Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

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| ***REPORT OF:*** | FINANCE MANAGER |
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| ***TO:*** | EXECUTIVE |
| ***DATE:*** | 22 JUNE 2017 |
| ***EXECUTIVE MEMBER:*** | COUNCILLOR SCHOFIELD |

| | |
|---|---|
| ***KEY DECISION REQUIRED:*** | YES |
| ***WARD (S) AFFECTED:*** | ALL |

| | |
|---|---|
| **SUBJECT:** | **SERVICE & FINANCIAL PLANNING: PROVISIONAL OUTTURN 2016/17** |

**RECOMMENDATIONS:**

(i) **That the provisional revenue and capital outturn position for 2016/17 is noted**

(ii) **That the use of reserves proposed in paragraph 10 is endorsed and the Finance Manager 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 2016/17, 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 2016/17 provisional outturn for revenue (£1,035,200 underspend) and capital (£2.14m 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 2015*.

## ISSUES

2. The accounting records for the year ended 31 March 2017 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**

| Description | Budget £000 | Outturn £000 | Variance £000 | Variance % |
|---|---|---|---|---|
| Capital Programme | 18,782 | 16,642 | (2,140) | (11%) |
| Revenue | 16,444 | 15,409 | (1,035) | (6%) |

### Capital Programme

5. The outturn for the capital programme is £16,642,000 against a budget of £18,782,000 which gives an underspend of £2,140,000. 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 relatively small 2016/17 underspend have been previously reported and are included in the summary below.

- *Court Lodge Residential Development:* this is £0.8m of "retention payments" which will be made to contractors in 2017/18.
- *Merstham Regeneration*: due to contractor delays this project is running slightly behind profile resulting in a £0.5m underspend. The budget will be reprofiled and no significant impact on the completion date is anticipated.
- *Waste Blueprint*: £0.3m 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.
- *Banstead Leisure Centre*: retention payments of £0.3m are being held pending the rectification of outstanding defects.
- *Disabled Facilities Grants*: the forecast expenditure associated with disabled facilities grants is comparable to prior years. The budget was increased to reflect additional (one-off) grant funding received. The underspend of £0.2m will be carried forward for use in future years.

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 the Council's reserves.

### Revenue Budget

7. In February 2016 the Council set a net revenue budget for 2016/17 of £14,890,000. Transfers from the Corporate Plan Delivery Fund during the year resulted in a net

increase to £16,443,800. Actual expenditure for the year was £15,408,600 giving an underspend of £1,035,200 (6% of the overall budget).

8. The most significant revenue budget variances for 2016/17 have been highlighted throughout the year and are summarised below:

- *Refuse & Recycling:* As reported during the year, prices for all recyclates – and particularly paper - have recovered significantly. This has resulted in an over-recovery of income of £409,900.
- *Car Parking:* Following a successful marketing campaign the income from season tickets has increased significantly this year. This combined with better than budgeted pay & display income has resulted in an over-recovery of £218,800
- *Housing:* As anticipated, the change to more preventative activity and the increased supply of temporary accommodation has led to a significant underspend on B&B accommodation. In total £168,500 has been saved.

9. 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.

10. Following expenditure during the year of £1.31m, the balance on the Corporate Plan Delivery Fund (CPDF) is £0.69m. It is proposed that the revenue underspend is used to replenish this and that a further £2.3m be transferred from the General Fund reserve to bring the balance on the CPDF reserve to £4m. The CPDF reserve will be used to fund short term projects and some commercial activity on a case by case basis, each of which contribute to the Five Year Plan. This replenishment is set out in Table 2 below.

**Table 2: Replenishment of the CPDF**

| | | £000 |
|---|---|---|
| **CPDF Balance at year end** | | **693** |
| *Add:* | *Underspend* | *1,035* |
| | *Transfer from General Fund Reserve* | *2,272* |
| **New CPDF Balance** | | **4,000** |

**Treasury Management**

11. It is a requirement of the Treasury Management Strategy that treasury performance - and performance against the Prudential Indicators - is reported annually.

12. During 2016/17 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

13. The Executive can accept or amend the proposals to adjust reserves as set out in paragraph 10.

## LEGAL IMPLICATIONS

14. There are no legal implications.

## FINANCIAL IMPLICATIONS

**Now**

15. The impact of the 2016/17 outturn on the Council's revenue reserves is set out above in paragraphs 10 and 11. The advantage of the proposed approach is that it provides funds to help deliver Corporate Plan priorities without increasing the burden on taxpayers.

**Future**

16. 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. Other income reductions (eg via Surrey County Council) and Government changes to the Land Charges system will increase this gap still further.

17. 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" and begin to generate income as soon as possible.

18. As part of the service and financial planning process, opportunities for efficiencies will continue to be sought - but given the net savings of around £5m 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

19. There are no equalities implications.

## COMMUNICATIONS IMPLICATIONS

20. There are no communications implications.

## CONSULTATION

21. The Executive Member with responsibility for Finance was consulted during the preparation of this report.

22. The Overview and Scrutiny Committee considered a draft version of this report at its meeting on 13 June 2017. An update will be provided on the views of the Committee.

