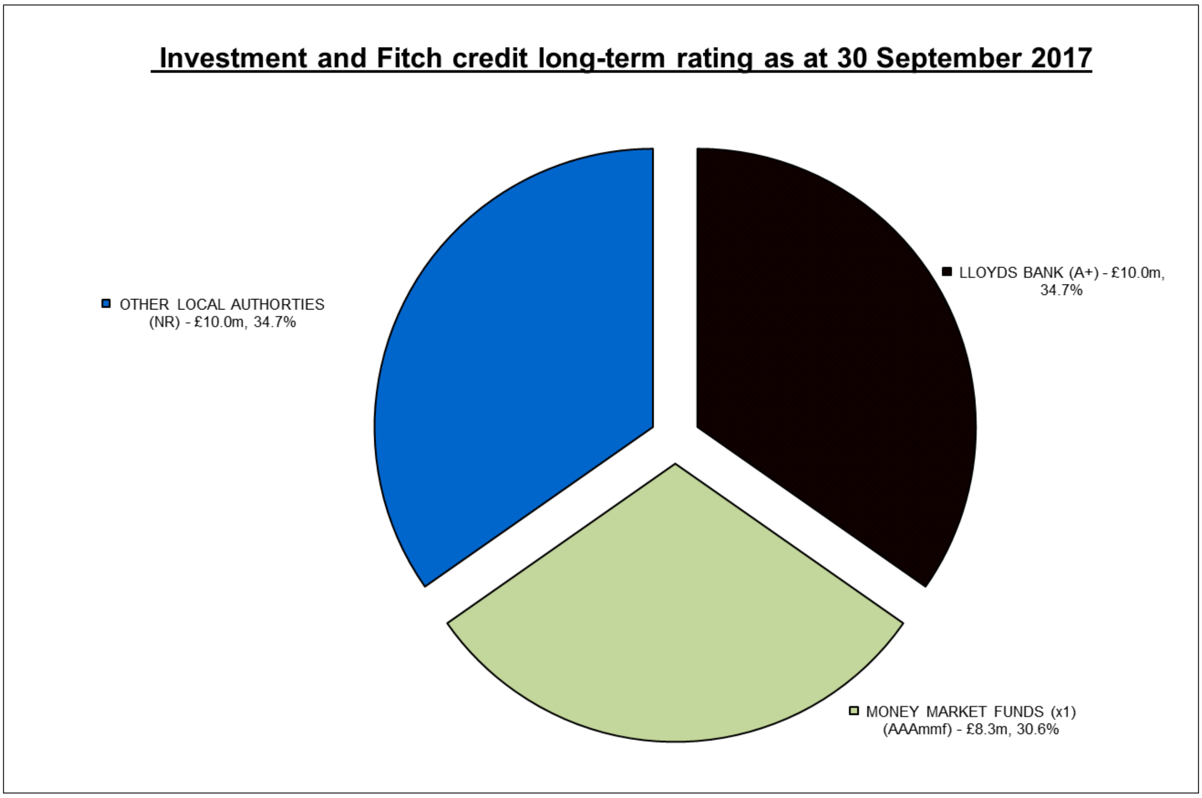
11.1 None

12 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

12.1 Treasury Management in the Public Services Code of Practice 2011–CIPFA
12.2 Money Market and PWLB loan rates

The charts below provide details of the Council's external investments at 30 September 2017, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.



