

EXECUTIVE BOARD – 21 May 2019

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| Subject: | PRE-AUDIT CORPORATE FINANCIAL OUTTURN 2018/19 |
| Corporate Director(s)/Director(s): | Laura Pattman, Strategic Director of Finance |
| Portfolio Holder(s): | Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Finance, Resources and Commercial Services |
| Report author and contact details: | Theresa Channell – Head of Strategic Finance 0115 8763649 theresa.channell@nottinghamcity.gov.uk |
| Subject to call-in: | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Key Decision: | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Criteria for Key Decision: | |
| (a) | <input checked="" type="checkbox"/> Expenditure <input checked="" type="checkbox"/> Income <input type="checkbox"/> 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 <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| Type of expenditure: | <input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital |
| Total value of the decision: | £14.924m |
| Wards affected: | All |
| Date of consultation with Portfolio Holder(s): | Throughout March – April 2019 |
| Relevant Council Plan Key Theme: | |
| Strategic Regeneration and Development | <input checked="" type="checkbox"/> |
| Schools | <input checked="" type="checkbox"/> |
| Planning and Housing | <input checked="" type="checkbox"/> |
| Community Services | <input checked="" type="checkbox"/> |
| Energy, Sustainability and Customer | <input checked="" type="checkbox"/> |
| Jobs, Growth and Transport | <input checked="" type="checkbox"/> |
| Adults, Health and Community Sector | <input checked="" type="checkbox"/> |
| Children, Early Intervention and Early Years | <input checked="" type="checkbox"/> |
| Leisure and Culture | <input checked="" type="checkbox"/> |
| Resources and Neighbourhood Regeneration | <input checked="" type="checkbox"/> |
| Summary of issues (including benefits to citizens/service users): | |
| <p>This report sets out the City Council's pre-audit General Fund and Housing Revenue Account (HRA) revenue outturn and Capital Programme for 2018/19. It is an important component of the City Council's financial management and governance framework setting out the Council's year-end financial position for 2018/19.</p> <p>The City Council, like all other local authorities across the country, has seen a substantial and sustained reduction in Government funding because of austerity policies. Alongside this reduction in grant income, Nottingham has seen increased demand for a number of services, for example Adult Social Care and Children in Care. In the period from 2010/11 to 2018/19, the Council has had to make annual savings totalling £267.4m and will continue, to have to make difficult decisions about the services it provides in order to close a budget gap of £23.258m in 2019//20.</p> <p>The 2018/19 draft outturn is showing a net overspend of £1.681m. This follows overspends in 2016/17 and 2017/18 of £2.522m and £4.215m respectively.</p> <p>The Audit Committee will consider the final Statement of Accounts in July 2019 at the conclusion of the external audit.</p> | |
| Exempt information: State 'None' or complete the following | None. |
| Recommendation(s): | |

- | |
|--|
| <p>1 To note:</p> <ul style="list-style-type: none">a. The pre-audit revenue outturn overspend of £1.681m for 2018/19 as set out in paragraph 2.2 and Appendix A;b. The portfolio variances +/- £50k as set out in Appendix B;c. The discretionary rate relief granted in 2018/19 detailed in paragraph 2.11;d. The capital outturn as detailed in Appendix F and explanations of variances over £0.100m as detailed in Appendix G;e. The additions to the Capital Programme detailed in Table 11;f. The refreshed Capital Programme, including planned and proposed as set out in paragraph 2.18 (Tables 13 to 14). |
| <p>2 To approve:</p> <ul style="list-style-type: none">a. The movements of resources set out in paragraph 2.5 and Appendix D;b. The net movement on earmarked reserves, as set out in paragraph 2.7 and Appendix E;c. The HRA outturn for 2018/19 as set out in paragraph 2.8;d. Write-offs in excess of £10,000, totalling £1.160m where all options for recovery have been exhausted, as set out in paragraph 2.10;e. Additional costs of £0.570m in relation to various capital schemes set out in paragraph 2.17 |
| <p>3 To note and endorse the allocations from the corporate contingency as set out in paragraph 2.3.</p> |

1 REASONS FOR RECOMMENDATIONS

- 1.1 It enables formal monitoring of progress against the 2018/19 budget and the impact of actual and planned management action.
- 1.2 The approval of virements of budgets is required by corporate financial procedures.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 The 2018/19 revenue budget was approved by City Council in March 2018. Executive councillors throughout 2018/19 have considered monitoring and forecasting reports. This report summarises the pre-audit outturn position for the revenue elements of the General Fund and HRA. Some report tables may not sum exactly due to rounding.

