



REPORT OF:	FINANCE MANAGER
AUTHOR:	BILL PALLETT
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TO:	OVERVIEW & SCRUTINY COMMITTEE
DATE:	26 JUNE 2014

WARD (S) AFFECTED:	All
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SUBJECT:	PROVISIONAL REVENUE & CAPITAL OUTTURN 2013/14
RECOMMENDATION: (i) The Committee is requested to consider the appended report and make any observations to the Executive.	
SUMMARY: On 17 July 2014 the Executive will receive a report on the Provisional Revenue & Capital Outturn for the 2013/14 financial year. A copy of this report is at Appendix 1. It identifies the outturn position and sets out proposals for the level of the Council's reserves.	

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. On 17 July 2014 the Executive will receive a report on the Provisional Revenue & Capital Outturn for the 2013/14 financial year. A copy of this report is at Appendix 1.
3. The report sets out the financial implications of the outturn position, as well as proposals for the level of the Council's reserves. It also summarises Treasury Management performance for the year

LEGAL IMPLICATIONS

4. There are no legal implications.

FINANCIAL IMPLICATIONS

5. The impacts on the various reserves are outlined in paragraph 10 of the appended report.

EQUALITIES IMPLICATIONS

6. There are no equalities implications.

OTHER IMPLICATIONS

7. There are no other implications.

CONSULTATION

8. The Executive Member with responsibility for Finance & Tax Setting was consulted during the preparation of this report.

POLICY FRAMEWORK

9. The Corporate Plan (a Policy Framework document under the Council's Constitution) includes the corporate priority "achieve savings to deliver a balanced budget and the Council's priorities"

Background Papers:	Executive	20 March 2014	<i>Quarter 3 Performance Report</i>
	Executive	30 January 2014	<i>Quarter 2 Performance Report</i>
	Executive	26 September 2014	<i>Quarter 1 Performance Report</i>
	Council	14 February 2013	<i>Budget & Council Tax 2013/14</i>



REPORT OF:	FINANCE MANAGER
AUTHOR:	BILL PALLETT
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TO:	EXECUTIVE
DATE:	17 JULY 2014
EXECUTIVE MEMBER:	COUNCILLOR G.J. KNIGHT

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

SUBJECT:	PROVISIONAL REVENUE & CAPITAL OUTTURN 2013/14
RECOMMENDATIONS:	
<ul style="list-style-type: none"> (i) That the Provisional Outturn position for 2013/14 be noted; (ii) That the use of resources proposed in paragraph 10 be endorsed and the Chief Finance Officer be authorised to make the necessary arrangements; (iii) That the specific reserves proposed in paragraphs 13 to 17 be established to properly account for new funding streams; (iv) That the Deputy Chief Executive be authorised, in consultation with the Portfolio Holder for tbc, to approve the use of the Families Support Programme Reserve; (v) That the Business & Community Engagement Manager be authorised, in consultation with the Portfolio Holder for tbc, to approve the use of the High Street Innovation Fund Reserve; (vi) That the Business & Community Engagement Manager be authorised, in consultation with the Portfolio Holder for tbc, to approve the use of the Business Support Scheme Reserve; (vii) That the Annual Treasury Report be noted. 	
REASONS FOR RECOMMENDATIONS:	
To advise Members of the revenue and capital expenditure for 2013/14, 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 2013/14 provisional outturn for revenue (£844,000 underspend) and capital (£2,966,000 underspend). It identifies and explains key variances, and proposes changes to the levels of the Council's reserves.	

It also sets out the Treasury Management performance for 2013/14.

Executive has authority to approve recommendations (i), (ii), (iv), (v), (vi) and (vii). Recommendation (iii) is subject to approval by Full Council.

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 2014 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	6,910	3,944	(2,966)	(43%)
Revenue	17,480	16,636	(844)	(5%)

Capital Programme

5. The outturn for the capital programme is £3,944,000 against a budget of £6,910,000 which gives an underspend of £2,966,000. 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 2013/14 underspend are summarised below.
 - *Waste blueprint*: The rescheduling of the rollout of the new recycling service to flats in 2014/15 and 2015/16 has caused an underspend of £616,000. A budget review has identified that the 2014/15 budget is sufficient to cover the new service, therefore the underspend from this year will be returned to reserves.
 - *Banstead Leisure Centre*: The procurement process for this project took longer than originally expected which caused delays, resulting in an underspend of £366,000 which will be carried forward into 2014/15.