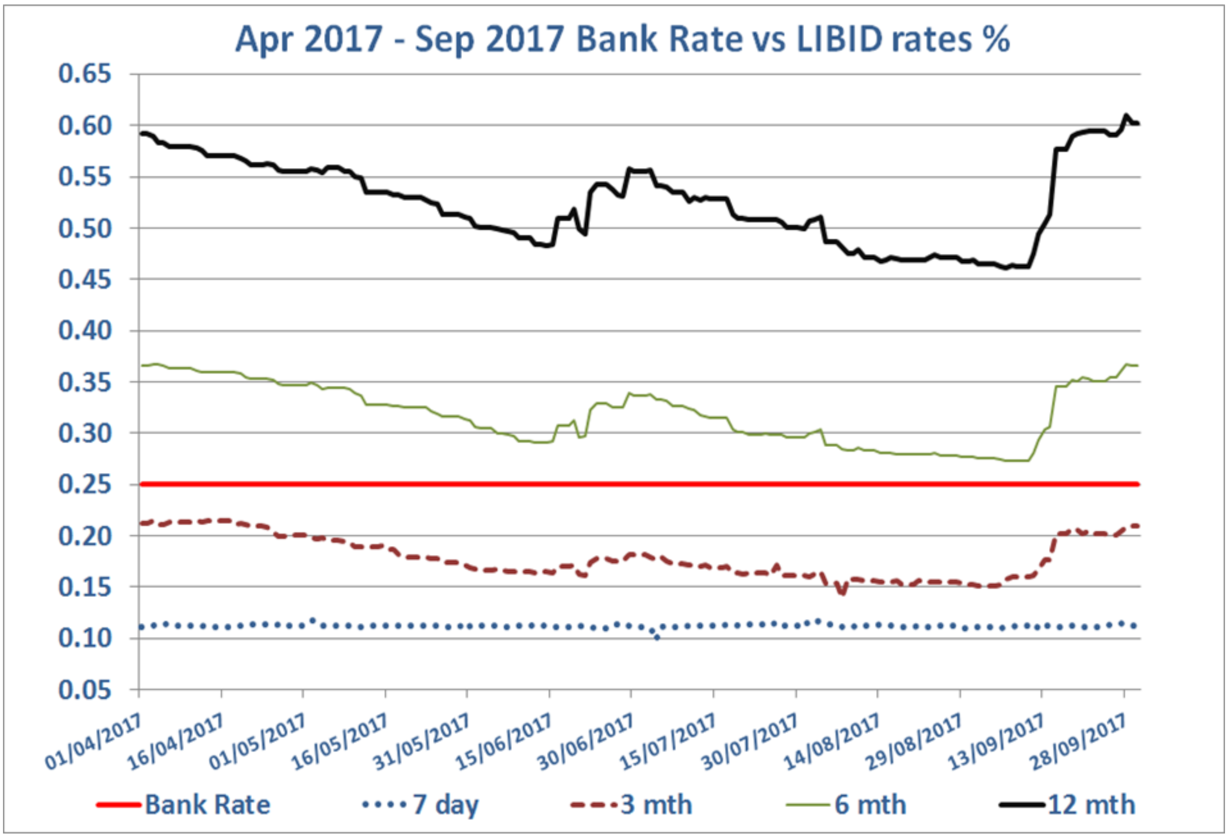


<u>APPENDIX B</u>

Money Market Data and PWLB Rates

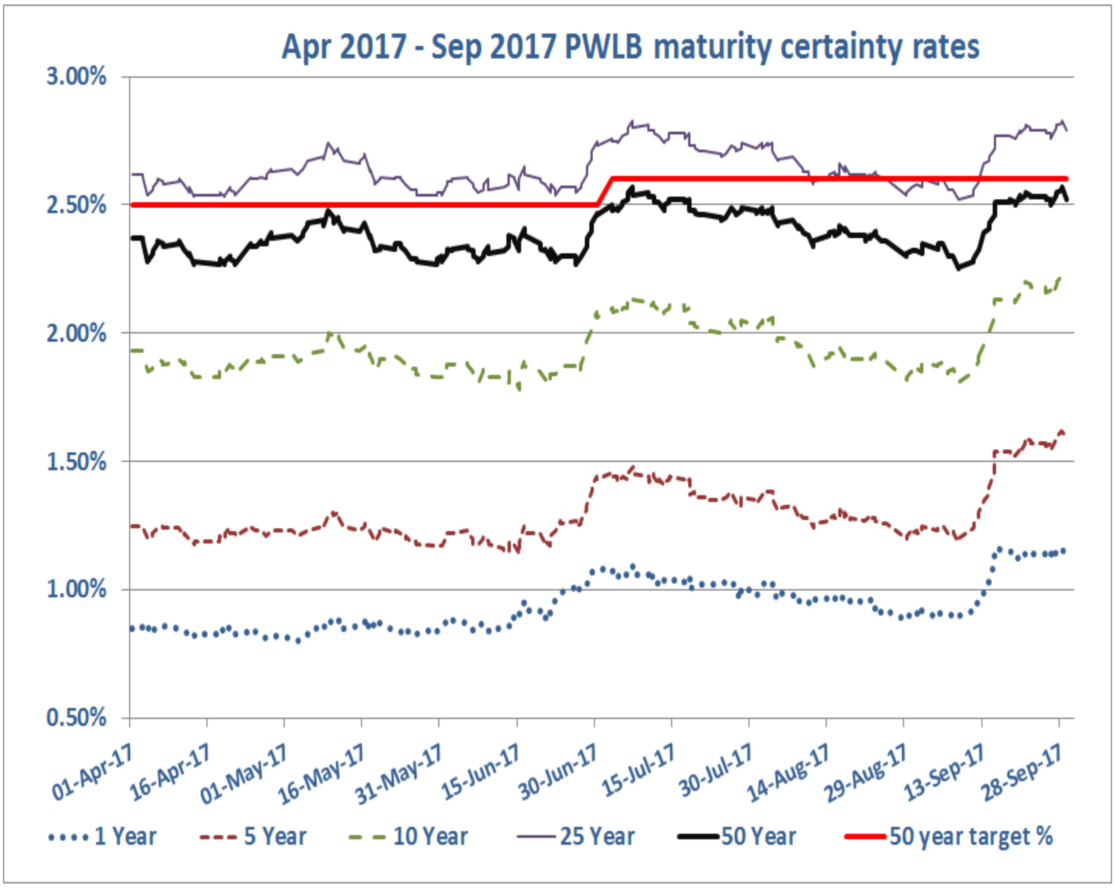
The table and graph below shows the UK Bank of England Bank Rate and LIBID benchmark rates within the short term money markets for the last 6 months.

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.12	0.13	0.21	0.37	0.61
High Date	01/04/2017	02/08/2017	19/04/2017	11/04/2017	28/09/2017	28/09/2017
Low	0.25	0.10	0.12	0.14	0.27	0.46
Low Date	01/04/2017	04/07/2017	10/08/2017	07/08/2017	07/09/2017	06/09/2017
Average	0.25	0.11	0.13	0.18	0.32	0.53
Spread	0.00	0.02	0.01	0.08	0.09	0.15



The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30 September 2017



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

EXECUTIVE BOARD – 19 DECEMBER 2017

Subject:	Review of 2017/18 Revenue and Capital Budgets at 30 September 2017 (Quarter 2)
Corporate Director(s)/Director(s):	Laura Pattman, Strategic Director for Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Theresa Channell, Head of Strategic Finance 0115 8763649 theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☒ Yes ☐ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☐ Yes ☐ No

Type of expenditure: ☒ Revenue ☒ Capital

Total value of the decision: £11.658m

Wards affected: All

Date of consultation with Portfolio Holder(s): Throughout July – September 2017

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☒
Schools	☒
Planning and Housing	☒
Community Services	☒
Energy, Sustainability and Customer	☒
Jobs, Growth and Transport	☒
Adults, Health and Community Sector	☒
Children, Early Intervention and Early Years	☒
Leisure and Culture	☒
Resources and Neighbourhood Regeneration	☒

Summary of issues (including benefits to citizens/service users):

This report provides an up to date assessment of the Council's current and forecast year-end financial position for the General Fund revenue account, Capital Programme and the Housing Revenue Account (HRA) based on activity to the end of September 2017.

Strong financial planning and management are essential in the Council's work to commission, enable and provide value for money services to citizens to deliver corporate priorities.

Exempt information: State 'None' or complete the following

None.