2.2 General Fund Revenue

The continued reduction in the Council's overall funding envelope has resulted in budgets becoming increasingly difficult to achieve and this has been the case for 2018/19, the majority of the overspends are within Children's Services.

There have been a number of financial challenges in 2018/19, which has resulted in management action being undertaken; in particular a range of agreed spending controls, vacancy freeze controls and contingency freeze. In addition, one off measures have been used, these include the Council's allocation of the 2018/19 Business Rates Levy redistribution (announced as part of the December 2018 Provisional Settlement) and further review of reserves.

The 2017/18 outturn showed a net overspend of £4.215m, which has been repaid in 2018/19 through a one off review of reserves.

The pre-audit corporate outturn is a net overspend of £1.681m and will result in a reduction of the general fund balance. This represents a reduction in the forecasted overspend for 2018/19 of £1.596m (Table 1) from that reported at quarter 3.

There will be a thorough review of the 2019/20 budget during Quarter 1 and this review will include addressing how the 2018/19 overspend is funded.

Appendix B gives information about specific issues within Portfolios.

| TABLE 1 : FORECAST OUTTURN REPORTED AT END OF PERIOD | | | | |
|---|------------------|------------------|------------------|-----------------------|
| PORTFOLIO | Q1 £m | Q2 £m | Q3 £m | Outturn £m |
| Adult Social Care & Health | 0.168 | (0.170) | (0.767) | (0.780) |
| Community Protection | (0.304) | (0.394) | (0.422) | (0.636) |
| Early Intervention & Early Years | 0.831 | 0.555 | 3.345 | 3.126 |
| Education & Skills | 1.041 | 0.750 | 0.891 | 0.653 |
| Energy & Environment | 0.961 | 0.756 | 0.726 | 0.509 |
| Finance, Resources & Commercial Services | 0.011 | (0.400) | (0.465) | (0.181) |
| Housing & Planning | 0.191 | 0.172 | 0.159 | 0.279 |
| Leisure & Localities | (0.343) | (0.245) | (0.159) | (0.299) |
| Regeneration & Growth | 0.178 | (0.026) | (0.027) | (0.030) |
| Transport & HR | (0.207) | (0.050) | (0.039) | (0.249) |
| TOTAL PORTFOLIOS | 2.527 | 0.947 | 3.243 | 2.391 |
| Corporate | (0.036) | 0.021 | 0.034 | 0.083 |
| Companies | 0.000 | 0.000 | 0.000 | 1.276 |
| SUB TOTAL PRIOR TO MITIGATION | 2.491 | 0.968 | 3.277 | 3.750 |
| Treasury Management/Collection Fund | 0.000 | 0.000 | 0.000 | (0.814) |
| Contingency | 0.000 | 0.000 | 0.000 | (0.255) |
| Corporate Grants | 0.000 | 0.000 | 0.000 | (1.000) |
| TOTAL MITIGATION/MANAGED UNDERSPENDS | 0.000 | 0.000 | 0.000 | (2.069) |
| TOTAL | 2.491 | 0.968 | 3.277 | 1.681 |

The main reasons for the overspend within portfolios is related to Early Intervention and Early Years, due to the increased complexity and significant increases in remand costs. There has also been adverse variances within Education and Skills due to increased demand for transport. These have been offset by favourable variances in a significant number of other portfolios.

The adverse variance within Companies is due to a realignment of previous savings and a forecast reduction in dividend expectation for 2018/19, pending final audited accounts from the subsidiary companies.

There has been a range of mitigation/management action to reduce the projected overspend. This has been achieved through a one off managed underspend within Treasury Management and a review of the Collection Fund, a freeze on Contingency and use of the one off Business Rates Levy distribution.

Forecast and Actual Outturns 2013/14 – 2018/19

The Council provides many sensitive and demand led services. The continued austerity and increases in demand have resulted in an overspend in 2016/17, 2017/18, and 2018/19 whereas in previous years there have been underspends. Table 2 shows the historical outturn position from 2013/14 to 2018/19. The variations between the quarterly forecasts are due to the sensitivity around the demand led areas.

| |
|---|
| TABLE 2: FORECAST AND ACTUAL OUTURNS |
|---|

| Outturn | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|-----------------------|----------------|----------------|----------------|---------------|---------------|---------------|
| Actual Outturn | (1.175) | (1.459) | (0.100) | 2.522 | 4.215 | 1.681 |
| Q3 forecast | (1.700) | (1.011) | 0.000 | 1.921 | 0.522 | 3.277 |
| Q2 forecast | (0.133) | 0.174 | (0.612) | 3.051 | 0.700 | 0.968 |
| Q1 forecast | 1.547 | 0.640 | 1.650 | 3.342 | 7.858 | 2.491 |

As part of the 2018/19 budget setting process, additional funding was allocated to the demand led areas. This necessity of allocating additional budget to demand led areas has continued in the 2019/20 budget.

