



REPORT OF:	HEAD OF FINANCE
AUTHOR:	BILL PALLETT
TELEPHONE:	01737 276560
E-MAIL:	Bill.Pallett@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	30 JUNE 2016
EXECUTIVE MEMBER:	COUNCILLOR G KNIGHT

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	SERVICE & FINANCIAL PLANNING: PROVISIONAL OUTTURN 2015/16
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RECOMMENDATIONS:

- (i) That the provisional revenue and capital outturn position for 2015/16 is noted
- (ii) That the use of reserves proposed in paragraph 11 is endorsed and the Chief Finance Officer is authorised to make the necessary arrangements
- (iii) That the Annual Treasury Management Report (Annex 2) is noted.

REASONS FOR RECOMMENDATIONS:

To advise Members of the revenue and capital expenditure for 2015/16, to seek authorisation for the proposed changes to reserves and to comply with the Council's reporting requirements in relation to Treasury Management activity.

EXECUTIVE SUMMARY:

This report sets out the 2015/16 provisional outturn for revenue (£161,000 underspend) and capital (£7.17m underspend). It identifies and explains key variances, and proposes changes to the levels of the Council's reserves.

Executive has authority to approve the recommendations.

STATUTORY POWERS

1. Decisions on the use of reserves affect the Statement of Accounts. The Council is required to produce the Statement by the *Local Government and Housing Act 1989* and the *Accounts and Audit Regulations 2011*.

ISSUES

2. The accounting records for the year ended 31 March 2016 have been closed and work to prepare the formal Statement of Accounts is complete. The Statement will

form part of the Annual Financial Report which will be presented to Members in the autumn following audit by KPMG (our external auditors).

3. The information in this report is therefore still subject to both minor variation and verification by the Council's external auditor.
4. Table 1 below summarises the provisional outturn position.

Table 1: Provisional Outturn Summary

<u>Description</u>	<u>Budget</u> <u>£000</u>	<u>Outturn</u> <u>£000</u>	<u>Variance</u> <u>£000</u>	<u>Variance</u> <u>%</u>
Capital Programme	22,165	14,995	(7,170)	(32%)
Revenue	16,461	16,300	(161)	(1%)

Capital Programme

5. The outturn for the capital programme is £14,995,000 against a budget of £22,165,000 which gives an underspend of £7,170,000. Due to its very nature the capital programme is not easy to profile accurately and has - historically - underspent by around 20% to 40% per year. The main components of the 2015/16 underspend have been previously reported and are included in the summary below.
 - *Redevelopment of Court Lodge Residential Site:* Due to the contractor starting on site later than anticipated this budget underspent by £1.9m this year. The budget will be reprofiled to reflect the rephrasing of the project but no significant impact on completion date is anticipated.
 - *Merstham Regeneration:* Due to contractor delays this project is also running behind profile resulting in a £2.0m underspend. Again, the budget will be reprofiled and no significant impact on the completion date is anticipated.
 - *Redhill Regeneration:* Contractor issues and payments slipping into the new financial year have generated underspends on the Warwick Quadrant and Marketfield Way sites totalling £1.3m. It is not anticipated that these events will delay the projects.
 - *Waste Blueprint:* £0.4m of Waste Blueprint budget needs to be deferred to the next financial year. This reflects the operational implementation plan of the flats kerbside collection service.
 - *ICT Improvement Programme:* significant payments for new equipment slipped into the new financial year generating an underspend against the budget of £0.4m. No slippage against the project timetable is forecast.
6. Where necessary, all ongoing projects and programmes have been re-profiled to reflect the outturn position and revised plans. Unspent capital budget remains within reserves.

Revenue Budget

7. In February 2015 the Council set a net revenue budget for 2015/16 of £15,670,200. Transfers from the Corporate Plan Delivery Fund during the year resulted in a net

increase to £16,460,700. Actual expenditure for the year was £16,300,000 giving an underspend of £160,700 (1% of the overall budget).

