

Financial Performance – Quarter 1 2016-17 (June 2016)

Overview

This report details the financial position as at end of the first quarter 2016-17 (June 2016), and covers: an overview of revenue; service key financial indicators; corporate items; reserves; capital; housing revenue account and treasury management.

Revenue Summary

The table below gives the latest revenue forecast outturn.

	Latest Budget £m	Forecast Outturn £m	Variance £m
<u>Services</u>			
- Spend	873.159	895.897	22.738
- Income	(438.705)	(443.081)	(4.376)
- Transfer to/(from) reserve	(1.908)	(8.384)	(6.476)
	432.546	444.432	11.886
<u>Corporate Items</u>			
- Spend	84.211	81.636	(2.575)
- Income	(19.497)	(17.654)	1.843
- Transfer to/(from) reserve	(2.640)	(2.742)	(0.102)
	62.074	61.240	(0.834)
Total	494.620	505.672	11.052
Funded:			
- Council Tax	(252.579)	(252.579)	-
- Business Rate Retention Scheme	(75.960)	(75.960)	-
- Revenue Support Grant	(65.297)	(65.297)	-
- Other Government Grants	(100.784)	(103.729)	(2.945)
	(494.620)	(497.565)	(2.945)
Total Variance			8.107

Key financial indicators

Revenue Key Performance Indicator	Latest Budget £m	Forecast Outturn £m	Variance £m
Services Forecast Net Expenditure against Budget	432.546	444.432	11.886
Total Forecast Net Expenditure against Budget	494.620	502.727	8.107
Forecast Savings Deliverable against Target Savings	40.443	24.225	(16.218)
Capital Key Performance Indicator	Expected Spend to Date £m	Actual Spend to Date £m	Variance £m
Capital Programme - Actual Capital Spend against Profiled Spend	46.771 (17.5%)	26.742 (10%)	(20.029)

Service financial indicators

As outlined above, services are forecasting an overspend of £11.886m net of £6.476m proposed movements from reserves. Services have two key financial indicators;

1. Savings delivered against target savings
2. Outturn against budget.

They report these indicators alongside their performance information, see appendix 1 of the report.

Corporate Items

Corporate items, including contingency and capital financing & interest, are forecast to underspend by £0.834m, net of proposed transfers from reserves of £0.102m.

Currently only £3m of the corporate contingency has been committed to fund known income shortfalls within the Better Care Fund, leaving an undistributed balance of £6m that is shown as an underspend. This is offset however by other budget pressures, most significantly an expected shortfall against target group dividend returns of £2.450m. This is due to a combination of non-delivery of group saving targets this year, lower returns from the Nottinghamshire Joint Venture arrangements due to slippage of go live and additional initial set up costs, and a reduction in achievable profit margins as a result of increasing inflationary pressures most significantly on quarry and blacktop products.

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Corporate items also include additional allowance of £2.945m, as approved by Cabinet at its meeting 13 July, for investment in highway network improvements. This to be funded from additional 'rural services delivery grant' that was announced late by the government as a result of consultation by rural authorities on the local government settlement.

Additional (largely one-off) retained business rates from renewable energy sites are expected to exceed budgeted income levels by £0.229m.

Proposed (Unbudgeted) Reserve Movements

The outturn position above includes the following proposed transfers to / from reserves of £6.578m.

	Contribution from BER £m	Contribution to BER £m	Contribution from Specific Reserve £m	Contribution to Specific Reserve £m	Total Transfer to/(from) Reserves £m
Education, Health and Social Care	(1.082)	-	(4.100)	0.621	(4.561)
Economy, Enterprise and Environment	(1.080)	-	(0.650)	0.010	(1.720)
Community & Organisational Development	(0.195)	-	-	-	(0.195)
Corporate Items	-	-	(0.111)	0.009	(0.102)
Capital Financing and Interest Receipts	-	-	-	-	-
Total	(2.357)	-	(4.861)	0.640	(6.578)

Reserves Forecast

The following table sets out earmarked and general fund balances brought forward from 2015/16 and the forecast position as at 31st March 2017.

Earmarked reserves are maintained for particular initiatives or probable events. These include reserves held on behalf of schools, partnerships and joint ventures and other external bodies, or form part of a legal agreement.

General Fund balances (including the Directorate Budget Equalisation Reserves) are the Council's only source of uncommitted funds that are held to protect against emergency / unforeseen events or to mitigate against known financial risks. The forecast at 31st March 2017 is £30.283m, equivalent to just over 3% of the Council's annual gross revenue expenditure.