General Reserves

These provide a financial safety net to cover above-budget costs during the year. The balance on general fund reserves as at 1 April 2018 was £9.643m (3.9% of the budget requirement). The 2018/19 £1.681m overspend will reduce this balance to £7.962m (3.3%). The range required by the Medium Term Financial Strategy (MTFS) is between 2% and 4%. Whilst this remains within range given the overspend in 2018/19, additional savings will be needed from the 2019/20 budget and/or 2020/21 to restore the General Fund balance. The Robustness of the Budget Annex which formed part of the MTFP as approved in February 2019 recognised the additional financial risks within the Council and as part of the 2019/20 budget an additional £1.000m was allocated to increase the General Fund Balance. There is a further £1.000m for each year of the MTFP. Table 3 shows a summary of the general reserve.

| TABLE 3: THE GENERAL RESERVE | |
|---|--------------|
| ITEM | £m |
| 1 April 2019 | 9.643 |
| Impact of 2018/19 Outturn | (1.681) |
| Potential Balance if not addressed | 7.962 |

2.3 Corporate Contingency

This enables management of the financial impact of issues that were not reflected when the budget was set. Services are required to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets, only seeking allocations where this is not the case.

The contingency budget for 2018/19 was £1.800m. Since the February report, allocations of £1.031m have been approved. These items are shown in Table 4.

| TABLE 4: CONTINGENCY ALLOCATED SINCE FEBRUARY EXECUTIVE BOARD | |
|--|--------------|
| Item | £m |
| IICSA – Children’s Historical Review | 0.620 |
| PAUSE Programme | 0.233 |
| DN2 Social Impact Bond | 0.055 |
| Citizens Advice Bureau | 0.055 |
| England World Cup Matches | 0.047 |
| WW1 Memorial – Additional Contribution | 0.020 |
| Holiday Hunger | 0.001 |
| TOTAL | 1.031 |

Details of contingency items to be reserved for use in 2019/20 are shown in Table 5.

| TABLE 5: CONTINGENCY TO BE RESERVED FOR USE IN 2019/20 | |
|---|--------------|
| Item | £m |
| Citizens Advice Bureau | 0.055 |
| Eurocities | 0.012 |
| Holiday Hunger | 0.001 |
| Armed Forces Event | 0.009 |
| 2018/19 Managed Underspend | 0.113 |
| TOTAL | 0.190 |

The remaining balance of £0.255m has been used to support the adverse variance at outturn as reported in Quarter 3.

2.4 **Cost Reductions and Potential Overspend Risks/Pressures**

Cost reductions

The 2018/19 budget included new cost reductions of £29.375m. Any issues affecting the delivery of these are detailed in the variance narratives.

Potential Overspend Risks/Pressures

£4.424m of potential overspend risks were included within the 2018/19 budget and have been used in year. This includes Adults demographic increases £2.624m; No Recourse to Public Funds £0.400m; potential overspend risks within Enviroenergy £1.000m and increased costs of Homelessness £0.400m.

2.5 **Movement of Resources**

Budget transfers between directorates and/or portfolios are reflected within the monitoring figures. These movements of resources now require approval and are detailed in **Appendix D**.

2.6 **Carry Forwards and Traded Surplus Retention**

Given the corporate overspend, there have been no requests submitted for carry forwards or for traded surplus retention in 2018/19.

2.7 **Movements in Earmarked Reserves**

Earmarked reserves are funds set aside for specific purposes (including Schools Statutory Reserves, Insurance, NET Private Finance Initiative (PFI) grant and decisions taken at Outturn 2017/18). The Q3 report showed a net increase of £8.216m (predominantly in relation to slippage in Treasury Management Capital financing costs) in earmarked reserves requiring approval, in addition to previously approved decisions of £2.624m (a total of £10.840m). In quarter 4, there has been a net decrease of £10.863m in earmarked reserves requiring approval, this results in an overall decrease in reserves for 2018/19 of £0.022m.

