

FINANCIAL PERFORMANCE – QUARTER 2 2017-18

Overview

This report details the financial position as at the end of the second quarter of 2017/18 (30 September 2017).

Financial Performance Indicators – Quarter 2 2017/18 [September]

The table below gives the Key Financial Performance Indicators as at September 2017.

Revenue Key Performance Indicator	Latest Budget £m	Forecast Outturn £m	Variance £m	RAG Status
Services Net Expenditure against Budget	466.471	472.633	6.162	Amber
Total Net Expenditure against Budget	518.780	519.796	1.016	Amber
Savings Delivered against Target Savings	35.531	27.569	(7.962)	Red

In summary, the Council is currently forecasting a small overspend of £1.016m, including undelivered savings of £7.962m which are being mitigated by one-off savings or proposed movements from reserves. Although the percentage delivered is an improvement on previous years, there is a risk that this will create a pressure on next year's budget.

As part of the 2018/19 budget setting process, savings have been reviewed to ensure they are still accurate and deliverable. Where it is considered savings shortfalls are still deliverable in later years, the savings plans have been re-profiled. These will be available for consultation before final saving plans are approved.

Revenue Summary

The table below gives the forecast revenue outturn by directorate. The forecast outturn for financial year 2017/18 is a £1.016m overspend. This is net of a £30m transfer to reserves, which includes £24m for Highway maintenance capital works as a consequence of funding changes arising from the Council's 100% business rate retention pilot.

	Latest Budget £m	Forecast Outturn £m	September Variance £m	June Variance £m
<u>Children Families and Adults</u>				
- Spend	400.307	414.317	14.010	18.555
- Income	(166.510)	(176.554)	(10.044)	(14.456)
- Transfer to/(from) reserve	(2.148)	(2.944)	(0.796)	(0.902)
	231.649	234.820	3.171	3.197
<u>Economic Growth & Development</u>				
- Spend	62.189	69.981	7.792	2.609
- Income	(34.574)	(38.413)	(3.839)	(1.783)
- Transfer to/(from) reserve	25.990	22.106	(3.883)	(0.708)
	53.605	53.674	0.069	0.119
<u>Neighbourhoods</u>				
- Spend	120.471	121.666	1.195	2.120
- Income	(27.935)	(26.420)	1.515	0.502
- Transfer to/(from) reserve	(1.377)	(1.782)	(0.405)	(0.526)
	91.159	93.464	2.305	2.097
<u>Customer & Support Services</u>				
- Spend	288.377	297.870	9.493	7.956
- Income	(229.084)	(237.431)	(8.347)	(6.124)
- Transfer to/(from) reserve	4.632	4.104	(0.528)	(0.476)
	63.925	64.543	0.618	1.355
<u>Public Health</u>				
- Spend	28.293	27.688	(0.605)	(0.261)
- Income	(0.960)	(0.955)	0.005	(0.039)
- Transfer to/(from) reserve	(1.200)	(0.600)	0.600	0.300
	26.133	26.133	(0.000)	0.000
Directorate total	466.471	472.633	6.162	6.767
<u>Corporate Items</u>				
- Spend	55.664	44.636	(11.028)	(2.423)
- Income	(8.541)	(2.110)	6.431	(2.192)
- Transfer to/(from) reserve	5.186	4.924	(0.262)	(0.385)
	52.309	47.450	(4.859)	(5.000)
Total	518.780	520.083	1.303	1.767
<u>Funded:</u>				
- Council Tax	(259.818)	(259.818)	0.000	0.000
- Business Rate Retention Scheme	(160.789)	(160.789)	0.000	0.000
- Revenue Support Grant	(10.800)	(10.800)	0.000	0.000
- Other Government Grants	(87.373)	(87.660)	(0.287)	(0.289)
	(518.780)	(519.067)	(0.287)	(0.289)
Total Variance			1.016	1.478

Service Summary

As outlined above, the forecast overspend in directorates is £6.162m, net of total movements to reserves of £20.884m. At a service level the most significant variances are set out below:

	Outturn Variance		Savings shortfall	
	£m	Status	£m	Status
Adult Social Care	3.250	Red	4.092	Red
Neighbourhood & Public Protection	1.543	Red	1.712	Red
Resilient Cornwall	0.675	Red	0.238	Red
Commercial Services	0.318	Red	0.550	Red
Strategy & Engagement	0.900	Red	0.400	Red

Adult Social Care forecast a £3.250m overspend. There is a significant ongoing pressure of £11.8m within packages of care. This is caused, at least in part, by a shortfall of £4m by the re-phrasing of achieving the targeted Adults Transformation Plan Medium Term Financial Plan saving. One-off funding totalling £6m has been used to mitigate this shortfall.