8. The most significant revenue budget pressures for 2015/16 have been highlighted throughout the year and are summarised below:
 - *Waste & Recycling:* As reported during the year, prices for all recyclates – and particularly paper - have reduced significantly. In addition, some recyclates that had previously generated income were incurring disposal costs during the year. The total impact of this was in the region of £500,000 but cost control and other measures have delivered a net overspend of £282,000.
 - *Housing Development & Needs:* An unanticipated – and sustained - level of demand for temporary accommodation has led to higher than budgeted ‘bed and breakfast’ costs. This has resulted in an overspend of £407,700.
9. In both cases steps have been taken to mitigate the impact of these ongoing factors on the 2016/17 budget. In addition, management action during the year generated compensating underspends in a range of services and these resulted in a small underspend overall.
10. These have been described in the Financial Performance reports produced throughout the year, and reflect actions taken to ensure a satisfactory outturn despite difficult economic and market conditions. A full list of outturn variances can be found in Annex 1.
11. Following expenditure during the year of £0.71m, the balance on the Corporate Plan Delivery Fund (CPDF) is £1.39m. It is proposed that the revenue underspend is used to replenish this and that a further £0.45m be transferred from the New Homes Bonus (NHB) reserve to bring the balance on the CPDF to £2.0m. This is set out in Table 2 below.

Table 2: Replenishment of the CPDF

	£000
CPDF Balance at year end	1,389
<i>Add: Underspend</i>	<i>161</i>
<i>Transfer from NHB Reserve</i>	<i>450</i>
New CPDF Balance	2,000

12. This will leave a balance on the NHB reserve of £7.67m

Treasury Management

13. It is a requirement of the Treasury Management Strategy that treasury performance - and performance against the Prudential Indicators - is reported annually.
14. During 2015/16 none of the prudential limits were breached and all decisions were taken in accordance with the Treasury Management Strategy. A full performance report is shown as Annex 2.

OPTIONS

15. The Executive can accept or amend the proposals to adjust reserves as set out in paragraph 11.

LEGAL IMPLICATIONS

16. There are no legal implications.

FINANCIAL IMPLICATIONS

Now

17. The impact of the 2015/16 outturn on the Council's revenue reserves is set out above in paragraphs 11 and 12. The advantage of the proposed approach is that it provides funds to help deliver Corporate Plan priorities without increasing the burden on taxpayers.

Future

18. Looking forward, we know that our Revenue Support Grant from Central Government will cease at the end of this financial year (2016/17). Changes to the Business Rates (NNDR) system - currently at consultation - are likely to mean that we receive little or no NNDR income beyond 2020. If we do nothing this will leave a funding gap of over £3m per year.
19. Whilst we have been planning for financial self-sufficiency for a number of years it is now imperative that new commercial activities are brought "on-stream" as soon as possible.
20. To that end, a report elsewhere on the agenda outlines new proposals for a property investment company.
21. As part of the service and financial planning process, opportunities for efficiencies will continue to be sought out - but given the net savings of around £6m achieved in the last 5 years it is likely that any significant resource reductions will adversely impact our ability to deliver our priorities.

EQUALITIES IMPLICATIONS

22. There are no equalities implications.

COMMUNICATIONS IMPLICATIONS

23. There are no communications implications.

CONSULTATION

24. The Executive Member with responsibility for Finance was consulted during the preparation of this report.
25. The Overview and Scrutiny Committee considered a draft version of this report at its meeting on 15 June 2016. An update will be provided on the views of the Committee.

POLICY FRAMEWORK

26. The Five Year Plan 2015-2020 includes the priority "we will be financially self-sufficient by 2020, without impacting on residents' priorities."