Reserve movements are categorised as:

- **MTFP / Outturn decisions-** these include items which were separately identified within the MTFP 2018/19;
- **Replenishment of existing reserves-** revenue contributions to reserves resulting from slippage/ savings on specific schemes, grants and contributions for specific purposes;
- **Use of specific reserves-** technically the approval of these reserves is implied at their setting up;

- **PFI/Building Schools for the Future (BSF) development costs** - Councils are required to charge to revenue development and set up costs relating to PFI schemes (these were previously budgeted for within the capital programme). The use of earmarked reserves is required to offset these costs;
- **Statutory Schools reserve** - this represents the net movement on ring fenced resources for schools;
- **Reserves to Capital Schemes** - these refer to use of reserves to support capital schemes;

Table 6 summarises the movements in each category of reserves during 2018/19 and identifies those, which have previously been approved by Executive Board in February 2019, and those, which now require Executive Board approval as part of the pre-audit outturn. **Appendix E** provides more details of movement in reserves that require approval.

| TABLE 6: NET MOVEMENTS IN RESERVES | | | |
|---|-----------------------------------|----------------------------------|---------------------|
| Type of transfer | Previously approved £m | Requiring approval £m | Total £m |
| Replenishment of existing reserve | (21.129) | (27.811) | (48.940) |
| Use of existing reserves | 10.408 | 39.155 | 49.563 |
| Statutory Schools reserve | (0.028) | 0.594 | 0.565 |
| Reserve to Capital | 0.004 | (0.357) | (0.352) |
| Contribution to Capital Schemes | (0.095) | (0.718) | (0.813) |
| Total | (10.840) | 10.863 | 0.022 |

As part of the 2019/20 budget process, a review of earmarked balances has been undertaken to re-affirm the purpose of the reserves and the likely timescale that these reserves will be utilised.

The financial statement for 2018/19 is still being finalised which may result in additional reserve movements. These will be reported as part of Qtr 1 2019/20.

2.8 HRA Budget

The HRA budget was approved by the City Council in March 2018 and budgeted for a working balance of £7.727m at 31 March 2019. The working balance provides a contingency for any unexpected cost increases or reductions in income due to unforeseen circumstances. The main current issues are reported below.

The HRA Summary outturn for 2018/19 is shown in Table 7 below and compares the pre-audit outturn to the original budget for 2018/19. The quarter 3 forecast outturn is shown for reference.

| Table 7: HRA – PRE-AUDIT OUTTURN 2018/19 | | | | |
|---|---|-------------------------------|---|---|
| Description | Original Budget 2018/19 £m | Q3 forecast £m | Pre-audit outturn 2018/19 £m | Variance to original budget £m |
| Income | | | | |
| Rent income | (95.295) | (95.260) | (95.348) | (0.052) |
| Service charges & other income | (10.340) | (9.955) | (10.513) | (0.174) |

| | | | | |
|----------------------------|------------------|------------------|------------------|----------------|
| Total Income | (105.635) | (105.215) | (105.861) | (0.226) |
| Expenditure | | | | |
| Repairs | 27.167 | 27.167 | 27.167 | 0.000 |
| Management | 33.167 | 32.506 | 32.077 | (1.090) |
| Capital charges | 41.575 | 41.859 | 42.923 | 1.348 |
| Direct Revenue Financing | 0.000 | 0.000 | 0.000 | 0.000 |
| Total Expenditure | 101.909 | 101.532 | 102.167 | 0.258 |
| Deficit / (Surplus) | (3.727) | (3.683) | (3.694) | 0.032 |
| Working balance B/F | (4.000) | (4.043) | (4.043) | (0.043) |
| Working Balance C/F | (7.726) | (7.727) | (7.737) | (0.011) |

Working Balance

The working balance has increased to £7.737m and is available to be carried forward into 2019/20.

Income

Rental Income increase of £0.052m

The budget for bad debt provision allowed for the impact of welfare reform and as implementation was delayed this resulted in an underspend of £0.253m. This was offset by reduced rental income of £0.201m due to increased Right to Buy sales.

Service Charges & other income, increase of £0.174m

This is made up of increased service charge income £0.100m increased bank interest £0.200m and reduced income from Highwood House since it has been transferred to NCH RP £0.130m which is off-set by reduced running costs.

Expenditure

Management, decrease of £1.090m

Made up of a number of variances including: an overspend on the Responsible Tenant Reward Scheme due to more tenants meeting the criteria £0.067m, net decrease to NCH management fee for revised responsibilities including Highwood House £0.129m and underspend on retained council budgets including vacancies in retained housing teams, retained repairs, consultants, DHP and additional income from HRA shops £1.028m.