- *Vehicles & Plant programme:* The planned purchase of trade waste and other vehicles was postponed until 2014/15 which has resulted in an underspend of £284,000. This budget will be carried forward into 2014/15.
 - *Redhill Public Realm:* This project forms part of the Redhill Balanced Network project which is being delivered by Surrey County Council. Slippage in that project has therefore caused delays in the Redhill Public Realm project. The £280,000 underspend will be carried forward into 2014/15.
 - *Better Ways of Working Projects:* This budget has underspent by £180,000 as some of the projects have been deferred until 2014/15. It is anticipated the balance of the allocation will be required for the web project and exploitation of document management.
 - *Merstham Regeneration:* Project slippage has resulted in an underspend of £150,000 which will be carried forward into 2014/15.
 - *Memorial Park:* Project slippage has resulted in an underspend of £120,000 which will be carried forward into 2014/15.
 - *Demolition of South Annex 1 & 2:* Demolition of South Annex 1 is now planned for 2014/15 and South Annex 2 will be leased to generate rental income. The underspend of £110,000 will be carried forward into 2014/15 and reprofiled to reflect the changes to the project.
6. Where necessary, all ongoing projects and programmes will be re-profiled to reflect the outturn position and revised plans.

Revenue Budget

7. On 14 February 2013 the Council set a net revenue budget for 2013/14 of £16,641,000. Transfers from reserves (primarily the Corporate Plan Delivery Fund) during the year resulted in a net increase to £17,480,000. Actual expenditure for the year was £16,636,000 giving an underspend of £844,000 (5% of the overall budget).
8. The most significant revenue budget variances for 2013/14 were:
- *Waste & Recycling:* As reported during the year, paper recycling prices have reduced significantly which has seen an under-recovery of income of £379,000. However, salary underspends and tight cost control on supplies and services has delivered a net overspend of £139,000.
 - *Environmental Health:* An outturn of £221,000 better than budget has been delivered. This is due to salary underspends and an over-recovery of income in licencing.
 - *Car Parking:* The contract with Tandridge District Council was renegotiated during the year generating additional income. In addition there were over-recoveries of income and salary underspends. Together this has generated an outturn that was £205,000 better than budget.
 - *Treasury Management:* Returns on investments have been higher than expected and slippage in the capital programme has resulted in higher investment balances, both of which have generated additional income. Also, borrowing was not required during the year which has resulted in an underspend against the budget. Together this has produced an outturn of £177,000 better than budget.

- *Leisure*: An over-recovery of income at the Harlequin Theatre and at the Banstead Leisure Centre produced an outturn position that is £61,000 better than budget.
 - *Corporate Policy & Support*: This function has delivered an underspend of £60,000. This is due to salary underspends as 2014/15 savings have been realised early, as well as an underspend on the corporate stationary budget following the centralisation of service budgets during the year.
9. Other variances were due to factors described in the Financial Performance Monitoring reports produced throughout the year, and reflect management actions to ensure a favourable outturn despite difficult economic and market conditions. A full list of outturn variances can be found in Annex 1.
10. Table 2 shows the outturn surplus for 2013/14 and proposes how the surplus will be applied. Paragraphs 11 to 12 explain the reasons for these proposals.

Table 2: Proposed use of 2013/14 surplus

	£000	£000
Provisional Outturn		844
Proposed uses:		
A. Environmental Health training budget	5	
B. Corporate Plan Delivery Fund	<u>839</u>	
Total	844	

11. **Proposal A:** Environmental Health training budget. Some of the training budget for 2013/14 has not been used. A significant restructure within the Environmental Health team is planned and it is anticipated that this budget will be required to help deliver the benefits of the restructure. This budget will be carried forward into the 2014/15 budget.
12. **Proposal B:** Corporate Plan Delivery Fund. The majority of the underspend will be used to replenish the Corporate Plan Delivery Fund, ensuring that the Council has sufficient funding to deliver specific projects within the Corporate Plan. This allocation will partially offset the use of this reserve during 2013/14 (£1,147,000) and bring the balance to £2,892,000.