Background Papers:

Executive	31 March 2016	<i>Quarter 3 Performance Report</i>
Executive	7 January 2016	<i>Quarter 2 Performance Report</i>
Executive	10 September 2015	<i>Quarter 1 Performance Report</i>
Council	12 February 2015	<i>Budget & Council Tax 2015/16</i>

Revenue Outturn by Service 2015/16

Service	Budget £000	Outturn £000	Variance £000	Explanation of Significant Variances
Benefits	-3.0	-354.8	-351.8	Unbudgeted income, better than budgeted subsidy grant and recovery of overpayments.
Building Control	-25.2	-107.9	-82.7	Salary cost savings due to vacancies.
Car Parking	-1,857.0	-1,907.1	-50.1	Higher than anticipated income levels and lower salary spend due to vacancies.
Chief Executives Unit	455.4	515.1	59.7	Unbudgeted costs.
Communications	538.1	558.5	20.4	
Corporate Support	203.2	170.6	-32.6	
Customer Services	454.4	381.5	-72.9	Salary savings following restructure.
Democratic & Electoral Services	1,075.8	1,050.8	-25.0	
Development Services	239.7	220.5	-19.2	
Engineering & Construction	121.5	119.5	-2.0	
Environmental Health & JET	1,056.8	1,056.3	-0.5	
Environmental Licencing	-178.9	-249.0	-70.1	Better than budgeted licencing income.
Finance & Procurement	5,716.0	5,551.6	-164.4	Unbudgeted government grant toward the settlement of property searches legal costs.
Fleet	727.3	795.5	68.2	Increased maintenance costs.
Harlequin	213.4	189.1	-24.3	Better than budgeted income.
Housing	674.0	1,081.7	407.7	As reported through the year the overspend is primarily due to B&B costs.
Human Resources	548.5	550.6	2.1	
ICT	1,420.7	1,399.6	-21.1	
Legal	24.9	117.6	92.7	Salary costs, and property searches income lower than budgeted.
Leisure	379.8	395.6	15.8	
Local Taxation	9.3	46.9	37.6	
Parks & Countryside	1,252.9	1,154.6	-98.3	Salary savings following restructure and changes to working practices.
Planning Policy	894.2	783.7	-110.5	Salary savings from vacancies and unbudgeted grant income.
Projects & Assurance	137.8	176.6	38.8	
Property	729.9	699.5	-30.4	
Refuse & Recycling	189.1	471.1	282.0	Under recovery of income and expenditure associated with dry mixed recycling.
Street Cleansing	1,007.9	983.6	-24.3	
Supporting Families	3.1	7.7	4.6	
Voluntary Sector Support	451.1	441.0	-10.1	
Totals	16,460.7	16,300.0	-160.7	

ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY FOR 2015/16

Introduction

1. The Annual Treasury Report is a requirement of the Council's reporting procedures. It covers treasury performance - and the prudential indicators - for 2015/6.
2. The report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes under the *Local Government Act 2003*.

KEY INFORMATION

Prudential Indicators

3. The Executive approved the 2015/16 Treasury Management Strategy on 26 March 2015 and this included a number of prudential indicators. Performance against these is set out below.
 - **Capital Financing Requirement (CFR)** – The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. As there was no need to borrow for capital expenditure or capital investment purposes in 2015/16 the CFR was £0.
 - **Net Borrowing and the CFR** – In order to ensure that borrowing levels are prudent over the medium-term the Council's external borrowing, net of investments must only be for a capital purpose. As the Council had no debt, investments exceeded borrowings in 2015/16. This resulted in a negative net borrowing position, as indicated by the figures in brackets in the table below.

	31 March 2015 Actual £m	31 March 2016 Forecast £m	31 March 2016 Actual £m
Table 1: Net Borrowing			
Net borrowing position	(48.0)	(43.0)	(48.0)
CFR	0	0	0

- **The Authorised Limit** – is the “Affordable Borrowing Limit” required by Section 3 of the *Local Government Act 2003*. The Council does not have the power to borrow above this level.
- **The Operational Boundary** – is the expected borrowing position of the Council during the year. Periods where the actual position is over the Operational Boundary are acceptable subject to the Authorised Limit not being breached. The Operational Boundary was not breached during 2015/16.
- The following table demonstrates that during 2015/16 the Council has maintained gross borrowing within its Authorised Limit.