Capital Charges, increase of £1.348m

Includes an increase in the contribution to the Major Repairs Reserve, following a review of the depreciation charge and a new approach to £1.588m following updated stock condition surveys and new calculation methodology. Due to delays in the new build element of the Public Sector Housing Capital Programme there has been less borrowing than predicted and so interest charges are underspent £0.240m.

2.9 Debtors Monitoring (Appendix C)

Housing Rents

A figure of 98.26% was achieved for the end of the financial year, this is slightly behind the target and the position achieved at the end of last year (98.41%). Overall arrears have increased by £0.070m over the year. This is against the introduction of Universal Credit in Nottingham in October 2018. There are now over 2,000 tenants in receipt of this benefit. We are continuing with the "Rent First" message in order to maintain collection rates.

Council Tax

Collection for Quarter 4 of 2018/19 was 93.2%, which exceeds the monthly profiled target by 0.7%, and in percentage terms is small increase of 0.04% when compared to 2017/18; collection amounted to £124.6m compared to collection of £116.2m for financial year 2017/18. Net debt collectable over the two financial years has increased from £124.9m in 2017/18 to £133.6m in 2018/19.

National Non- Domestic Rates (NNDR)

Collection for Quarter 4 of 2018/19 was 97.3%, which was 0.1% below the profiled target. Collection amounted to £137.7m, compared to collection of £135.9m in 2017/18. Net debt collectable over the year has increased from £137.7m in 2017/18 to £141.7m in 2018/19.

Sundry Income

The percentage of debts collected within 90 days in the 12 months to March 2019 is 79.20%, which is less than the corresponding figure for 2017/18 of 82.60%.

The debtor day indicator (which shows how quickly debts are recovered) is currently 41 days, which is worse than the target of 32.30 days but is the same as the corresponding figure for 2017/18.

There is significant work underway to improve debt collection rates in the Council's finance system Oracle, with particular focus on the implementation of Oracle Advanced Collections as part of the Fit for the Future (FFtF) programme. Advanced Collections is a debt management tool that will provide vastly improved debt collection functionality, enabling tailored debt strategies to be built into Oracle for different types of debt.

Adults Residential Services (ARS)

The backdated charges remain a challenge to collect and a high value of debt sits with Money Carers Foundation, which has a long lead time through to payment given the complexities of 'Court of Protection'. However, good progress has been made in recovering these sums during Q4. There is some work to be done to ensure collection rates are in a good position entering 2019/20 ensuring that the ARS team are in contact with all debtors. The ARS team will look to see if there is an increasing trend towards Court of Protection requests, which could delay cash recovery whilst access is granted to the appropriate parties.

Estates Rents

The collection rate of 97.94% is above the set target of 97.50% and is an increase of 0.05% since Quarter 3. It is also an improvement of 0.46% on Quarter 4 2017/18.

2.10 Written Off Debt

The CFO has delegated authority to write off individual debts not exceeding £10,000. Any debts above this are subject to Portfolio or Executive Board decision. The debts included in this report relate to debt raised over the past 5 years and have been pursued as far as is reasonably possible, and/or relate to businesses that have gone into liquidation or individuals that have gone bankrupt. The Council is therefore unable to obtain payment. Once it is clear that no further payments will be received against a debt, it should be written out of the Council's accounts. Adequate bad debt provision to accommodate this level of write off has been built up in the accounts over a number of years and approval is being sought to write off debts over £10,000 totalling £1.160m as summarised in Table 8 below. These figures are subject to the finalisation of the NNDR year-end and other statutory returns.

| TABLE 8: WRITE OFFS OVER £10k in 2018/19 | |
|---|--------------|
| Fund | £m |
| General Fund | 0.791 |
| Collection Fund | 0.369 |
| Total | 1.160 |

2.11 New Discretionary Rate Relief Granted in 2018/19

Details of new determinations of eligibility for Discretionary Relief since 1 April 2018 are shown in Table 9, of which the City share is 49%.

| TABLE 9: NEW DISCRETIONARY RATE RELIEF GRANTED IN 2018/19 | |
|---|----------------------------|
| Type of Relief | Amount of Relief £m |
| Registered Charities which are in Receipt of 80% Mandatory Relief | 0.016 |
| TOTAL | 0.016 |

2.12 Capital Programme

The capital programme for 2018/19 was approved by the City Council in March 2019. Quarterly monitoring and forecasting reports have been provided and considered by Executive Councillors throughout 2018/19.