Reserves	Opening Balance 1st April 2016 £m	Budgeted Transfers (to) / from reserves 2016/17 £m	Proposed revenue transfers (to) / from reserves 2016/17 £m	Proposed capital transfers (to) / from reserves 2016/17 £m	Forecast Balance 31st March 2017 £m
General Fund Reserve	(33.081)	5.418	-	-	(27.663)
Directorate Budget Equalisation Reserves	(5.977)	1.000	2.357	-	(2.620)
Earmarked Reserves (including PFI)	(142.047)	(1.733)	2.746	11.250	(129.784)
Held on Behalf of Partners	(43.684)	(0.137)	1.475	-	(42.346)
Total	(224.790)	4.548	6.578	11.250	(202.414)

Capital Programme

The latest capital programme (all years) is £647.050m. This is an increase of £13.416m compared to the original programme, as approved following the 2015/16 outturn.

The following schemes have been endorsed by the Investment & Commercial Board (ICB) and require formal approval from Cabinet to be added to the Capital Programme:

- An increase to the Affordable Housing programme of £3.240m to reflect additional funding from s106 monies and commuted sums.
- A new scheme in Saltash to create sustainable transport measures (pedestrian access, bus infrastructure and cycle infrastructure), utilising £0.044m of s106 funding.
- Additional external funding to support the Environment Asset Enhancement Programme. This totals £3.456m – being £2.579m s106 funding and £0.877m Flood Defence Grant in Aid (FDGIA)
- A 15 year Vehicle & Equipment Replacement programme for the Cornwall Fire & Rescue Service. The total cost over this period is £26.567m the funding of which has been built into the Council's financial planning within the capital financing budget.
- The creation of a loan facility for £0.500m for the Leisure Trust in support of a bid to Sport England for funding support towards swimming pool refurbishment at Carn Brea Leisure Centre. The loan facility, which will be for a period of 30 years and set at commercial interest rates, is to be used solely for the pool refurbishment and is contingent on the Sports England application for funds being successful.

The last two schemes listed above are not included in the table below but, subject to Cabinet approval, will be incorporated into future reports.

The following schemes were considered and approved as individual reports by Cabinet on 4th May:

- Superfast 2 Broadband programme. The total capital value of this programme is £15.5m. External funding of £12.4m from ERDF, Broadband Delivery UK and the Private Sector will support this scheme along with the Council's own contribution of £3.1m which is coming from the EU match funding pot that is already included within the capital programme. It should also be noted that £10m of the external funding was previously held against the Digital Infrastructure scheme within the approved capital programme.
- An increase to the Carludon Technology Park scheme following a revised ERDF submission. The scheme total is now £1.1m higher than previously

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approved. £0.753m of the additional funding is from the existing EU match funding pot.

In addition Members have previously approved the use of the additional Rural Services Delivery Grant of £2.945m to improve the highway network. This has also now been built into the capital programme.

Other significant movements are:

- The inclusion of £1.267m Department for Transport grant funding in respect of the Pothole Action Fund.
- A reduction of £0.139m in Adult Care & Support Grant funding to re-align the programme with the actual available grant.
- A reduction of £0.150m in confirmed grant funding for the Coastal Storm Recovery (Phase 2) programme.
- An additional £0.111m funding from s278 contributions from developers in respect of Highways carriageways maintenance.
- A reduction of £0.085m in the Waste programme as a result of approval being given from the grant funder to utilise grant for revenue purposes.

Creation of Group structure for Companies

The Cabinet, at its meeting in May, agreed to implement a revised group structure for its family of controlled companies. As part of this process, the Council will transfer ownership of the two Companies limited by shares (i.e. CORMAC Solution Limited and Cornwall Airport Limited) to CORSERV as the new owner and parent Company.

For this transfer to actually happen, and to comply with the Companies Act and the Accounting Regulations, the Council must in effect dispose of its interest in the Companies and CORSERV has to acquire the interest. This requires that a payment is made by CORSERV equivalent to the “fair value” of the investment, yet to be determined.

Currently CORSERV has no financial resources and therefore the Council will need to provide CORSERV with the finance to enable it to purchase the Companies. There are two ways the Council can legally do this 1) through a capitalisation loan at market rates or 2) by purchasing additional equity (shares) in CORSERV.

The Council is currently investigating the most appropriate method of financing CORSERV to ensure the Council’s interests are best protected and compliance with relevant corporation tax legislation.