Table 2: Borrowing Limits & Borrowing	2015/16 £m
Authorised Limit	35.0
Operational Boundary	25.0
Maximum gross borrowing position	0.0

- **Actual financing costs as a proportion of net revenue stream** – this indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream. Since the Council has no debt this indicator is not relevant.
- An alternative view of this indicator, as shown below, measures the investment income earned by the Council as a percentage of the Council Tax budget requirement, so as to show the level by which the investment income is being used to underpin the Council’s operational budget.

Table 3: Investment Income	
2015/16 Budgeted investment income as a proportion of budgeted net revenue	3.6%
Actual investment income as a proportion of actual net revenue	3.3%
2016/17 Budgeted investment income as a proportion of budgeted net revenue	3.8%

- The 3.3% achieved for 2015/16 is slightly below the budget of 3.6% due to investments achieving lower than anticipated returns and the effect of in year revenue budget increases.

Capital Expenditure & Financing

4. The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the use of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council’s borrowing need; or
 - If insufficient financing is available, or a decision is made not to apply internal resources, the capital expenditure will give rise to a borrowing need.
5. Actual capital expenditure forms one of the required prudential indicators.
6. The Council fully financed its capital expenditure through the use of its own resources and did not need to borrow, as shown in the following table.

Table 4: Capital Expenditure & Financing	2014/15 Actual £m	2015/16 Estimate £m	2015/16 Actual £m
Total Capital Expenditure	15.7	13.6	15.0
Financed by:			
Grants	1.7	5.8	6.6
Reserves	2.5	0.0	2.8
Capital Receipts Applied	11.5	7.3	5.1
Revenue Contributions	0.0	0.5	0.5
Borrowing Need	0.0	0.0	0.0

Borrowing & Investment Performance

7. Whilst the borrowing strategy was to minimise the cost of temporary borrowing associated with the Council's operational cash flow, the potential need to borrow to fund capital expenditure was also recognised. However, due to relatively high levels of cash flow funds no borrowing was undertaken during 2015/16.
8. Counterparty security remains the over-arching investment objective. The current economic environment remains challenging, with interest rates on short term investments continuing to decline. Returns for medium to long term investments have however shown improvement over the last year. Due to continuing low rates the decision was taken to invest a small portion of our investments for a longer period. The majority of investments are still limited to 1 year, but up to 20% of investments can be invested for periods up to 3 years.
9. The medium term investments have helped to boost the income for 2015/16 and this will continue into future years. Overall there was a £10,000 unfavourable variance for the financial year, which is set out on the table below.

Table 5: Treasury Performance Summary	Budget £m	Actual £m	Variance £m
Earnings from Investment Manager <i>(paragraph 10)</i>	(0.51)	(0.44)	0.07
Earnings from Investment of Surplus cash flow <i>(paragraph 11)</i>	(0.05)	(0.10)	(0.05)
Less: Cost of Borrowing and Other Operational Costs <i>(paragraphs 12 & 13)</i>	0.10	0.07	(0.03)
Total	(0.46)	(0.47)	(0.01)

10. **Investments Held by Fund Managers** – the Council uses an external cash fund manager, Tradition, to invest part of its cash balances. The performance of the manager is shown below, along with comparable benchmark returns.

Table 6: Fund Manager Performance	Investments Held £m	Return %	Market Benchmark 1 (3 month LIBID %)	Market Benchmark 2 (12 month LIBOR %)
Tradition Ltd	43.0	1.02%	0.46%	1.03%

11. **Investments held by the Council** – in addition to the £5m in internal investments in place at the start and end of the year, short term investments totalling £10m were placed during the year. This generated an income of £99,800 compared to a budget of £49,600.
12. **Borrowing Costs** – as borrowing was not needed in 2015/16 this part of the budget was not used.
13. **Operational and other costs** – these costs, which include the transfer of interest to trust funds, benefitted from low interest rates.

REGULATORY FRAMEWORK

14. The Council has complied with all of the relevant statutory and regulatory requirements.
15. In particular compliance with both the *Prudential Code* and the *Code of Practice for Treasury Management* means that capital expenditure is prudent, affordable and sustainable, and that treasury management demonstrates a low risk approach.

Background Papers: Treasury Management Strategy 2015/16