The Adults savings plan has been recently reviewed and alternative savings have been considered to cover the shortfall, which will be included in the 2018/19 budget and MTFP.

Neighbourhood & Public Protection forecast a £1.543m overspend mainly due to delayed delivery of savings plans. The two main savings plans which will be delayed are the library transformation programme and additional income generation from the public protection services commercial programme. These savings have been re-profiled for delivery in 2018/19 and 2019/20.

Resilient Cornwall forecast an overspend of £0.675m. High operational activity has put pressure on the 'on call' firefighter budget. It is also likely that vacancy management savings will not be delivered due to operational demands. In addition, there is a shortfall of funding from partners for Domestic Abuse and Sexual Violence services. This has been escalated through the Safer Cornwall Partnership Board and the budget is being reviewed through the current budget process.

Commercial Services forecast an overspend of £0.318m. This is mainly due to deferred delivery of savings plans including the integrated renewable energy programme and staffing savings. Other one off pressures, mainly due to demolition of empty sites, have been largely mitigated by reduced costs and additional income.

Strategy & Engagement forecast an overspend of £0.900m mainly due to non-delivery of savings in relation to the transformation challenge award relating to our work with the voluntary sector. This saving has been re-profiled to 2018/19.

Customer Access & Digital Services. Though there is little overall variance, a significant variance in Housing Benefit payments is forecast which is off-set by corresponding government grants. This explains the significant expenditure and income variance in the Customer & Support Services directorate.

Corporate Items

Corporate Items are forecast to underspend by £4.859m, net of total movements to reserves of £4.924m.

The contingency budget of £5m is currently uncommitted and this is included in the forecast as an underspend.

It is expected there will be a £1.318m shortfall on the return from the Councils Group of Companies.

Additional retained business rates from renewable energy sites exceeded budgeted income levels by £0.926m, a large proportion of which is one-off only.

Funding

The variance in corporate funding of £0.287m reflects additional grant funding received from Central Government. In the Spring budget, the Government announced further Business Rate relief measures supporting Small Businesses, Public Houses and a local discretionary scheme protecting those businesses most affected by the April revaluation.

As a result of these additional measures and additional Small Business Rate Relief being awarded, business rate revenues this year will be lower than previously expected. The Government will compensate for those losses through additional section 31 grant of circa £4m and this will be rolled over into reserves and utilised in 2018/19 to mitigate any impact of loss on the Collection Fund. As the additional grant income is off-set by a corresponding transfer to reserves, it has no impact on the forecast variance.

Reserve Movements

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

	Budgeted Transfers to / (from) Reserves £m	Proposed (Unbudgeted) Reserves			Total Unbudgeted Transfer to / (from) Reserves £m	Total Transfer to / (from) Reserves £m	
		Contribution from Corporate BER £m	Contribution to Corporate BER £m	Contribution from Earmarked Reserve £m			Contribution to Earmarked Reserve £m
Children Families & Adults	(2.148)	-	-	(1.404)	0.609	(0.796)	(2.944)
Economic Growth & Development	25.990	(0.117)	-	(3.766)	-	(3.883)	22.106
Neighbourhoods	(1.377)	(0.051)	-	(0.354)	-	(0.405)	(1.782)
Customer & Support Services	4.632	(0.100)	-	(0.428)	-	(0.528)	4.104
Wellbeing & Public Health	(1.200)	-	-	-	0.600	0.600	(0.600)
Corporate Items	(4.814)	-	-	(0.512)	0.250	(0.262)	(5.076)
Capital Financing & Interest Receipts	10.000	-	-	-	-	-	10.000
Funding	-	-	-	-	4.000	4.000	4.000
Total	31.083	(0.268)	-	(6.465)	5.459	(1.274)	29.808

Budgeted transfers:

Budgeted reserves include a contribution of £26m from Economic Growth & Development directorate for highway maintenance works. This is a consequence of the changes to the way the Council is funded as a result of the 100% business rates retention pilot. Previously, a specific capital grant for highways maintenance was received to fund the capital works. However, this income is now treated as revenue as part of our retained business rates, and therefore a transfer from the revenue budget into a capital reserve is required to fund the capital programme.