## POLICY FRAMEWORK

23. 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 | 23 March 2017 | *Quarter 3 Performance Report* |
| Executive | 5 January 2017 | *Quarter 2 Performance Report* |
| Executive | 15 September 2016 | *Quarter 1 Performance Report* |
| Council | 11 February 2016 | *Budget & Council Tax 2016/17* |

Annex 1

# Revenue Outturn by Service 2016/17

| Service | Budget £000 | Outturn £000 | Variance £000 | Explanation of Significant Variances |
|---|---|---|---|---|
| Benefits | -50.3 | -44.9 | 5.4 | |
| Local Taxation | -4.4 | 104.6 | 109.0 | Lower court recovery income as collection levels are higher than anticipated. |
| Finance & Procurement | 4,686.3 | 4,536.4 | -149.9 | Largely due to salary underspends arising from vacancies and staffing changes. |
| Voluntary Sector Support | 402.1 | 405.7 | 3.6 | |
| Environmental Health & JET | 1,183.2 | 1,081.8 | -101.4 | Unanticipated community safety savings and a range of minor underspends. |
| Environmental Licencing | -351.1 | -401.1 | -50.0 | Better than budgeted income. |
| Harlequin | 180.9 | 135.0 | -45.9 | |
| Pathways | 456.0 | 469.8 | 13.8 | |
| Events Company | 15.0 | 15.0 | 0.0 | |
| Leisure | 358.5 | 403.5 | 45.0 | |
| Housing | 1,055.0 | 886.5 | -168.5 | Lower than anticipated spend on B&B. |
| Supporting Families | 33.1 | 40.6 | 7.5 | |
| Human Resources | 589.3 | 617.0 | 27.7 | |
| Fleet | 736.6 | 795.4 | 58.8 | Overspend on tyres and maintenance. |
| Refuse & Recycling | 890.9 | 481.0 | -409.9 | Increased income from recyclates. |
| Street Cleansing | 994.3 | 1,038.9 | 44.6 | |
| Communications | 670.1 | 596.5 | -73.6 | Salary underspend due to vacant posts and recruitment delays. |
| Customer Services | 381.8 | 335.8 | -46.0 | |
| ICT | 1,355.2 | 1,342.3 | -12.9 | |
| Chief Executives Unit | 489.2 | 509.4 | 20.2 | |
| Democratic & Electoral Services | 1,078.9 | 1,049.7 | -29.2 | |
| Projects & Assurance | 180.0 | 152.6 | -27.4 | |
| Corporate Support | 192.5 | 164.2 | -28.3 | |
| Building Control | -15.2 | -12.8 | 2.4 | |
| Car Parking | -2,011.5 | -2,230.3 | -218.8 | Higher than budgeted season ticket and pay & display income. |
| Property | 409.8 | 351.9 | -57.9 | Increased rental income and reduced rent subsidies. |
| Engineering & Construction | 97.6 | 95.4 | -2.2 | |
| Development Services | 262.2 | 273.0 | 10.8 | |
| Planning Policy | 1,030.9 | 939.0 | -91.9 | Salary underspends due to vacancies in the year. |
| Greenspaces | 1,115.6 | 1,072.7 | -42.9 | |
| Legal | 31.4 | 204.0 | 172.6 | High levels of spend on temporary staff and reduced land charges income. |
| | 16,443.8 | 15,408.6 | -1,035.2 | |

## ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY FOR 2016/17

### Introduction

1. The Annual Treasury Report is a requirement of the Council's reporting procedures. It covers treasury performance - and the prudential indicators - for 2016/17.

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 2016/17 Treasury Management Strategy on 13 March 2016 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 2016/17 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 2016/17. This resulted in a negative net borrowing position, as indicated by the figures in brackets in the table below.

| Table 1: Net Borrowing | 31 March 2016 Actual £m | 31 March 2017 Forecast £m | 31 March 2017 Actual £m |
|---|---|---|---|
| Net borrowing position | (48.0) | (48.0) | (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 2016/17.

   - The following table demonstrates that during 2016/17 the Council has maintained gross borrowing within its Authorised Limit.

| Table 2: Borrowing Limits & Borrowing | 2016/17 £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 | |
|---|---|
| 2016/17 Budgeted investment income as a proportion of budgeted net revenue | 3.7% |
| Actual investment income as a proportion of actual net revenue | 3.8% |
| 2017/18 Budgeted investment income as a proportion of budgeted net revenue | 3.2% |

## 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 | 2015/16 Actual £m | 2016/17 Estimate £m | 2016/17 Actual £m |
|---|---|---|---|
| Total Capital Expenditure | 15.0 | 20.8 | 16.6 |
| Financed by: | | | |
| Grants | 6.6 | 4.1 | 3.8 |
| Reserves | 2.8 | 7.8 | 4.0 |
| Capital Receipts Applied | 5.1 | 8.4 | 8.3 |
| Revenue Contributions | 0.5 | 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 2016/17.

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 continue 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 2016/17 and this will continue into future years. Overall there was a £56,000 favourable 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 *(paragraph 10)* | (0.51) | (0.48) | 0.03 |
| Earnings from Investment of Surplus cash flow *(paragraph 11)* | (0.05) | (0.10) | (0.05) |
| Less: Cost of Borrowing and Other Operational Costs *(paragraphs 12 & 13)* | 0.10 | 0.06 | (0.04) |
| **Total** | **(0.46)** | **(0.52)** | **(0.06)** |

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 | 1.16% | 0.21% | 0.69% |

11. **Investments held by the Council** – in addition to the above £5m is held in internal investments. This contributed to an income of £97,200 compared to a budget of £49,600.

12. **Borrowing Costs –** as borrowing was not needed in 2016/17 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* shows that capital expenditure is prudent, affordable and sustainable, and that treasury management demonstrates a low risk approach.

**Background Papers:** Treasury Management Strategy 2016/17