Recommendation(s):

1 To note:

a) the overall current (medium case) forecast net overspend of **£2.700m**, as set out in paragraph 2.2 and Appendix A. Planned management action is forecast to reduce the overspend to **£0.700m** although the Council is committed to delivering services on budget for 2017/18;

b) the management action being taken to control the identified cost pressures across services, as set out in Appendix B;

c) the forecast working balance of **£4.694m** on the HRA, as set out in paragraph 2.8;

d) the forecast position on the Capital Programme, as set out in paragraph 2.10;

e) the Capital Programme projections at Quarter 2, as set out in paragraph 2.10 (table 7);

f) the additions to the Capital Programme listed in Appendix E;

	g) the refreshed Capital Programme, including schemes in development, as set out in paragraph 2.10 (tables 8, 9 and 10).
2	To approve: a) The movements of resources set out in paragraph 2.7 and Appendix D.
3	To note and endorse the allocations from the corporate contingency as set out in paragraph 2.5.

1 REASONS FOR RECOMMENDATIONS

1.1 It enables formal monitoring of progress against the 2017/18 budget and the impact of actual and planned management action.

1.2 The approval for virements of budgets is required by corporate financial procedures.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 The 2017/18 revenue budget was approved by City Council in March 2017. This periodic report summarises the current assessment of the Council's forecast outturn of the General Fund and HRA. Some report tables may not sum exactly due to rounding.

2.2 Forecasting is risk-based, reflecting the diverse nature of the Council's activities and the wide range of issues impacting on the financial position. Table 1 shows the current forecast using best, medium and worst case scenarios and is based on the ledger position as at 30 September 2017 updated for known factors, before management action.

In accordance with the trading account principles set out in the Medium Term Financial Strategy, 50% of traded surplus may be retained for reinvestment in the service. The decision to reserve these surpluses is to be taken in the context of the overall corporate outturn position. Given the current size and scale of the financial overspend, no traded surplus retention is planned in 2017/18.

A range of management actions have been undertaken to mitigate corporate overspends in year. The expected impact of these actions have been reflected in the projected outturn within portfolios.

These are:

- **£4.000m** consisting of service efficiencies from:
    - Collaborative service delivery with partners **£1.500m**
    - Efficiencies from reviews and commissioned activities **£2.500m**
- **£3.000m** from departmental mitigations, consisting of a vacancy freeze, further encouragement of My Time, discretionary spend and developing budget proposals for 2018/19 in the current year
- **£7.700m** of corporate mitigation

The **£7.700m** of corporate mitigation consists of the items shown in table 1 below:

TABLE 1: CORPORATE MITIGATION	
Issue	**2017/18 £m**
Reduce General Fund Balance	(2.000)
Reduce revenue contribution – to capital programme	(1.150)
Reduced contingency budget for 2017/18	(0.650)
Capital Programme slippage/Treasury Management	(0.550)
Review of earmarked reserves	(3.350)
Corporate Mitigation *(one-off)*	**(7.700)**

Appendix A provides more detail and Appendix B explains the main variances.

TABLE 2: FORECAST OUTTURN VARIANCE AS AT 30.09.17				
OUTTURN VARIANCE 2016/17 £m	**PORTFOLIO**	**(UNDER) / OVER SPEND**		
		BEST £m	**MEDIUM £m**	**WORST £m**
0.367	Adults and Health	(0.433)	(0.385)	1.455
1.712	Business, Education and Skills	(0.149)	(0.149)	(0.149)
(0.549)	Community and Customer Services	(0.056)	(0.056)	0.234
2.750	Early Intervention and Early Years	1.580	1.580	1.869
(0.806)	Energy and Sustainability	(0.607)	(0.607)	(0.607)
(0.608)	Leisure and Culture	(0.158)	(0.158)	(0.158)
0.122	Planning, Housing and Heritage	0.824	0.824	0.824
(0.719)	Neighbourhood Services and Local Transport	(1.487)	(1.487)	(1.487)
(0.333)	Resources and Neighbourhood Regeneration	(0.399)	(0.399)	0.444
0.583	Strategic Infrastructure and Communications	0.125	0.125	0.716
2.518	**TOTAL PORTFOLIOS**	**(0.759)**	**(0.711)**	**3.142**
(1.337)	Corporate budgets	0.000	0.000	0.000
	Health Integration	10.111	10.111	10.111
1.181	**PRIOR TO CORPORATE MITIGATION**	**9.352**	**9.400**	**13.253**
	Corporate Mitigation	(7.700)	(7.700)	(7.700)
	Repay 2016/17 outturn	1.000	1.000	1.000
	NET COUNCIL POSITION PRIOR TO FURTHER MANAGEMENT ACTION	**2.652**	**2.700**	**6.553**
	Change – best to medium (net Council position)	**0.048**		
	Change – medium to worst (net Council position)		**3.853**	

2.3 **Management Action**

There is a further **£2.000m** of Public Health savings in quarter 2, which reduces the quarter 2 forecast, overspend to **£0.700m**; however, the Council is committed to delivering services on budget for 2017/18.

TABLE 3: ADDITIONAL MANAGEMENT ACTION TO MITIGATE FORECAST OVERSPEND	
ITEM	**MEDIUM £m**
Net Council Position	**2.700**
Public Health	(2.000)
Revised Medium Case Council	**0.700**

Reasons for the overspend include:

- **£10.111m Health Integration**
    - Nationally councils are working with the NHS to develop local Sustainability and Transformation Plans (STP) in recognition of the national Adult Social Care issue and the budgetary pressures. The overall aims are to enable the NHS to manage its budget and keep citizens at home, living independently rather than spending time in hospital.
    - The MTFP assumed that the STP is fully agreed with a contribution of **£10.111m** planned in 2017/18, however discussions have not progressed to a stage that gives confidence that this will be delivered in 2017/18.

2.4 **General Reserves**

These provide a financial safety net to cover above-budget costs during the year. Variations in forecast outturn will impact on general reserves. Underspends increase reserves and overspends decrease them. Table 2 shows the potential impact of the current medium case forecast variance on the general reserve.