New Funding Streams

13. A number of one-off funding streams have been received in 2013/14 which are required to be used for specific purposes. Not all of the income has been used in year and therefore needs to be set aside in an earmarked reserve and released when the conditions of the income are met.
14. Table 3 sets out these new funding streams and proposed reserves. Paragraphs 15 to 17 explain reasons for these proposals.

Table 3: New proposed reserves

	£000
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High Street Innovation Fund reserve	70
Business Support Scheme reserve	68
Families Support Programme reserve	59

15. **High Street Innovation Fund reserve:** The Council received a grant of £100,000 as part of the Mary Portas review of town centre high streets. The Council has applied £30,000 of this funding during 2013/14 but £70,000 remains unspent. This money is set aside in an earmarked reserve and will be allocated when the conditions are met.
16. **Business Support Scheme reserve:** The Council received a grant of £68,000 in 2013/14 to assist businesses following the severe flooding over the winter. The Council has put in place a framework for allocating these funds to affected businesses but none of the grant had been allocated by the end of the financial year. This money is set aside in an earmarked reserve and will be allocated when the conditions are met.
17. **Families Support Programme reserve:** The Council hosts the East Surrey Families Support Team, a central government initiative funded by grants. Funding is only currently available until March 2015. Money is set aside in an earmarked reserve to fund any associated officer costs.

Treasury Management

18. It is a requirement of the Treasury Management Strategy that treasury performance - and performance against the Prudential Indicators - is reported annually.
19. During 2013/14 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 in as Annex 2.

OPTIONS

20. The Executive can accept, reject or amend the proposal to use the underspend and establish reserves as set out in paragraphs 11 to 17.

LEGAL IMPLICATIONS

21. There are no legal implications.

FINANCIAL IMPLICATIONS

22. The impact on the Council's reserves is set out above in paragraphs 11 to 17. The advantages of the proposed approach are:
 - It sets aside funds for specific projects to support businesses and families.
 - It provides funds to help deliver Corporate Plan priorities, particularly around regeneration projects.
 - It helps to reduce the demands on future resources.

EQUALITIES IMPLICATIONS

23. There are no equalities implications.

OTHER IMPLICATIONS

24. There are no other implications.

CONSULTATION

25. The Executive Member with responsibility for Finance & Tax Setting was consulted during the preparation of this report.

26. The Overview and Scrutiny Committee considered a draft version of this report at its meeting on 26th June 2014. An update will be provided on the views of the Committee.

POLICY FRAMEWORK

27. The Corporate Plan (a Policy Framework document under the Council's Constitution) includes the corporate priority "achieve savings to deliver a balanced budget and the Council's priorities"

Background Papers:	Executive	20 March 2014	<i>Quarter 3 Performance Report</i>
	Executive	30 January 2014	<i>Quarter 2 Performance Report</i>
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Revenue Outturn by Function/Corporate Plan Theme 2013/14

