

P&R SELECT COMMITTEE BRIEFING

Finance Update

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Head of Finance

2013/14 Revenue Outturn

- Net service underspend of £1.6M (transfer to cost of change reserves – successful strategy to date)
- £3.4M overspend within ETE mainly as a result of responding to flooding
- Other underspends / savings in treasury management and contingencies £13.4M
- Net overall saving of £10M - £1M used for management development and £9M to Grant Equalisation Reserve

Treasury Management

- All activity undertaken within prudential indicators and borrowing limits
- Continue to use cash reserves to avoid long term borrowing and the 'cost of carry'
- Moving in to pooled property funds
- Recommendation to add Bond Investments to the portfolio to spread risk and avoid 'bail in'
- Clear link between bond duration and required credit rating

Bail In – ‘Taking a Haircut’

TABLE 2: IMPACT OF A % LOSS OF RISK-WEIGHTED ASSETS

Loss												
1%	E	E	E	E	E	E	E	E	E	E	E	E
2%	E	E	E	E	E	E	E	E	E	E	E	E
3%	E	E	E	E	E	E	E	E	E	E	E	E
4%	E	E	J	J	E	E	E	E	E	E	E	E
5%	E	E	10%	J	E	E	E	J	E	E	E	E
6%	J	E	13%	J	E	E	E	J	J	J	J	E
7%	J	E	15%	J	E	E	E	J	J	J	J	J
8%	J	E	18%	J	E	J	E	J	J	J	J	J
9%	J	J	21%	J	E	J	E	J	J	J	J	J
10%	J	10%	23%	J	32%	J	E	J	J	J	J	J
11%	J	13%	26%	2%	43%	J	E	J	J	J	J	J
12%	3%	16%	29%	3%	53%	J	E	J	5%	8%	J	J
13%	4%	19%	32%	3%	64%	J	J	9%	7%	10%	J	J
14%	5%	22%	34%	4%	75%	J	J	10%	9%	12%	3%	J
15%	6%	26%	37%	4%	86%	J	12%	12%	11%	14%	4%	J
16%	7%	29%	40%	5%	97%	J	15%	14%	13%	16%	5%	J
17%	8%	29%	42%	5%	100%	J	18%	15%	15%	18%	6%	J
18%	9%	29%	45%	6%	100%	J	21%	17%	17%	20%	7%	J
19%	10%	29%	48%	6%	100%	J	25%	18%	18%	22%	8%	J
20%	10%	29%	50%	7%	100%	4%	28%	20%	20%	24%	8%	J

E - Loss is covered by equity

J - Loss is covered by a bail-in of junior debt

% - Loss to be covered by a bail-in of senior unsecured debt and uninsured deposits

Reserves Strategy

Strategy is based on :

- **Planning ahead of time and implementing efficiencies and savings in advance of need**
 - **Generating surplus funds in the early part of the programme**
 - **Using these resources to fund investment and transformation in order to achieve the next phase of savings**
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- Given this strategy, if reserves did not continue to rise over the next few years it may mean there is something wrong with the programme
 - We balanced the 2013/14 budget gap by using £48.4M of savings made in advance of need!
 - We balanced the 2014/15 budget by drawing £25M from the Grant Equalisation Reserve

Reserves

	Balance 31.3.2013 £'000	Balance 31.3.2014 £'000	% of Total %
<u>Fully Committed to Existing Spend Programmes</u>			
Capital Grants Unapplied	74,967	71,778	14.9%
Revenue Grants Unapplied	18,448	40,667	8.4%
General Capital Reserve	89,316	129,272	26.8%
Street Lighting Reserve	2,395	3,893	0.8%
Community Transport Reserve / Other	1,550	1,651	0.3%
	186,676	247,261	51.3%
<u>Departmental / Trading Areas</u>			
Trading Accounts	13,780	14,691	3.0%
Departmental - Cost of Change Reserve	30,601	30,543	6.3%
	44,381	45,234	9.4%

Reserves

	Balance 31.3.2013 £'000	Balance 31.3.2014 £'000	% of Total %
<u>Risk Reserves</u>			
Insurance Reserve	22,043	24,837	5.2%
Local Government Resource Review	6,150	6,150	1.3%
	28,193	30,987	6.4%
<u>'Available' Reserves</u>			
Corporate Policy Reserve	1,979	3,676	0.8%
Invest to Save	10,154	10,073	2.1%
Corporate Efficiency Reserve	9,235	8,931	1.9%
Organisational Change Reserve	10,018	7,854	1.6%
Grant Equalisation Reserve	48,460	50,464	10.5%
	79,846	80,998	16.8%

Reserves

	Balance 31.3.2013 £'000	Balance 31.3.2014 £'000	% of Total %
HCC Earmarked Reserves	339,096	404,480	84.0%
Schools Reserves	44,870	49,572	10.3%
Total Earmarked Reserves	383,966	454,052	94.3%
General Fund Balance	34,795	27,697	5.7%
Total Reserves and Balances	418,761	481,749	100.0%

Capital Programme Review

- Total programme of £765m over 4 years
- “The largest injection of public sector capital within the County over the same time period”
- “Capital is the new revenue”

- £188m of new starts committed during 2013/14
- £108m carried forward to future years
- £212m actually spent in year (£181m 12/13 - £162m 11/12)

Capital Programme Review

- Further £10m Government funding to be invested in super fast broadband up to 97 – 98% coverage plus other technologies
- Feasibility for secondary school places
- £26m out of £42m available to provide 200 further Extra-Care units 2 years earlier than planned
- £6m for Extra-Care for younger adults and balance of £10m to remain unallocated in programme
- £5.8m for flooding issues
- £3.1m for buildings and IT infrastructure
- Matched funding for LEP transport and training accommodation schemes



2015/16 Budget

- Gap of nearly £100m following 2015/16 spending review
- Children's social care costs increasing significantly
- Total gap of £113.2m against TtC 2015 savings programme of £102.5m
- Savings proposals approved as part of 2014/15 budget to give time for delivery
- Net gap of £10.7m met from additional housekeeping savings and draw from GER
- But potential risks from social care pressures and delivery of savings programme



Economic Outlook

- Period of Austerity to 2017/18 ~~possibly~~ almost certainly to 2020
- UK status downgraded from AAA and Debt to GDP ratio poor until 2016
- ~~Slow Growth currently improving but unstable and poor prospects to 2020~~
- First base rate rise in ~~2016~~ 2015?
- Post 2020 - No cuts but any growth?

Medium Term Forecast

- No council tax increases for the period to 2017/18
- Decreases of 10% per annum in all forms of Government grants
- Annual inflation of around £19m per annum
- Full compensation for past CTFG's built into the baseline grant figures from 2016/17 (equivalent to around £28m)
- No allowance for social care growth other than the Children's base budget adjustment in 2015/16
- No allowance for the potential additional cost of the Care Act
- A £6m increase in national insurance contributions as a result of proposed changes to national pensions

Medium Term Forecast

- Gives rise to a predicted recurring deficit of £98m by 2017/18
- This includes the £10.7m net deficit predicted for 2015/16
- Assumes that ALL of the TtC 2015 savings are achieved
- Will require significant one off resources to 'fill the gap' in 2016/17

Medium Term Strategy

- Past strategy of planning and delivering early has served us well
- Review of the 2015 savings programme planned for September to consider if we are ready to switch focus
- Update report expected for October Cabinet
- Plans will need to be developed but Digital Strategy, Business Development Strategy and asset utilisation strategy all to contribute
- Detailed proposals to be worked up with County Council approvals possibly required in Summer 2015 to give sufficient time for implementation