TABLE 4: POTENTIAL IMPACT ON THE GENERAL RESERVE	
ITEM	**£m**
Opening Balance at 01.04.17	**11.600**
2016/17 Outturn – impact of overspend	(2.522)
Revised Opening Balance	**9.078**
Repay 2016/17 Outturn – from earmarked reserves	2.522
Reduction in GF Balance – Corporate Mitigation	(2.000)
Revised Balance	**9.600**
Possible impact of 2017/18 overspend	(2.700)
Estimated Reserves at 31.03.18 (medium case)	**6.900**

The minimum level of opening reserves for 2017/18 was set at **£11.600m**; as a consequence of the risk around Health Integration. As a result of Health Integration being removed through mitigation, the required level of reserves is now **£9.600m**. The impact of the outturn for 2016/17 as reported to Executive Board June 2017 was a reduction in the general fund balance of **£2.522m**. If general reserves fall below the minimum defined level, the shortfall has to be replenished when setting the budget for the following year. Mitigating actions need to be implemented, and have effect, to ensure the minimum level of reserves is maintained. The recommended minimum level for next year will be advised by the Strategic Director of Finance (SDF) based on the prevailing risk assessment of the financial position at that time. For example, if this assessment remains at **£9.600m**, further savings of **£2.700m** would be required in 2018/19 to repay the potential overspend of 2017/18. This position is not sustainable and therefore management action is required for the remainder of this financial year to address the forecast overspend.

2.5 **Corporate Contingency**
This enables management of the financial impact of issues that were not reflected when the budget was set. It is allocated under the delegated authority of the SDF in consultation with the Deputy Leader using designated criteria. Services are required to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets, only seeking allocations where this is proven impossible. Contingency is **£1.800m** in 2017/18; this has been reduced in 2017/18 by **£0.650m** to support the corporate mitigation. Table 5 shows the allocations approved by the SDF and Deputy Leader since the September report, which now require endorsement.

TABLE 5: CONTINGENCY ALLOCATIONS REQUIRING ENDORSEMENT	
Item	**Amount £m**
European City of Culture	0.050
PTA Eastside	0.175
TOTAL	**0.225**

This leaves a remaining balance of **£0.477m**, although there are further pending applications, which will be reported as part of the next monitoring report. Forecast outturn assumes full use of contingency.

2.6 **Cost reductions and pressures**
The 2017/18 budget includes new cost reductions of **£13.088m.** Any issues affecting the delivery of these are detailed in Appendix B.

2.7 **Movement of Resources**
Transfers of services between directorates and/or portfolios are reflected within the monitoring figures. These movements of resources now require approval and are detailed in Appendix D.

2.8 **HRA Budget**
The HRA budget was approved by the City Council at the February 2017 meeting and budgeted for a working balance of **£4.000m** brought forward at 31 March 2017 and closing balance of **£4.694m** at 31 March 2018. The working balance acts as a contingency to cover unexpected significant expenditure or loss of income. The surplus of **£0.694m** is earmarked to support the capital programme.

Rent Income: Increase of £0.410m
The level of rent collected is higher due to Right to Buy sales being lower in 2016/17 than budgeted leading to a higher actual rent receipt than budget in 2016/17 which was carried into 2017/18.

Depreciation: Increase of £0.289m
Increase in the depreciation charge following the revaluation of the stock at 31 March 2017.

Capital Charges: Decrease of £0.178m
Lower level of debt forecast for 2017/18 due to a delay in borrowing to finance the new build programme.

Retained Housing: Decrease of £0.395m
Realignment of budget to match current anticipated expenditure.

The table below shows the revised working balance at 31 March 2018**.**

TABLE 6: HOUSING REVENUE ACCOUNT WORKING BALANCE	
	£m
Estimated balance at 31 March 2018	**4.000**
Rent income – additional	0.410
Depreciation	(0.289)
Capital Charges	0.178
Retained Housing – budget realignment	0.395
Revised working balance at 31 March 2018	**4.694**

2.9 **Debtors Monitoring (Appendix C)**

Housing Rents
The end of quarter two saw an improvement in performance, both on the position at the end of quarter one and on the same point last year. The overall arrears level at the end of quarter two was **£0.38m** below this point last year; therefore, the trend is for an increase in collection rates. The "Rent First" campaign continues with a two-week programme of activities at the end of October intended to raise awareness of the importance of paying rent. This will lead up to the issuing of the Responsible Tenant Reward in November for those tenants who have maintained regular rent payments (and met the other requirements for the granting of the award).

Council Tax – on track to deliver the assumed position in the MTFP
Collection for Quarter 2 of 2017/18 was 50.96%, which is 0.66% above the profiled target of 50.3%, and ahead by 0.02% when compared to 2016/17. Collection amounted to **£64m** compared to collection of **£60.2m** in 2016/17.

National Non- Domestic Rates (NNDR) – on track to deliver the assumed position in the MTFP
Collection for Quarter 2 of 2017/18 was 56.11%, which was 0.61% below the profiled target for 2017/18. Collection amounted to **£78.9m**, compared to collection of **£75.1m** in 2016/17. Net debt collectable over the year has increased from **£134.8m** in 2016/17 to **£140.6m** in 2017/18.

Sundry Income
The percentage of debts collected within 90 days in the 12 months to September 2017 was 81.20%, which compares favourably to the corresponding figure for 2016/17 of 77.30%.

The debtor day indicator (which shows how quickly debts are recovered) is currently 34 days, behind the target of 32.30 days. Management action continues to target the application of receipts and the 90 day collection percentage should maintain an improvement over future periods.

Adult Residential Services
The Q2 actual figure is 1.65% below target. As with Q1, the largest outstanding amounts in the collection rate periods are those cases that are awaiting Court of Protection because of Citizens who lack mental capacity (no

legal recourse to access funds until obtained), and those cases that have been referred on for legal action.

Estates Rents
The collection rate of 94.93% is below the set target of 97.50% but individual periods within the quarter have shown a sustained improvement. Management action is required to deliver an improved position across future periods.