However, either way, this transaction is deemed to be capital expenditure and will need to form part of the Council’s capital programme. This will be funded from the capital receipt received from CORSERV on purchase of the two

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companies. Although a cash transaction will take place, this is a largely technical adjustment and, overall, is fiscally neutral on the Council.

Accordingly, and to ensure the creation of the new group structure can continue to its timescales (which will impact on when the savings can be delivered), the inclusion of CORSERV financing to the capital programme will need to be progressed under the delegated authority received from the May Cabinet report.

Summary Capital Programme Forecast by Programme Board

Full Capital Programme	Original Approved Programme £m	Total Additions / Reductions £m	Latest Programme £m	Latest programme by Year				Latest Forecast Spend £m	Variance £m
				2016/17 £m	2017/18 £m	2018/19 £m	2019/20 & beyond £m		
COD Capital Programme Board	8.350	-	8.350	7.050	0.800	0.500	-	11.740	3.390
Culture & Eco Dev Capital Programme Board	72.717	2.728	75.445	36.699	24.148	9.423	5.175	75.873	0.428
EHSC Capital Programme Board	58.441	(0.082)	58.359	30.932	22.993	4.034	0.400	58.359	-
Environment Capital Programme Board	16.660	3.312	19.972	8.457	4.028	4.012	3.475	20.236	0.264
Green Cornwall Capital Programme Board	19.017	-	19.017	7.517	4.000	3.500	4.000	19.017	-
Housing Capital Programme Board	128.274	3.240	131.514	34.794	30.216	23.016	43.488	131.530	0.016
Property Capital Programme Board	12.857	(0.081)	12.776	11.767	1.009	-	-	14.073	1.297
Transportation Capital Programme Board	310.847	4.384	315.231	129.775	82.226	49.444	53.786	323.191	7.960
Waste Capital Programme Board	6.471	(0.085)	6.386	2.142	3.791	0.097	0.356	6.388	0.002
Total	633.634	13.416	647.050	269.133	173.211	94.026	110.680	660.407	13.357

Funding	Original Approved Funding £m	Funding Movement £m	Latest Programme Funding £m	2016/17 Funding £m	2017/18 Funding £m	2018/19 Funding £m	2019/20 & beyond Funding £m
General Fund Revenue & Reserves	16.029	3.685	19.714	11.250	4.332	3.682	0.450
HRA Revenue & Reserves	53.493	-	53.493	15.614	15.426	11.001	11.452
Prudential Borrowing	166.830	0.011	166.841	66.894	47.472	26.218	26.257
Capital Receipts	32.794	0.096	32.890	14.671	6.448	3.135	8.636
Grants & Contributions	364.488	9.624	374.112	160.704	99.533	49.990	63.885
Total Funding	633.634	13.416	647.050	269.133	173.211	94.026	110.680

The current total programme forecast is £660.407m against an approved budget of £647.050m which indicates that there is £13.357m of potential funding pressures. Work is ongoing to find solutions to meet the funding gap on these schemes. The individual schemes are detailed in the table below:

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Scheme	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
COD Capital Programme Board				
Camborne Pool Redruth & Hayle Emergency Cover	0.115			0.115
CTO Vehicle & Plant Replacement	2.800			2.800
Business Communications Phase 3	0.475			0.475
	3.390	-	-	3.390
Culture & Economic Development Capital Programme Board				
Hayle Harbour Infrastructure	0.428			0.428
	0.428	-	-	0.428
Environment Capital Programme Board				
Dell Culvert Drainage Repairs	0.015			0.015
Flooding Infrastructure	0.097			0.097
Newquay Regeneration	0.002			0.002
Coastal Storm Recovery	0.150			0.150
	0.264	-	-	0.264
Property Capital Programme Board				
Jubilee Pool	0.729			0.729
St John's Hall	0.316			0.316
Truro Office Strategy	0.252			0.252
	1.297	-	-	1.297
Transportation Capital Programme Board				
A390 Newbridge Lane Junction	0.461			0.461
Falmouth/Penryn Transport Package	0.057			0.057
Growth Deal - Bodmin Cornwall's Cycling Town	1.287	0.516		1.803
Growth Deal - Newquay Growth Area	0.007			0.007
Growth Deal - Truro Western Corridor	0.197			0.197
Growth Deal - A38 Cornwall Gateway	0.080	1.864		1.944
Growth Deal - West Cornwall Transport Interchange		1.226		1.226
Growth Deal - Redruth Strategic Employment Growth	0.450			0.450
TEDC Tresillian	(0.029)			(0.029)
Cornwall Rail Improvements Package			1.844	1.844
	2.510	3.606	1.844	7.960
Housing Capital Programme Board				
IT Software Purchases (Cornwall Housing)	0.016			0.016
	0.016	-	-	0.016
Waste Capital Programme Board				
Falmouth HWRC	0.002			0.002
	0.002	-	-	0.002
	7.907	3.606	1.844	13.357