2.13 Capital Expenditure 2018/19

The capital expenditure in 2018/19 was £147.995m, representing a decrease of £44.305m (23.04%) from the Quarter 3 projection. Table 10 shows the position for each portfolio.

| TABLE 10: CAPITAL PROGRAMME OUTTURN 2018/19 | | | | |
|--|----------------------------------|-----------------------------|-----------------|-----------------|
| Portfolio | Projected Outturn Qtr3 £m | Pre-audit outturn £m | Variance | |
| | | | £m | % |
| Category 1 - Approved Schemes | | | | |
| Public Sector Housing | 48.930 | 42.116 | (6.814) | (13.93%) |
| Transport Schemes | 19.696 | 12.079 | (7.617) | (38.67%) |
| Education / Schools | 7.503 | 5.978 | (1.525) | (20.33%) |
| Subtotal | 76.129 | 60.173 | (15.956) | (20.96%) |
| Other Services | | | | |
| Adults & Health | 0.547 | 0.294 | (0.253) | (46.25%) |
| Early Intervention & Early Years | 0.218 | 0.262 | 0.044 | 20.18% |
| Leisure & Culture | 9.257 | 9.903 | 0.646 | 6.98% |
| Business Growth & Transport | 10.213 | 6.433 | (3.780) | (37.01%) |
| Energy & Sustainability | 5.351 | 2.138 | (3.213) | (60.04%) |
| Planning & Housing | 3.336 | 2.496 | (0.840) | (25.18%) |
| Strategic Regeneration | 9.332 | 3.948 | (5.384) | (57.69%) |
| Community Services | 2.065 | 2.765 | 0.700 | 33.90% |
| Resources & Neighbourhood Regeneration | 56.602 | 45.423 | (11.179) | (19.75%) |
| Other Services Total | 96.921 | 73.662 | (23.259) | (24.00%) |
| Total Approved Schemes | 173.050 | 133.835 | (39.215) | (22.66%) |

| | | | | |
|-------------------------------------|----------------|----------------|-----------------|-----------------|
| Category 2 - Planned Schemes | | | | |
| Regeneration | 5.000 | 0.000 | (5.000) | (100.00%) |
| Commercial | 14.250 | 14.160 | (0.090) | (0.63%) |
| Total Planned Schemes | 19.250 | 14.160 | (5.090) | (26.44%) |
| TOTAL - CAPITAL PROGRAMME | 192.300 | 147.995 | (44.305) | (23.04%) |

2.14 Reasons for variances

The City Council's capital monitoring analyses variations between:

- Changes in budgeted expenditure, where the expenditure is still required but takes place later than originally intended (slippage) or earlier than originally intended (acceleration). Slippage does not result in resources being released; the resources and planned expenditure will be carried forward into future years.
- Underspends and overspends which represent a decrease or increase and increase in the total capital cost of a project (which could potentially be over a number of years). Underspends may result in a saving which can be released to support the capital programme in future years.
- Quarter 3 approvals, the capital programme had £5.802m of approvals that moved to the planned stage in the final quarter of 2018/19, which is detailed in table 11.
- A review of the mechanism for internal charging to the capital programme has been undertaken to ensure compliance with the CIPFA Code of Practice has resulted in costs being reallocated to revenue and a resulting reduction in capital spend.
- Lack of project manager engagement as part of the quarter 3 monitoring no response was received for 28% of the Other Services projects.

An overview of schemes showing significant variances (greater than £0.100m) is set out in appendix F.

2.15 Additions to the Programme

Additions in Quarter 4 include those schemes that were approved as part of the budget process; other additions to the programme are shown in table 11 below:

| Scheme | 2018/19 £m | 2019/20 £m | 2020/21 - 2023/24 £m | TOTAL £m |
|---|-----------------------|-----------------------|-------------------------------------|---------------------|
| Transport Schemes | | | | |
| Additional Highways Capital Maintenance Grant | 0.000 | 0.982 | 0.000 | 0.982 |
| Education / Schools | | | | |
| Hemphill Hall - Structural | 0.000 | 0.283 | 0.000 | 0.283 |
| Cantrell Primary - Structural | 0.000 | 0.085 | 0.000 | 0.085 |
| Mellers Primary - Fire Alarm | 0.000 | 0.096 | 0.000 | 0.096 |
| Dunkirk Primary (Abbey) - Asbestos Removal | 0.000 | 0.034 | 0.000 | 0.034 |
| Henry Whipple - Boiler Replacement | 0.000 | 0.283 | 0.000 | 0.283 |
| Fernwood Reconfiguration | 0.000 | 0.059 | 0.000 | 0.059 |
| Nethergate Academy Expansion | 0.001 | 0.220 | 0.000 | 0.221 |