2.10 **Capital Programme Update**
The quarter 1 report approved an updated overall Capital Programme for 2017/18 of **£111.515m** for the General Fund and **£65.884m** for Public Sector Housing. During quarter 2 schemes to the value of **£34.933** have been approved while slippage and other movements of approved schemes equates to **£8.526**.

TABLE 7: REVISED CAPITAL PROGRAMME AND ACTUAL SPEND FOR QUARTER 2

PORTFOLIO	Forecasted Spend £m	New Approvals £m	Slippage / Reprofiling £m	Projected Outturn at Qtr2 £m	Actual Spend to Qtr2 £m
Public Sector Housing	65.884	2.167	(8.022)	**60.029**	18.251
Transport Scheme	21.025	0.260	2.106	**23.391**	5.276
Education / Schools	10.085	0.570	(0.716)	**9.939**	2.864
All Other Services	80.405	31.936	(1.894)	**110.447**	35.931
TOTAL	**177.399**	**34.933**	**(8.526)**	**203.806**	**62.323**

Approvals in Quarter 2
Scheme amendments and additions of **£34.933m** have been approved in quarter 2 where the capital spend is expected to be incurred in 2017/18. Details of approvals over the value of £1.000m in 2017/18 are listed below:

- **£29.002m** Investment Property Acquisitions: These property purchases are to be funded by Prudential Borrowing. Investment Property Acquisitions are expected to result in increased income to the Chamber Estate investment portfolio to meet MTFP targets.
- **£2.167m** Public Sector new build schemes, total value of the decision **£5.863m** (**£2.167m** to be spent in 17/18 and **£3.696m** in 18/19). This new build scheme is to be funded from a mixture of 1-4-1 Capital Receipts and other Public Sector Housing resources.

Further details of all quarter 2 approvals are provided in Appendix E.

Other Movements (Slippage / Reprofiling)
Scheme movements (slippages / reprofiling) in 2017/18 during quarter 2 is **£8.526m**. Schemes where slippage is over £0.500m are detailed below in **Table 8.**

TABLE 8: QUARTER 2 OTHER MOVEMENTS			
Scheme	**2017/18 Scheme Forecast at Qtr1 £m**	**2017/18 Scheme Forecast at Qtr2 £m**	**Movement £m**
Adults, Health & Community Sector			
Laura Chambers Lodge Refurbishment	2.701	0.000	(2.701)
Adults, Health & Community Sector - TOTAL	**2.701**	**0.000**	**(2.701)**
Leisure & Culture			
Nottingham Castle Transformation (HLF Scheme)	1.560	0.000	(1.560)
ERDF Axis 6 - Daybrook Park	0.830	0.160	(0.670)
ERDF Axis 6 - Leen Park	0.850	0.140	(0.710)
Leisure & Culture - TOTAL	**3.240**	**0.300**	**(2.940)**
Resources and Neighbourhood Regeneration			
IT - Service Improvement Prog - Server 2003	0.852	0.000	(0.852)
Resources and Neighbourhood Regeneration - TOTAL	**0.852**	**0.000**	**(0.852)**
Public Sector Housing Programme			
No Fines/ Solid Wall Insulation Schemes	7.306	5.823	(1.483)
PV Installation Programme	5.627	0.000	(5.627)
Public Sector Housing Programme- TOTAL	**12.933**	**5.823**	**(7.110)**
Other movements			5.077
Scheme Movements at Quarter 2 - General Fund TOTAL			**(8.526)**

Public Sector Housing (HRA) Capital Programme
The Public Sector Housing Programme has been updated to reflect movements in quarter 2, the **Table 9** below sets out the updated programme and resources.

TABLE 9: PUBLIC SECTOR HOUSING – CAPITAL PROGRAMME AND RESOURCES						
PORTFOLIO	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**Total £m**
Public Sector Housing Programme	**60.029**	**53.473**	**35.890**	**33.477**	**32.366**	**215.235**
Resources Available						
Resources b/fwd	35.993					35.993
Prudential Borrowing	0.000	0.000	8.107	4.801	7.551	20.459
Grants and Contributions	3.721	2.191	2.000	0.000	0.000	7.912
Major Repairs Allowance	27.166	26.759	26.568	26.408	26.248	133.149
Internal Funds / Revenue	4.913	0.877	0.000	0.000	0.000	5.790
Capital Receipts (RTB)	0.000	0.000	0.000	0.000	0.000	0.000
Capital Receipts (Other)	0.925	0.840	0.200	0.200	0.200	2.365
Capital Receipts (RTB 1-4-1)	4.652	4.916	0.000	0.000	0.000	9.568
Total Resources	**77.369**	**35.582**	**36.875**	**31.409**	**33.999**	**215.235**
Cumulative (Surplus)/Shortfall	**(17.340)**	**0.551**	**(0.434)**	**1.634**	**0.000**	**0.000**

General Fund Capital Programme

The General Fund Programme has been updated to reflect the movements in quarter 2. **Table 10** below sets out the updated programme.

TABLE 10: GENERAL FUND – CAPITAL PROGRAMME AND RESOURCES						
PORTFOLIO	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**Total £m**
Programme						
Transport Schemes	23.391	7.997	6.945	0.000	0.000	38.333
Education / Schools	9.939	0.000	0.000	0.000	0.000	9.939
Other Services	110.447	45.609	36.182	19.242	12.174	223.654
Schemes in Development	77.285	86.502	17.496	0.000	0.000	181.283
Total Programme	**221.062**	**140.108**	**60.623**	**19.242**	**12.174**	**453.209**
Resources Available						
Prudential Borrowing	132.811	95.837	31.758	13.683	5.282	279.371
Grants and Contributions	61.249	35.330	19.926	3.686	3.878	124.069
Internal Funds / Revenue	20.446	2.233	5.081	0.155	0.001	27.916
Capital Receipts Secured	1.806	0.000	0.000	0.000	0.000	1.806
Capital Receipts Unsecured	5.158	7.178	3.500	3.500	3.500	22.836
Total Resources	**221.470**	**140.578**	**60.265**	**21.024**	**12.661**	**455.998**
Cumulative (Surplus)/Shortfall	**(0.408)**	**(0.878)**	**(0.520)**	**(2.302)**	**(2.789)**	**(2.789)**

The surplus identified within **Table 10** is earmarked for funding potential resourcing shortfalls within Schemes in Development.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 No other options were considered as the Council is required to ensure that, at a corporate level, expenditure and income are kept within approved budget levels and this report sets out how this is being managed.