A £10m transfer from Capital Financing & Interest Receipts was budgeted to fund the future growth agenda.

Unbudgeted transfers:

Proposed (unbudgeted) reserve movements may be required where, for example, unexpected costs have been incurred which cannot be contained within service budgets, funding has been received in advance of the financial year, revenue projects are funded from the Capital Financing reserve and there are over and underspends within ring fenced budgets such as partnership schemes. As previously agreed, balances in the Directorate Budget Equalisation Reserves were transferred to the Corporate Budget Equalisation Reserve with a commitment to support any proposed use in 2017/18.

In accordance with the Financial Regulations Cabinet must approve the use of reserves. The following movements are recommended to Cabinet for approval. Explanations for movements over £0.500m are provided.

Appendix 2 – Financial Performance Q2 2017-18

Proposed Reserve Movements	Reserve	Proposed movements from reserves £m	Proposed movements to reserves £m	Net movements to (from) reserves £m	Note
Children Families & Adults	Adult Education General Reserve	(0.138)	-	(0.138)	
	Adults Grants Reserve	(0.107)	-	(0.107)	
	Carers Pooled Fund Reserve		0.020	0.020	
	Children's Grant Reserve	(0.034)	0.475	0.442	
	Local Safeguarding Childrens Board Reserve	(0.016)	-	(0.016)	
	One Vision Reserve	-	0.044	0.044	
	Youth Foundation Fund	(1.109)	0.001	(1.108)	1
	Youth Offending Trust General Reserve	-	0.069	0.069	
	Sub Total	(1.404)	0.609	(0.796)	
Economic Growth & Development	Capital Financing Reserve	(2.340)	-	(2.340)	2
	Communities Grant Reserves	(0.042)	-	(0.042)	
	Corporate Budget Equalisation Reserve	(0.117)	-	(0.117)	
	Local Development Framework Reserve	(0.185)	-	(0.185)	
	Unapplied Revenue Grants Reserve	(0.057)	-	(0.057)	
	Wave Hub Reserve	(1.143)	-	(1.143)	3
	Sub Total	(3.883)	-	(3.883)	
Neighbourhoods	Corporate Budget Equalisation Reserve	(0.051)	-	(0.051)	
	Household Waste Collection Reserve	(0.320)	-	(0.320)	
	Local Nature Partnership Reserve	(0.034)	-	(0.034)	
	Sub Total	(0.405)	-	(0.405)	
Customer & Support Services	Corporate Budget Equalisation Reserve	(0.100)	-	(0.100)	
	Council Tax Hardship Reserve	(0.350)	-	(0.350)	
	County Election Fund	(0.027)	-	(0.027)	
	Healthy Lifestyles Reserve	(0.026)	-	(0.026)	
	Support Services Transformation Reserve	(0.025)	-	(0.025)	
	Sub Total	(0.528)	-	(0.528)	
Wellbeing & Public Health	Public Health Reserve	-	0.600	0.600	4
	Sub Total	-	0.600	0.600	
Corporate Items	Council Tax Hardship Reserve	-	0.250	0.250	
	CTO Vehicle Reserve	(0.512)	-	(0.512)	5
	Sub Total	(0.512)	0.250	(0.262)	
Funding	Capital Financing Reserve	-	4.000	4.000	6
	Sub Total	-	4.000	4.000	
	Total	(6.733)	5.459	(1.274)	

Notes

1. Youth Foundation Fund (£1.108m) – draw down from reserve to fund pressures in the post 16 transport service and to support the Enterprise Advisor Programme.
2. Capital Financing Reserve (£2.340m) – draw down from reserve mainly for the funding of the highways maintenance works (£2m) and to fund the revenue spend in the Housing Development Programme (£0.325m).
3. Wave Hub Reserve (£1.143m) – draw down of funding received in advance to provide operational support to the Wave Hub team.
4. Public Health Reserve (£0.600m) – to adjust budgeted reserve funding which is not required in this financial year due to one off underspends.
5. CTO Vehicle Reserve (£0.512m) – to adjust the budgeted reserve movement which is required due to forecast shortfall in income.
6. Capital Financing Reserve (£4.000m) – additional s31 grants as detailed earlier in the report.

