

Corporate Monitoring

Appendix 3 (5) – Finance

Budget Monitoring Report as at 31st March 2020

1 Summary

Finance Service has a provisional outturn underspend of (£4.717m) at the end of March (Q4), compared to an underspend of (£3.449m) reported at the end of December (Q3), a change of (£1.268m). Details are shown below:

Original Budget £m	Service Area	Revised Budget £m	Provisional Outturn £m	Outturn Variance £m	Q3 Variance Reported £m	Change from Q3 Variance £m
0.133	Director of Finance	0.136	0.136	0.000	0.000	0.000
2.549	Finance	2.607	2.255	(0.352)	(0.291)	(0.061)
0.747	Performance and Risk	0.759	0.743	(0.016)	(0.020)	0.004
17.519	Treasury Management	16.413	14.009	(2.404)	(2.138)	(0.266)
3.206	Insurance	4.635	2.690	(1.945)	(1.000)	(0.945)
24.154	TOTAL	24.550	19.833	(4.717)	(3.449)	(1.268)

The key variances at the end of March (Q4) amount to an underspend of (£4.717m) compared to (£3.449m) reported at Q3, a change of (£1.268m):-

- Finance – underspend of (£0.352m)
- Treasury Management – underspend of (£2.404m)
- Insurance – underspend of (£1.945m)

2 Transfers from or to Earmarked Reserves

2.1 The following increases to existing or creation of new EMR's is requested:

- Insurance Reserve – £0.377m
- Treasury Management Reserve - £1.106m.

2.2 The following drawdowns from Earmarked Reserves have been made:

- Insurance Reserve - £1.806m.

3 Request for Revenue Contributions to Capital

3.1 There are no requested Revenue Contributions to Capital as at Q4, no change from that reported at the end of Q3.

4 Service Positions

4.1 Finance (£0.352m)

There are a number of staff vacancies within Finance resulting in an underspend of (£0.352m) compared to the underspend reported at the end of Q3 of (£0.291m) a change of (£0.061m). This is due to delays in new staff starting.

4.2 Treasury Management (£2.404m)

With long term borrowing of £393.7m at 31st March 2020 (unchanged from the borrowing position at 31st December) and investments of £112.4m (£83.0m at 31st December), there is a significant net interest cost included in the Council's budget. Successful treasury management reduces the cost of these transactions and helps to relieve the pressure on the revenue budget.

Annual savings on the net interest budget of (£2.404m) are forecast for 2019/20 as at the end of March 2020 compared to savings of (£2.138m) presented at the end of Q3.

The reported saving on the Treasury Management budget presented at the end of Q3 (£2.404m) is due to the Council's tactical strategy to continue to utilise internal cash balances whilst available rather than externalise borrowing that has already been agreed by Council. The main increase in the underspend compared to Q3 is due to lower than forecast levels of recharges applied at year end.

As noted in the Annual Treasury Management Strategy, offsetting the need for external borrowing with cash balances has enabled the Council to maximise short term savings and minimise the counterparty risk to investments without losing significant investment income. This approach has served the Council well so far and this position will continue to be carefully reviewed to ensure this short term saving is delivered without exposing the council to longer term budget risks.

4.3 Insurance (£1.945m)

The insurance budget underspent in 2019/20 by (£1.945m) compared to a forecast of (£1.000m) at the end of Q3.

- The outturn position for the Insurance budget increased due to three large claims lodged against the Council with a combined potential liability of £0.877m.
- Municipal Mutual Insurance (MMI) were the Council's insurer from 1974 until the early 1990's. MMI became insolvent in 1992 and entered into administration due to insufficient reserves to cover all its potential liabilities. A scheme of arrangement was agreed upon with policyholders, including the Council. Under the scheme of arrangement, the Council currently has financial liability for 25% of all claims lodged against its former policy with MMI. This figure has increased in previous years as new claims have been lodged and existing claims have been settled. There is a risk that the Council could be liable for more than 25% of claims and the Council has previously accounted in its reserves based on 85%.

In January 2020, the Council received a report from Gallagher Insurance Brokers Ltd (the administrators for MMI) noting that they do not expect the Council's liability to be any more than 50% of all claims. The Council has therefore reduced its reserve to 50% of all claims resulting in the reserve held by the Council reducing by £1.806m.

	£
Q3 Forecast Outturn	(£1.000m)
3 large claims lodged against the Council	£0.877m
Amendment to MMI Reserve	(£1.806m)
Other minor amendments	(£0.016m)
Final Outturn	(£1.945m)