4 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

4.1 Financial implications appear throughout the report.

4.2 The financial plans and budgets support delivery of the Council Plan. Monitoring the financial position in parallel with service plan activity helps to ensure the delivery of corporate priorities. The Council has developed a robust approach to providing value for money and efficiency savings to support the delivery of the Council Plan and the Medium Term Financial Strategy.

5 RISK MANAGEMENT COLLEAGUE COMMENTS

5.1 Continuous review and management of the budget and associated performance issues mitigate the risk of not achieving corporate priorities.

5.2 Enhanced monitoring is being undertaken by the management team to focus attention on accountability of budget managers to control expectation within approved budgets.

5.3 The five year proposed programme is ambitious and will require the Council to use much of its available resources. Substantial investment of this nature will result in the Council being exposed to additional risks as follows: a significant increase in the authority's borrowing over the next five years;

- exposure to interest rate changes; a 0.5% increase in interest rates will increase the cost of borrowing by c£0.693m per annum;
- major schemes have a long payback period which will require the use of reserves in the early years to fund short term deficits in business plans;
- the cost of feasibility studies are all undertaken at risk;
- schemes may not cover their costs or make the desired return.

5.4 In order to manage these risks the following key principles will be adopted in managing the programme:

- new projects (unable to cover their costs) added to the programme, will result in an existing project being removed or amended;
- all projects must have a robust and viable full business case, which considers and includes whole life costing and revenue implications;
- all schemes will be subject to robust and deliverable business plans and models which demonstrate the necessary return on investment required;
- the decision to progress schemes will be dependent on securing the stated level of external funding or grant as appropriate;
- new projects will be considered where the Council can make a return on investment;
- where new sources of external funding/grants become available, the programme will be revisited;
- all schemes will be subject to an independent internal 'Gateway review process'.

5.5 The City Council recognises the importance of individual and collective accountability and requires managers to formally acknowledge their responsibilities. Financial management is an integral aspect of effective leadership and good management, relevant councillors and managers are required to participate fully in all aspects of capital investment plans.

5.6 Corporate Directors will be accountable for the success and deliverability of all capital projects within their remit; including:

- ownership of business cases and any subsequent changes to them;
- ensuring that capital projects are delivered in line with agreed targets and resources;
- the successful outcome and benefits realisation of capital projects.

6 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

6.1 None.

7 SOCIAL VALUE CONSIDERATIONS

7.1 None.

8 REGARD TO THE NHS CONSTITUTION

8.1 None.

9 EQUALITY IMPACT ASSESSMENT (EIA)

9.1 Has the equality impact of the proposals in this report been assessed?

No ☒
An EIA is not required because:
The report does not contain proposals for new or changing policies, services or functions.

Yes ☐

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 Medium Term Financial Plan 2017/18 – 2019/20 - Executive Board 21 February 2017

12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

12.1 Charlotte Marsh – Senior Accountant (Current Year Monitoring & Forecasting)
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BUDGET MONITORING 2017/18 - Year to Period 6 (SEPTEMBER) £'m **APPENDIX A**

	POSITION TO THE END OF PERIOD 6 (SEPTEMBER)			YEAR END FORECAST POSITION					
Portfolio	**Updated Estimate**	**Actual + Commitments**	**Variance**	**Estimated Outturn (BEST CASE)**	**Estimated Outturn (MEDIUM CASE)**	**Estimated Outturn (WORST CASE)**	**Variance (under)/ over to BEST CASE**	**Variance (under)/ over to MEDIUM CASE**	**Variance (under)/ over to WORST CASE**
Adults and Health	105.453	65.438	(40.015)	105.021	105.069	106.909	(0.433)	(0.385)	1.455
Business, Education & Skills	4.326	(5.394)	(9.720)	4.177	4.177	4.177	(0.149)	(0.149)	(0.149)
Community & Customer Services	23.243	12.477	(10.765)	23.187	23.187	23.477	(0.056)	(0.056)	0.234
Early Intervention & Early Years	53.354	27.242	(26.112)	54.934	54.934	55.223	1.580	1.580	1.869
Energy & Sustainability	13.069	5.565	(7.504)	12.462	12.462	12.462	(0.607)	(0.607)	(0.607)
Leisure & Culture	8.438	(2.399)	(10.836)	8.280	8.280	8.280	(0.158)	(0.158)	(0.158)
Planning, Housing & Heritage	1.329	(0.994)	(2.323)	2.153	2.153	2.153	0.824	0.824	0.824
Neighbourhood Services & Local Transport	10.316	12.313	1.997	8.829	8.829	8.829	(1.487)	(1.487)	(1.487)
Resources & Neighbourhood Regeneration	24.069	16.656	(7.412)	23.670	23.670	24.513	(0.399)	(0.399)	0.444
Strategic Infrastructure and Communications	(13.882)	(2.724)	11.158	(13.757)	(13.757)	(13.167)	0.125	0.125	0.716
Total Portfolios	**229.715**	**128.181**	**(101.534)**	**228.956**	**229.004**	**232.857**	**(0.759)**	**(0.711)**	**3.142**
Corporate Budgets	20.463	(20.786)	(41.249)	20.463	20.463	20.463	0.000	0.000	0.000
Health Integration	(17.334)	(3.871)	13.463	(7.223)	(7.223)	(7.223)	10.111	10.111	10.111
Corporate Mitigation	5.700	0.000	(5.700)	(2.000)	(2.000)	(2.000)	(7.700)	(7.700)	(7.700)
Repay 2016/17 outturn	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000
Total General Fund	**238.544**	**103.524**	**(135.020)**	**241.196**	**241.244**	**245.097**	**2.652**	**2.700**	**6.553**

Portfolio Variances +/- £50k (medium case)

Adults and Health Portfolio – overall variance £0.385m favourable

Adults £0.048m adverse
Gross position is an overspend of £1.988m due to demography changes; mitigating action being taken is:

- Reducing spend on non statutory activities and
- Delivering savings through transformational activity. Work is continuing to identify further savings.