| | | | | |
|---|---------------|--------------|--------------|---------------|
| Subtotal | 0.001 | 2.042 | 0.000 | 2.043 |
| Other Services | | | | |
| Business Growth & Transport | | | | |
| WPL Number Plate Recognition | 0.019 | 0.059 | 0.000 | 0.078 |
| Community Services | | | | |
| Acquisition of land adjacent to Sherwood CC | 0.000 | 0.065 | 0.000 | 0.065 |
| Wollaton Park Comm Centre (Roof & Lintels) | 0.000 | 0.075 | 0.000 | 0.075 |
| Leisure & Culture | | | | |
| Leisure Digital Infrastructure Improvements | 0.000 | 0.680 | 0.000 | 0.680 |
| Strategic Regeneration | | | | |
| Lenton Business Centre - Kitchen | 0.000 | 0.053 | 0.000 | 0.053 |
| Resources & Neighbourhood Regeneration | | | | |
| IT - Data Storage & Backup | 0.000 | 1.800 | 0.000 | 1.800 |
| Project Albert (Trade Counter) | 0.048 | 0.960 | 0.000 | 1.008 |
| Subtotal | 0.067 | 3.692 | 0.000 | 3.759 |
| Total Approved Schemes bypassing Planned Stage | 0.068 | 5.734 | 0.000 | 5.802 |
| Planned Schemes - Approved in Quarter 4 | | | | |
| Property Acquisition - Project Green | 14.160 | 0.033 | 0.000 | 14.193 |
| Total Schemes Approved in Quarter 4 | 14.228 | 5.767 | 0.000 | 19.995 |

2.17 Retrospective approvals required

A number of schemes have overspent in 2018/19 and now require retrospective approval. These schemes will be frozen to ensure that no further expenditure is incurred without obtaining the appropriate approval. These include:

- **CCTV Control Room Upgrade:** Approval £0.235m and 2018/19 overspend of £0.120m. The overspend has been funded from revenue reserves held by Regeneration.
- **Demolition of Fairham College / Land at Clifton / Tollerton:** Cumulative approval £0.558m and 2018/19 overspend of £0.292m. The overspend has been funded by Capital Receipts. Once the land value is realised the Capital Receipts will be replenished.
- **Various:** Cumulative approval £12.593m and 2018/19 overspend of £0.158m. The funding will be dependent on the funding envelope of each specific project.

2.18 Revised Capital Programme – General Fund

The General Fund Programme has been updated for approvals in quarter 4 and the impact of the final outturn. The resource projections have also been updated, including those sums likely to be generated by capital receipts. The General Fund capital programme is subdivided into three categories as follows:

Approved Capital Programme

Comprising projects that are progressing either currently or in the near future. These projects have been approved and the funding has been identified and is in place. The approved five year capital programme is £293.410m.

Planned Capital Schemes

Comprising projects that the Council is progressing towards a firm business case. Feasibility / development as approved costs may be incurred. The planned five year capital programme is £57.703m. These schemes are subject to further formal or delegated approval following the completion of a business case.

Proposed Capital Schemes

Comprising projects that are in the early stages of development and are not included in the capital programme at this stage.

The capital programme is delivered from a diverse range of funding which includes:

Prudential Borrowing

The key principle for borrowing is contained within the Prudential Code and clarified within the Capital Strategy, which confirms that it must be affordable and sustainable. This type of funding is reserved for schemes that can deliver savings or demonstrate a return on investment at least sufficient to cover the debt repayments of interest and principle.

Grants

External funds provided by government, which may be ring-fenced or other external sources that are provided to deliver specific projects.

Reserves

Earmarked reserves set aside, through relevant approval, for specific capital schemes.

Capital Receipts

Receipts from the sale of surplus assets used as a corporate resource, allowing the Council to fund a range of projects for which there is no external funding, or other non-commercial schemes, which will not generate a return sufficient to cover their costs.

The capital programme is predicated on £27.014m of Unsecured Capital Receipts. Within this unsecured receipt, balance is £8.250m where assets are to be identified, as approved at Executive Board December 2018 for the Broadmarsh Shopping Centre. If these receipts do not materialise or additional assets are not identified a pressure will be created in the capital programme.

