

Financial Performance – Quarter 3 2016-17 (December 2016)

Overview

This report details the financial position as at end of the third quarter 2016-17 (31 December 2016), and covers an overview of the Councils revenue position, key financial indicators, corporate items and reserves as well as sections on the housing revenue account, treasury management and proposed virements.

Revenue Summary

The table below gives the latest revenue forecast outturn. The forecast outturn for financial year 2016/17 is an underspend of £2.737m.

	Latest Budget £m	Forecast Outturn £m	Variance £m
<u>Services</u>			
- Spend	871.114	887.931	16.817
- Income	(436.983)	(445.082)	(8.099)
- Transfer to/(from) reserve	(1.908)	(3.349)	(1.441)
	432.223	439.500	7.277
<u>Corporate Items</u>			
- Spend	83.831	70.510	(13.321)
- Income	(18.794)	(17.920)	0.874
- Transfer to/(from) reserve	(2.640)	3.242	5.882
	62.397	55.832	(6.565)
Total	494.620	495.332	0.712
<u>Funded:</u>			
- Council Tax	(252.610)	(252.610)	-
- Business Rate Retention Scheme	(75.960)	(75.960)	-
- Revenue Support Grant	(65.297)	(65.297)	-
- Other Government Grants	(100.753)	(104.202)	(3.449)
	(494.620)	(498.069)	(3.449)
Total Variance			(2.737)

The Cabinet, and approved by Full Council at its meeting 21 February, has proposed that the forecast underspend of £2.737m is transferred to Corporate BER and that this is used, in part, to fund a complete freeze of car parking fees in 2017/18 (c.£0.699m). An amount of £0.591m will also be used next year to fund the additional shortfall arising as a result of the latest Government funding settlement.

Key financial indicators

	Latest Budget £m	Forecast Outturn £m	Variance £m	Quarter 2 Variance for information £m
Revenue Key Performance Indicator				
Services Forecast Net Expenditure against Budget	432.223	439.500	7.277 (Amber)	8.164 (Amber)
Total Forecast Net Expenditure against Budget	494.620	491.883	(2.737) (Green)	4.379 (Amber)
Forecast Savings Deliverable against Target Savings	40.443	23.534	(16.909) (Red)	(16.967) Red

In summary, although the Council forecasts an underspend of £2.737m in this financial year, there are £16.909m undelivered savings which are being mitigated this year by one-off savings or proposed movements from reserves. There is a risk that where these savings are still planned to be delivered that this will create a pressure unless the savings are delivered or mitigated in future financial years.

Service Financial Indicators

As outlined above, the forecast overspend in services is £7.277m, which is net of £1.441m proposed movements from reserves.

Adult Social Services is now forecasting a £5.667m overspend, an improvement of £0.5m on the quarter 2 forecast following the ongoing management action plan. As previously reported, the overspend is partly due to significant pressures on residential and nursing home fees in respect of the Council supporting the market and the non-delivery of planned savings. One-off savings have partly mitigated these pressures in this financial year.

Other significant pressures include a £1.992m overspend within Neighbourhood & Public Protection mainly due to shortfall on Library and Information Services devolution and Customer & Digital services saving targets.

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 Council Performance Report).

Corporate Items

Corporate items, including contingency, are forecast to underspend by £6.565m, which is net of proposed transfers to reserves of £5.882m.

The contingency budget is forecast to underspend by £5.985m. From the original corporate contingency, £3m has been transferred to Adult Social Care to fund known income shortfalls within the Better Care Fund. From the Leaders

Appendix 2 - Financial Performance Q3 2016-17

contingency £0.015m is earmarked for the 'Who Decides' public consultation events.

Capital Financing & Interest is forecast to underspend by £4.500m following approval to adjust the Council's Minimum Revenue Provision (MRP) policy by Full Council as part of the Treasury Management Mid-Year Review.

Shortfall against the target group company returns of £2.450m, 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.

As approved by Cabinet at its meeting on 13 July, an additional £2.945m for investment in highway network improvements has been included, this is funded from additional rural services delivery grant.

Additional retained business rates from renewable energy sites are expected to exceed budgeted income levels by £0.916m, a large proportion of which is one-off only and relating to prior years.

Funding

Funding includes an additional rural services delivery grant of £2.945m which was announced late by the government as a result of consultation by rural authorities on the local government settlement. This is to be used for investment in highway network improvements.

