

Financial Performance – Quarter 2 2016-17 (September 2016)

Overview

This report details the financial position as at end of the second quarter 2016-17 (September 2016), and covers: an overview of revenue; key financial indicators; corporate items; reserves; housing revenue account, treasury management, proposed virements and proposed write off.

Revenue Summary

The table below gives the latest revenue forecast outturn. Forecast overspend is £4.379m.

	Latest Budget £m	Forecast Outturn £m	Variance £m
Services			
- Spend	872.011	891.825	19.814
- Income	(436.617)	(441.840)	(5.223)
- Transfer to/(from) reserve	(1.908)	(8.335)	(6.427)
	433.486	441.650	8.164
Corporate Items			
- Spend	82.568	76.110	(6.458)
- Income	(18.794)	(17.374)	1.420
- Transfer to/(from) reserve	(2.640)	1.558	4.198
	61.134	60.294	(0.840)
Total	494.620	501.944	7.324
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			4.379

Key financial indicators

	Latest Budget £m	Forecast Outturn £m	Variance £m	Quarter 1 Variance for information £m
Revenue Key Performance Indicator				
Services Forecast Net Expenditure against Budget	433.486	441.650	8.164 (Amber)	11.886 (Red)
Total Forecast Net Expenditure against Budget	494.620	498.999	4.379 (Amber)	8.107 (Red)
Forecast Savings Deliverable against Target Savings	40.443	23.476	(16.967) (Red)	(16.218) Red

Service Financial Indicators

As outlined above, the forecast overspend in services is £8.164m net of £6.427m proposed movements from reserves. The forecast overspend has reduced significantly from quarter 1. Whilst several services have seen minor movements, the major movement is within Adult Care and Support Services where the forecast overspend has reduced by £3.275m. However, the service budget continues to be under pressure and, whilst the recovery plan currently in place will address some of the pressures and delivery of the savings plan, this will not fully mitigate the service overspend.

Services have two key financial indicators (savings delivered against target savings and outturn against budget); these are reported alongside their performance information (see appendix 1 to the Integrated Performance Management Report).

Corporate Items

Corporate items, including contingency and capital financing & interest, are forecast to underspend by £0.840m, net of proposed transfers to reserves of £4.198m.

From the original corporate contingency, £3m has been vired to Adult Care & Support to fund known income shortfalls within the Better Care Fund. The remaining £6m undistributed balance 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.

Corporate items also includes 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 £0.233m.

Proposed (Unbudgeted) Reserve Movements

The outturn position above includes the following proposed transfers to / from reserves.

	Contribution from BER	Contribution to BER	Contribution from Specific Reserve	Contribution to Specific Reserve	Total Transfer to/(from) Reserves
	£m	£m	£m	£m	£m
Education, Health and Social Care	(1.082)	-	(3.881)	1.424	(3.539)
Economy, Enterprise and Environment	(1.540)	-	(1.179)	0.034	(2.685)
Community & Organisational Development	(0.295)	-	(0.008)	0.100	(0.203)
Corporate Items	-	-	-	4.198	4.198
Capital Financing and Interest Receipts	-	-	-	-	-
Total	(2.917)	-	(5.068)	5.756	(2.229)

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 £29.723m, equivalent to just over 3% of the Councils annual gross revenue expenditure.

Reserves	Opening Balance 1st April 2016	Budgeted Transfers (to) / from reserves 2016/17	Proposed revenue transfers (to) / from reserves 2016/17	Proposed capital transfers (to) / from reserves 2016/17	Forecast Balance 31st March 2017
	£m	£m	£m	£m	£m
General Fund	(33.081)	5.418	-	-	(27.663)
Directorate Budget Equalisation Reserves	(5.977)	1.000	2.917	-	(2.060)
Earmarked Reserves (including PFI)	(142.047)	(1.733)	(1.796)	11.439	(134.137)
Held on Behalf of Partners	(43.684)	(0.137)	1.108	-	(42.714)
Total	(224.790)	4.548	2.229	11.439	(206.574)

Housing revenue account (HRA)

The HRA forecast year end position is given below.