Table 12 below gives a breakdown of the five-year capital programme for approved and planned schemes.

| TABLE 12: GENERAL FUND CAPITAL PROGRAMME - APPROVED AND PLANNED SCHEMES | | | | | | | |
|--|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| 2018/19 £m | Scheme | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | Total £m |
| | Approved Schemes | | | | | | |
| 12.079 | Transport Schemes | 20.088 | 4.310 | 1.420 | 0.000 | 0.000 | 25.818 |
| 5.978 | Education Schemes | 5.836 | 0.000 | 0.000 | 0.000 | 0.000 | 5.836 |
| 87.822 | Other Services | 157.162 | 71.580 | 18.877 | 8.655 | 7.371 | 263.645 |
| 0.000 | Planned Schemes | 8.838 | 31.469 | 4.423 | 5.000 | 5.900 | 55.630 |
| 105.879 | Total Programme | 191.924 | 107.359 | 24.720 | 13.655 | 13.271 | 350.929 |
| (61.698) | Prudential Borrowing | (99.234) | (72.737) | (18.184) | (5.494) | (4.306) | (199.955) |
| (30.698) | Grants & Contributions | (68.182) | (20.148) | (4.027) | (7.296) | (8.114) | (107.767) |
| (0.461) | Internal Funds / Revenue | (9.079) | (3.850) | (1.140) | (0.115) | (0.101) | (14.285) |
| (13.022) | Secured Capital Receipts | (2.026) | 0.000 | 0.000 | 0.000 | 0.000 | (2.026) |
| 0.000 | Unsecured Capital Receipts | (13.403) | (10.624) | (1.369) | (0.750) | (0.750) | (26.896) |
| (105.879) | Total Resources | (191.924) | (107.359) | (24.720) | (13.655) | (13.271) | (350.929) |

The programme is predicated on a number of planned schemes that are estimated and subject to change, therefore the current position is liable to change as projects progress and costs become more accurate.

2.19 Public Sector Housing

The Public Sector Housing Programme has been updated to reflect the net slippage between 2018/19 and 2019/20. Table 13 sets out the updated programme and resources.

| TABLE 13:PUBLIC SECTOR HOUSING CAPITAL PROGRAMME - APPROVED AND PLANNED SCHEMES | | | | | | | |
|--|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| 2018/19 £m | Scheme | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | Total £m |
| 42.116 | Category 1 - Approved Schemes | 60.837 | 36.165 | 29.463 | 31.773 | 32.484 | 190.722 |
| 0.000 | Category 2 - Planned Schemes | 0.510 | 11.338 | 0.000 | 0.000 | 0.000 | 11.848 |
| 42.116 | Total Programme | 61.347 | 47.503 | 29.463 | 31.773 | 32.484 | 202.570 |
| | Resources Available | | | | | | |
| (4.815) | Prudential Borrowing | (10.443) | (16.954) | 0.000 | 0.000 | 0.000 | (27.397) |
| (0.608) | Grants & Contributions | (6.449) | (0.862) | 0.000 | 0.000 | 0.000 | (7.311) |
| (26.339) | Major Reapirs Reserve | (36.606) | (24.431) | (26.100) | (28.333) | (29.044) | (144.514) |
| (10.354) | Secured Capital Receipts | (7.849) | (1.200) | 0.000 | 0.000 | 0.000 | (9.049) |
| 0.000 | Unsecured Capital Receipts | 0.000 | (4.056) | (3.363) | (3.440) | (3.440) | (14.299) |
| (42.116) | Total Resources | (61.347) | (47.503) | (29.463) | (31.773) | (32.484) | (202.570) |

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 This report details the 2018/19 outturn and how the overspend will be 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.

Theresa Channell – Head of Strategic Finance & Deputy Section 151 Officer
01 May 2019

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

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

5.2 The five year proposed capital 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 general fund cost of borrowing on projected 2018/19 spend by **£0.496m** 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.

5.3 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'

5.4 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.

5.5 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.

Tom Straw – Senior Accountant (Capital Programmes) 29 May 2019

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

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 2019/20 – 2021/22 – Executive Board 19 February 2019

11.2 Report of the Deputy Leader on the Budget 2019/20 – City Council 4 March 2019

12 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

12.1 Jo Worster – Team Leader (Strategic Finance)

0115 8763448

Joanne.Worster@nottinghamcity.gov.uk

Charlotte Marsh – Senior Accountant (Current Year Monitoring & Forecasting)

0115 8764132

Charlotte.marsh@nottinghamcity.gov.uk

Julie Dorrington – Senior Accountant (HRA)

0115 8764617

Julie.dorrington@nottinghamcity.gov.uk

Tom Straw – Senior Accountant (Capital Programmes)

0115 8763659

Thomas.straw@nottinghamcity.gov.uk