2016/17 Capital Programme

The latest programme for the current financial year is £269.133m. This is a reduction of £31.710m compared to the original approved programme for the year of £300.843m and is mainly as a result of the significant re-profiling to future years of the expenditure forecasts on the following schemes:

- Growth Deal – Bus Networks (£6.357m)
- Growth Deal – Truro Western Corridor (£7.009m)
- Growth Deal – West Cornwall Transport Interchange (£9.046m)
- Camborne, Pool, Redruth HWRC (£1.500m)
- Falmouth/Penryn Transport Package (£1.268m)
- Housing Revenue Account works (£2.824m)
- Luxulyan Valley Project (£0.681m)
- Newquay HWRC (£1.497m)

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- Basic Need (£14.643m)

Offsetting this, £7.813m of the expenditure profile for the A30 Temple to Higher Carblake scheme has been brought forward into 2016/17. In addition, the updated Carludon Technology Park scheme, as detailed above, has also been re-profiled, increasing the forecast expenditure in 2016/17 by £1.647m.

The £2.945m funding for the highways network is all profiled for 2016/17, along with £1.080m of the additional funding for the Affordable Housing programme.

The Environment Asset Enhancement Programme has been re-profiled to include the additional external funding, bringing £1.872m into the 2016/17 programme.

The Government funding of £1.267m which has been received in respect of the Pothole Action Fund has all been profiled to 2016/17.

Actual expenditure as at the end of June was £26.742m. This represents 10% of the latest 2016/17 programme, compared to the forecast profiled spend to date of 17.5%. This is summarised in the table below by Programme Board.

	2016/17 Latest Programme (£m)	Profiled Forecast 17.5% (£m)	Actual Expenditure to Date (£m)
Capital Programme Board			
COD Capital Programme Board	7.050	1.234	1.099
Culture & Eco Dev Capital Programme Board	36.699	6.422	0.596
EHSC Capital Programme Board	30.932	5.413	1.919
Environment Capital Programme Board	8.457	1.480	0.614
Green Cornwall Capital Programme Board	7.517	1.315	(0.331)
Housing Capital Programme Board	34.794	6.089	1.381
Property Capital Programme Board	11.767	2.059	2.092
Transportation Capital Programme Board	129.775	22.711	19.072
Waste Capital Programme Board	2.142	0.375	0.300
Total	269.133	47.098	26.742

Housing Revenue Account (HRA)

The HRA forecast year end position is given below.

HRA Budget & Forecast as at 30th June 2016			
	Annual Budget 2016/17 £m	Forecast 2016/17 £m	Forecast Variance 2016/17 £m
Total Income	(40.341)	(40.215)	0.126
Total Expenditure	32.171	32.171	0.000
Net Cost of HRA Services	(8.170)	(8.044)	0.126
Corporate & Democratic Core	0.370	0.370	0.000
HRA share of other operating income & expenditure	7.800	8.679	0.879
Transfer from reserves	0.000	(1.037)	(1.037)
(Increase)/decrease in HRA balance	0.000	(0.032)	(0.032)

When compared to the budgeted position the current Housing Revenue Account (HRA) forecast suggests a favourable position compared to budget of £0.032m at the end of the financial year.

The forecast variance can be analysed as follows:

- An increased revenue contribution to capital of £1.037m, which was budgeted for but unspent in 2015-16; and subsequently transferred to the HRA reserve to be spent in 2016-17.
- A forecast reduction in borrowing costs of £0.245m based on a reduced consolidated rate of interest.
- Income from dwelling rents is forecast to be £0.126m lower than budgeted and can be attributed to an increase in the number of right to buy sales so far this year. For comparison purposes, only 5 properties were sold in quarter 1 2015-16, compared to 27 in 2016-17. The most likely explanation for such an increase is the Governments introduction of "pay to stay", which will require tenants to pay a market rent from April 2017.

Treasury Management

As at 30th June 2016 Cornwall Council's total debt was £690m, including £634m long term and £56m short term debt.

However this is reduced by investments of £476m, with £116m long term and £360m short term, leaving a net debt position of £214m.

The average interest rate payable on our debt to 30th June was 4.23%, while the Council's average investment returns to 30th June were 1.25% compared to the average 7 day LIBID to 30th June of 0.36%.