Contracts - £0.878m favourable
In year contractual savings.

Commissioning & Procurement £0.445m adverse

- Impact of the pressure on Homelessness support required within the City.

Business, Education and Skills Portfolio – overall variance £0.149m favourable

Education £0.149m favourable
Schools Education Transport overspend of £0.358m has been mitigated byin year one of savings. For 2018/19 the impact of this will be mitigated through the development of the Medium Term Financial Plan.

Community and Customer Services Portfolio – overall variance £0.056m favourable

Environmental Health and Safer Housing £0.145m favourable
High level of vacancies due to external recruitment factors.

Early Intervention and Early Years Portfolio – overall variance £1.580m adverse

Children's £1.187m adverse
Gross position is £2.047m over spend as a result of:

- Demography changes.
- The investment profile of the Newly Qualified Social Worker (NQSW) programme and
- Other service overspends

Mitigation is £0.860m of in year savings identified through service delivery and the Big Ticket programme.

Energy and Sustainability Portfolio – overall variance £0.607m favourable

Commercial & Operations are working towards published Business Plans for 2017/18. Overall, Commercial & Operation's strategy is to focus on commercialism and driving external income. A combination of delivery of these business plans sees an overall positive variance.

- **Energy Services - Policy- £0.066m adverse**

- **Energy Services – Projects - £0.150m favourable**
- **Waste Management - £0.337m favourable**

<u>Leisure and Culture Portfolio – overall variance £0.158m favourable</u>

Commercial & Operations are working towards published Business Plans for 2017/18. Overall, Commercial & Operation's strategy is to focus on commercialism and driving external income. A combination of delivery of these business plans sees an overall positive variance.

- **Cemeteries and Crematoria - £0.060m favourable**
- **Museums - £0.080m favourable**
- **Sports and Leisure - £0.204m favourable**
- **Royal Centre - £0.316m favourable**

Markets - £0.247m adverse
INTU have significantly increased the service charges for the Victoria Market repeatedly over recent years and in January 2017, INTU increased them again by a further 9%. This has resulted in the Indoor Market moving from a position whereby stallholder rents covers the costs to one whereby the rents do not meet operating costs. This higher stall rents has resulted in an increased number of vacant stalls

<u>Planning, Housing and Heritage Portfolio – overall variance £0.824m adverse</u>

Homelessness - £0.824m adverse
There has been a nationwide rise in homelessness which has impacted Nottingham and expenditure on Bed and Breakfast accommodation has increased exponentially. The current forecast for the end of year overspend on Bed and Breakfast is £0.824m based on spend to date and the trend of use during last financial year. This forecast assumes the approval of preventative work utilising some of the Homelessness Grant that has been provided from DCLG. There will be monthly monitoring on the spend and impact of this work.

The forecast spend on Bed & Breakfast remains as indicated previously although there has been some variance around trend. We have received a new grant of £0.140m for the current financial year which will be invested in measures which may deliver benefits within the current financial year but it too early to say for sure.

<u>Neighbourhood Services and Local Transport – overall variance £1.487m favourable</u>

Commercial & Operations are working towards published Business Plans for 2017/18. Overall, Commercial & Operation's strategy is to focus on commercialism and driving external income. A combination of delivery of these business plans sees an overall positive variance.

- **Highways and Energy Infrastructure - £0.380m favourable**
- **Street Scene and Grounds Maintenance - £0.292m favourable**
- **Parking, Transport and Fleet - £0.399m favourable**
- **Trading Operations - £0.279m favourable**

Resources and Neighbourhood Regeneration Portfolio – overall variance £0.399m favourable

Commercial & Operations are working towards published Business Plans for 2017/18. Overall, Commercial & Operation's strategy is to focus on commercialism and driving external income. A combination of delivery of these business plans sees an overall positive variance.

- **Facilities and Building Services - £0.107m favourable**
- **Neighbourhood Management - £0.046m favourable**

Strategy & Resources £0.111m adverse
Contractual issues are driving contributing to current overspends; negotiations on going to reduce/resolve.

Strategic Infrastructure and Communications Portfolio – overall variance £0.125m adverse

Communications and Marketing £0.063m adverse
Loss of the print rebate due to the requirements of the new EU Print Procurement.

APPENDIX C

Debtors - Performance Review – Q1 2017/18	Q1 June	Q2 September
BVPI 66a - Housing Rent Collection (%) *(cumulative - current tenants only)*		
(arrears + debit) Actual	97.27	97.96
Target	98.40	98.40
Last Year Actual 2016/17	97.41	97.55
BVPI 9 - Council Tax Collection (%)		
(in year cumulative) Actual	26.35	50.96
Target	25.80	50.30
Last Year Actual 2016/17	26.15	50.94
BVPI 10 - NNDR Collection (%)		
(in year cumulative) Actual	28.17	56.11
Target	28.50	55.50
Last Year Actual 2016/17	29.25	55.72
Sundry Income Collection (%)		
(12 month rolling average) Actual	83.30	81.20
Target	99.00	99.00
Last Year Actual 2016/17	82.40	77.30
Sundry Income Debtor Days -General		
Actual	31.00	34.00
(12 month rolling average) Target	32.30	32.30
Last Year Actual 2016/17	30.00	32.00
Estates Rents Collection (%)		
Actual	95.54	94.93
(12 month rolling average) Target	97.50	97.50
Last Year Actual 2016/17	94.17	95.13
Adult Residential Services Collection (%)		
Actual	95.31	94.25
(12 month rolling average) Target	95.90	95.90
Last Year Actual 2016/17	95.55	96.19