HRA Budget & Forecast as at 30th September 2016			
	Annual Budget 2016/17 £m	Forecast 2016/17 £m	Forecast Variance 2016/17 £m
Total Income	(40.341)	(40.399)	(0.058)
Total Expenditure	32.171	32.165	(0.006)
Net Cost of HRA Services	(8.170)	(8.234)	(0.064)
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	(0.222)	(0.222)

When compared to the budgeted position the current Housing Revenue Account (HRA) forecast suggests a favourable position compared to budget of £0.222m at the end of the financial year.

The forecast variance can be analysed as follows:

- 1) 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.
- 2) A forecast reduction in borrowing costs of £0.245m based on a reduced consolidated rate of interest.
- 3) Income from dwelling rents is forecast to be £0.127m lower than budgeted and can be attributed to a sudden increase in the number of right to buy sales so far this year. However this has been offset by £0.185m additional income from non-dwelling rents and rechargeable repairs.

Treasury Management

As at 30th September 2016 Cornwall Council's total debt was £654m, including £635m long term and £19m short term debt.

However this is reduced by investments of £448m, with £136m long term and £312m short term, leaving a net debt position of £206m.

- Borrowing; Average interest rate payable on debt to 30th September was 4.35%.
- Investments; Average investment returns to 30th September were 1.26% compared to the average 7 day LIBID to 30th September of 0.28%.

Virements

In accordance with the financial regulations as being greater than £500,000, the following virements are recommended to Cabinet for approval:

- £3.000m from Contingency (Corporate Items) to Adult Care & Support to fund the shortfall in known income shortfalls within the Better Care Fund;
- £1.689m within Commissioning, Performance & Service Improvement from Business Support to Strategic Management to re-align delegated schools budget to reflect new structure;
- £0.978m within Adult Care and Support from Commissioned Care Costs to Assessment & Care Management to transfer Deprivation of Liberty's funding;
- £0.775m from Corporate Items to Estates (Commissioning & Asset Management) in respect of income from depot costs to transfer the responsibility to the service;
- £0.715m from Strategy Support team (Commissioning, Performance & Service Improvement service) to Assessment and Care Management (Adult Care and Support service) to realign Learning, Training and Development Unit budget;
- £0.686m from Information Services Management (Governance and Information) to Human Resource Transactional Services (Business Planning & Development / People Management, Development & Wellbeing) for transactional services following the transfer of the BT Cornwall contract back in-house;
- £0.652m within Commissioning, Performance & Service Improvement from Business Support to Strategic Management to transfer directorate leadership budget;
- £0.639m within Commissioning & Asset Management from Natural Environment to Waste to transfer the closed landfill budget;
- £0.500m within Adult Care and Support from Pooled Funds to Commissioned Care Costs following a review of Supported Living Service pooled fund budget.

In accordance with the financial regulations, as being over £250,000 and up to £500,000, the following virements were approved by Directors and S151 officer during the last quarter:

- £0.463m from Strategic Environment (Strategy, Economy, Enterprise and Environment service) to Corporate Items to transfer superannuation lump sum deficit charges to Corporate budgets;
- £0.310m within Commissioning, Performance & Service Improvement from Long Term Care & Extra Care to Partnerships and Improvement in respect of Healthwatch;
- £0.306m within Childrens Early Help, Psychology and Social Care from Youth Offending to Children in Care and Care Leavers following transfer of Youth Offending service;
- £0.290m from Assessment & Care Management (Adult Care & Support service) to Corporate Items to transfer superannuation lump sum deficit charges to Corporate budgets.

These virements are reflected in the revenue budgets outlined in this report.

Write Offs

In compliance with the Council's financial regulations, it is sought that the debt listed below is approved for write off in the 2016-17 accounts. This debt has been fully provided for in the Council's provision for bad debts so writing off the debt will have no impact on this year's budget.

Sundry Debt invoice 98105106 – South West Water £141,720

The invoice was issued to South West Water on the 20th July 2012 for:

“Works associated with the design and reinstatement of the existing support to the highway following the failure of the South West Water water main in Malpas Road, Truro, in December 2009”.

On receipt of the invoice the matter was passed into the hands of South West Water's solicitors as they disputed liability for the landslip and any losses flowing from it.

The case was forwarded to the Cornwall Council Litigation team to liaise between the Highways team and South West Water's solicitors. On the 9th July 2015, Cornwall Council's Highways and Drainage Manager reviewed the evidence and, with the Litigation team, concluded that given the real difficulty of proving the cause of the collapse and the fact that South West Water did cover the costs of the design work it is considered uneconomical to take the matter any further.