It is expected there will be receipt of additional £0.625m in respect of section 31 grants compensating the council for reducing business rate revenues as a result of government imposed initiatives including, for example, extended Small Business Rate Relief.

Proposed (Unbudgeted) Reserve Movements

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

	Contribution from BER £m	Contribution to BER £m	Contribution from Earmarked Reserve £m	Contribution to Earmarked Reserve £m	Total Transfer to/(from) Reserves £m
Children, Families & Health	(1.082)	-	(3.487)	1.560	(3.009)
Economic Growth & Development	(0.740)	-	(1.363)	0.305	(1.798)
Neighbourhoods	(0.100)	-	(0.087)	3.636	3.449
Customer & Support Services	(0.795)	-	(0.178)	0.090	(0.883)
Wellbeing & Public Health	-	-	-	0.800	0.800
Corporate Items	-	-	(0.191)	6.073	5.882
Capital Financing and Interest Receipts	-	-	-	-	-
Total	(2.717)	-	(5.306)	12.464	4.441

Reserves Forecast

The following table sets out earmarked and general fund balances brought forward from 2015/16 and the forecast position as at 31 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 31 March 2017 is £38.187m, equivalent to just under 4% of the Councils 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	(33.081)	5.418	-	-	(27.663)
Directorate Budget Equalisation Reserves	(5.977)	1.000	2.717	-	(2.260)
Corporate Budget Equalisation Reserve	(10.554)	2.568	(0.278)	-	(8.264)
Earmarked Reserves (including PFI)	(131.493)	(4.301)	(7.522)	10.943	(132.374)
Held on Behalf of Partners	(43.684)	(0.137)	0.642	-	(43.179)
Total	(224.790)	4.548	(4.441)	10.943	(213.740)

As approved as part of the budget setting process, from 2017/18 the balance on Directorate reserves will transfer into the Corporate BER.

Housing revenue account (HRA)

The HRA forecast year end position is given below.

HRA Budget & Forecast as at 31 December 2016	Annual Budget 2016/17 £m	Forecast 2016/17 £m	Forecast Variance 2016/17 £m
Total Income	(40.341)	(40.460)	(0.119)
Total Expenditure	32.171	32.175	0.004
Net Cost of HRA Services	(8.170)	(8.285)	(0.115)
Corporate & Democratic Core	0.370	0.370	0.000
HRA share of other operating income & expenditure	7.800	7.528	(0.272)
(Increase)/decrease in HRA balance	0	(0.387)	(0.387)

Appendix 2 - Financial Performance Q3 2016-17

When compared to the budgeted position the current Housing Revenue Account (HRA) forecast suggests a favourable position compared to budget of £0.387m at the end of the financial year.

The forecast variance can be analysed as follows:

- 1) Higher contribution to capital of £0.393m. This is due to delays in the 2015-16 capital programme, which have been carried forward to 2016-17. This will be funded from HRA reserves, originally estimated to be £1.037m but now reduced to £0.393m due to on-going delays in procuring and programming the necessary works. The capital programme budget has been revised to take account of all known movements and was approved by Cabinet on 25 January 2017.
- 2) Reduction in borrowing costs of £0.665m. This estimate is based on a lower than anticipated capital financing requirement, due to the offsetting of attributable debt, from increased levels of right to buys, along with a more preferential consolidated rate of interest.
- 3) Income from dwelling rents is forecast to be £0.069m lower than budgeted and can be attributed to an increase in the number of right to buy sales so far this year. However this has been offset by £0.188m additional income from non-dwelling rents and rechargeable repairs. For comparison purposes only 32 properties were sold from April 2015 – December 2015 compared to 57 properties from April 2016 – December 2016. The most likely explanation for such an increase was the Governments introduction of “pay to stay”, which would have required tenants to pay a market rent from April 2017. However this scheme was scrapped in a Government announcement on Tuesday 22 November 2016

Treasury Management

As at 31 December 2016 Cornwall Council's total debt was £689m, including £635m long term and £54m short term debt. Average interest rate payable on debt to 31 December was 4.41%.

Investments totalled £457m, with £156m long term and £301m short term, giving rise to a net debt position of £232m. The average investment return to 31 December was 1.25% compared to the average 7 day LIBID to 31 December of 0.12%.

Budget Virements

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

- £1.090m from Environment to Corporate Items for receipt of Cornwall Inshore Fisheries and Conservation Authority (CIFCA) levy.

This virement is reflected in the revenue budgets outlined in this report.