The flash flooding at Coverack on the 18 July resulted in emergency response and follow up costs which incurred costs of £0.250m. If these costs cannot be contained within service budgets, it is proposed they will be funded from the Adverse Weather reserve. This is not included in the proposed reserve movements above.

Reserves Forecast

The following table sets out earmarked and general fund balances brought forward from 2016/17 and the forecast position as at 31st March 2018.

Reserves	Opening Balance 1st April 2017 £m	Budgeted Transfers (to) / from reserves 2017/18 £m	Unbudgeted revenue transfers (to) / from reserves 2017/18 £m	Proposed capital transfers (to) / from reserves 2017/18 £m	Forecast Balance 31st March 2018 £m
General Fund	(27.663)	0.450	-	-	(27.213)
Corporate Budget Equalisation Reserve	(14.434)	9.129	0.268		(5.037)
Earmarked Reserves (including PFI)	(169.139)	(35.298)	0.077	33.366	(170.993)
Held on Behalf of Partners	(35.412)	(5.364)	0.928	-	(39.848)
Total	(246.648)	(31.083)	1.274	33.366	(243.091)

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 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 balance at 31st March 2018 is £27.213m, equivalent to just under 3% of the Council's annual gross revenue expenditure.

Housing Revenue Account (HRA)

The HRA forecast year end position is given below.

Housing Revenue Account	Annual Budget 2017/18 £m	Forecast 2017/18 £m	Forecast Variance 2017/18 £m
Total Income	(39.631)	(40.286)	(0.655)
Total Expenditure	31.066	31.911	0.845
Net Cost of HRA Services	(8.565)	(8.375)	0.190
Corporate & Democratic Core	0.370	0.370	-
HRA share of other operating income & expenditure	8.195	7.823	(0.372)
(Increase)/decrease in HRA balance	-	(0.182)	(0.182)

The Housing Revenue Account (HRA) forecasts a surplus of £0.182m in 2017/18.

Income from dwelling rents is forecast to be £0.353m higher compared to budget. This is due to increased dwelling rents and favourable void levels. In addition there has been an increase in non-dwelling rent income, including service charges and rechargeable repairs, totalling £0.302m.

The expenditure variance is mainly due to an increase in depreciation chargeable to the HRA which is estimated to increase by £0.867m following a change from 31% to 35% in the valuation of properties in the south west region. This will be confirmed when the revaluation exercise is completed later this year. The management fee payable to Cornwall Housing Ltd. (CHL) is forecast to be £0.022m below budget as costs of new services transferred to CHL are lower than expected.

HRA share of other operating income and expenditure is forecast to be £0.372m below budget. This is predominantly due to a lower consolidated rate of interest and a reduced capital financing requirement (the underlying need to borrow) than budgeted of £0.363m.

Treasury Management

As at 30 September 2017 Cornwall Council's total debt was £648m, broken down as £636m of long term and £12m of short term debt. Average interest rate payable on debt to 30 September was 4.37%.

Investments totalled £415m, with £147m long term and £268m short term. This gives rise to a net debt position of £233m. The average investment return to 30 September was 1.09% compared to the average 7 day LIBID lending rate to 30 September of 0.11%.

Virements

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

- £0.758m from Adults Transformation & Commissioning to Children and Family Services to reallocate prevention contracts.
- £4.508m from Adult Social Care to Adults Transformation & Commissioning to realign budgets due to the changes in senior management structure.
- £0.950m from Transport and Infrastructure to Economic Growth to set up a feasibility fund for potential future growth projects.

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

- £0.380m from Housing to Economic Growth to set up a feasibility fund for potential future growth projects.

Write Off

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

The Bolitho School (PZ) Ltd, Polwithen Road, Penzance.

Details of write off: Non Domestic Rates arrears of £78,993.17 relating to the period 1st September 2015 to 14th September 2016.

Reason: Company is insolvent. Practitioners were appointed on 14th September 2016 to wind up the company. Confirmation has now been received from Begbies Traynor that the company is in liquidation. Therefore no funds are available to pay creditors.