VIREMENT 2017-18 REQUIRING EXECUTIVE BOARD APPROVAL **APPENDIX D**

Details	Net Amount £m	Department		Portfolio	
		From	To	From	To
2017/18 Savings realignment	0.023	within C&O		LCT	NST
	0.003			C&CS	
	0.062			RNR	
Salary realignment	0.046	S&R	CA	C&CS	ADH
	0.025	C&O	S&R	NST	C&CS
	0.050	CA	S&R	ELY	C&CS
	0.029	within C&O		LCT	NST
2017/18 Public Health Re-investment Funding	2.387	within CA		ELY	ADH
	0.557	within S&R		SI&C	RNR
Pay Model Adjustments (Technical)	0.012	Corporate	D&G	RNR	BES
	0.037		CA/S&R		ELY
	0.048		S&R		SI&C
	0.087		S&R		RNR
	0.160		S&R		RNR
Realignment of Devolution Contingency Budget	0.005	S&R	D&G	SI&C	BES
Departmental realignment to support Homelessness pressure	0.024	within D&G		BES	PLNH
	0.056			NST	
	0.032			SI&C	
Operational realignment between Customer Access & Neighbourhood Services	0.043	S&R	C&O	C&CS	NST
Operational realignment between Community Protection & Procurement	0.002	C&O	S&R	C&CS	RNR
Realignment between Facilities & Building Services and Environmental Health & Safer Housing	0.063	within C&O		RNR	C&CS

Details	Net Amount £m	Department		Portfolio	
		From	To	From	To
Transfer Security services from Uniformed services to Security & Logistics	0.914	within C&O		C&CS	NST
Realignment within Commissioning & Procurement	0.050	within S&R		ELY	RNR
Realignment between Finance & IT	0.127	within S&R		C&CS	RNR
Re-align Management Recharges	0.011	within C&O		NST	C&CS
Voluntary Community Sector Budget Realignment	0.015	within S&R		C&CS	RNR
Budget saving realignment	0.042	within S&R		ELY	RNR
Energy Services Utilities realignment	0.004	within C&O		ESU	LCT
Waste Management	1.296	within C&O		NST	ESU
Business Rates Adjustment	0.164	Corporate	C&O	RNR	NST
Transfer Building Cleaning from Trading Operations to Facilities & Building Services	0.303	within C&O		NST	RNR
Pest Control Realignment	0.115	within C&O		NST	RNR
Treasury Management Support Recharge	0.106	Corporate	S&R	within RNR	
Productivity Savings Budget realignment	0.046	D&G	S&R	within RNR	
Information Management to Legal	0.317	S&R	D&G	within RNR	
Prudential Borrowing Schedule (Technical)	4.485	S&R	Corporate	SI&C	RNR
	11.658				

Key	Department
CA	Children & Adults
C&O	Commercial & Operations
CX	Chief Executive
D&G	Development & Growth
S&R	Strategy & Resources

Key	Portfolio
ADH	Adults & Health
BES	Business, Education & Skills
C&CS	Community & Customer Services
ELY	Early Intervention & Early Years
ESU	Energy & Sustainability
LCT	Leisure & Culture
NST	Neighbourhood Services & Local Transport
PLNH	Planning & Housing
RNR	Resources & Neighbourhood Regeneration
SI&C	Strategic Infrastructure & Communications

APPENDIX E

CAPITAL PROGRAMME QUARTER 2 APPROVALS

Scheme	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	Movement £m
Public Sector Housing						
New Build Schemes	2.167	3.696	0.000	0.000	0.000	5.863
Public Sector Housing - TOTAL	**2.167**	**3.696**	**0.000**	**0.000**	**0.000**	**5.863**
Transport Schemes						
Protecting Open Spaces	0.260	0.000	0.000	0.000	0.000	0.260
Transport Schemes - TOTAL	**0.260**	**0.000**	**0.000**	**0.000**	**0.000**	**0.260**
Education / Schools						
Glade Hill Primary	0.270	0.000	0.000	0.000	0.000	0.270
Middleton Primary	0.300	0.000	0.000	0.000	0.000	0.300
Education / Schools - TOTAL	**0.570**	**0.000**	**0.000**	**0.000**	**0.000**	**0.570**
Leisure & Culture						
Arboretum Café Development	0.041	0.000	0.000	0.000	0.000	0.041
Leisure & Culture - TOTAL	**0.041**	**0.000**	**0.000**	**0.000**	**0.000**	**0.041**
Planning and Housing						
CPO 32 Chelmford Rd	0.074	0.000	0.000	0.000	0.000	0.074
Planning and Housing - TOTAL	**0.074**	**0.000**	**0.000**	**0.000**	**0.000**	**0.074**
Resources and Neighbourhood Regeneration						
Property Investments	29.002	0.000	0.000	0.000	0.000	29.002
IT - CUBE and SIP Upgrade	0.028	0.000	0.000	0.000	0.000	0.028
IT - PC Hardware Acquisitions	0.265	0.576	0.000	0.000	0.000	0.841
IT - Cisco Call Manager	0.781	0.000	0.000	0.000	0.000	0.781
IT - Nexus Switches	0.225	0.000	0.000	0.000	0.000	0.225
IT - Woodthorpe Network Link	0.117	0.000	0.000	0.000	0.000	0.117
Resources and Neighbourhood Regeneration - TOTAL	**30.418**	**0.576**	**0.000**	**0.000**	**0.000**	**30.994**
Strategic Regeneration and Development						
Demolition Fairham College	0.420	0.000	0.000	0.000	0.000	0.420
Nottingham Science Park - Phase 2	0.897	0.000	0.000	0.000	0.000	0.897
Milton Chambers - Replacement Lift	0.086	0.000	0.000	0.000	0.000	0.086
Strategic Regeneration and Development - TOTAL	**1.403**	**0.000**	**0.000**	**0.000**	**0.000**	**1.317**
TOTAL - Approvals Quarter 2	**34.933**	**4.272**	**0.000**	**0.000**	**0.000**	**39.078**

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