Function/Theme	Budget £000	Outturn £000	Variance £000	Explanation of Significant Variances
Management Team	642	662	20	
Corporate Development	488	488	0	
Corporate Policy & Support	240	180	(60)	Salary underspends and centralised stationary budget underspends.
Democratic & Electoral Services	1,006	978	(28)	
Planning Policy & Regeneration	516	482	(34)	
Information & Communication Technology	1,231	1,228	(3)	
Communications, Web & Technology	443	416	(27)	
Customer Services	693	715	22	
Human Resources	495	506	11	
Legal Services	52	(1)	(53)	Over-recovery of Land Charges (search) fee income.
Finance	5,631	5,624	(7)	
Treasury Management	(430)	(607)	(177)	
Risk, Performance & Contingency Planning	48	39	(9)	
Waste & Recycling	21	160	139	Paper recycling prices significantly lower than budgeted, offset by salary and supplies underspends
Parks & Countryside	1,429	1,457	28	
Cleansing & Outreach Community Services	1,367	1,345	(22)	
Fleet & Stores	663	647	(16)	
Car Parking	(1,594)	(1,799)	(205)	Contract with Tandridge DC renegotiated, over-recovery of income and salary underspends.
Property & Facilities	1,254	1,243	(11)	
Engineering Services	21	29	8	
Development Management	269	219	(50)	Over-recovery of income.
Building Control	(59)	(78)	(19)	
Business & Community Engagement	976	942	(34)	
Housing Services	751	701	(50)	Salary underspends.
Benefits	(114)	(79)	35	
Local Taxation	77	82	5	
Environmental Health	472	251	(221)	Salary underspends and over-recovery of licencing income.
Leisure	640	579	(61)	Over-recovery of income at the Harlequin Theatre and the Banstead Community Centre.
Self-Reliant & Thriving Communities	0	(9)	(9)	
Improving & Sustaining Our Communities	253	237	(16)	
Totals	17,480	16,636	(844)	

ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY FOR 2013/14

Introduction

1. The Annual Treasury Report is a requirement of the Council's reporting procedures. It covers treasury performance - and the prudential indicators – for 2013/14.
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*.

Prudential Indicators

3. The Executive approved the 2013/14 Treasury Management Strategy on 21 March 2013 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 2013/14 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 exceed borrowings in 2013/14. This resulted in a negative net borrowing position, as indicated by the figures in brackets in the table below.

	31 March 2013 Actual £m	31 March 2014 Forecast £m	31 March 2014 Actual £m
Table 1: Net Borrowing			
Net borrowing position	(48.0)	(48.0)	(58.0)
CFR	0	0	0

- **The Authorised Limit** – 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** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is over the Boundary is acceptable subject to the Authorised Limit not being breached. The Operational Boundary was not breached during 2013/14.
- The following table demonstrates that during 2013/14 the Council has maintained gross borrowing within its Authorised Limit.

Table 2: Borrowing Limits & Borrowing	2013/14 £m
Authorised Limit	25.0
Operational Boundary	15.0
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	
2013/14 Budgeted investment income as a proportion of budgeted net revenue	3.3%
Actual investment income as a proportion of actual net revenue	3.8%
2014/15 Budgeted investment income as a proportion of budgeted net revenue	3.4%

The 3.8% achieved for 2013/14 is slightly above the budget of 3.3% due to investments achieving higher than anticipated returns.

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 taken 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.

Table4: Capital Expenditure & Financing	2012/13 Actual £m	2013/14 Estimate £m	2013/14 Actual £m
Total Capital Expenditure	6.9	8.1	3.9
Financed by:			
Grants	1.1	0.7	0.8
Reserves	5.8	7.4	3.1
Borrowing Need	0.0	0.0	0.0

Borrowing & Investment Performance

7. The borrowing strategy was to remain free of long-term borrowing and to minimise the cost of temporary borrowing associated with the Council's operational cash flow. No borrowing was undertaken in 2013/14.
8. Counterparty security remained the over-arching investment objective which was satisfied by keeping all investments in short-term cash instruments (less than 365 days). Overall, there was a £177,000 favourable variance for the financial year, which is set out in the table below and explained in the following paragraphs.

Table 5: Treasury Performance Summary	Budget £m	Actual £m	Variance £m
Earnings from Investment Manager <i>(paragraph 9)</i>	(0.51)	(0.53)	(0.01)
Earnings from Investment of Surplus cash flow <i>(paragraph 10)</i>	(0.05)	(0.1)	(0.05)
Less: Cost of Borrowing and Other Operational Costs <i>(paragraphs 11 & 12)</i>	0.13	0.02	(0.11)
Total	(0.43)	(0.61)	(0.17)

9. **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	1.22%	0.50%	0.55%

10. **Investments Held by the Council** – There were new internal investments totalling £10m placed during 2013/14 in addition to the £5m held at the end of 2013/14. This increase was primarily due to the slippage in the capital programme. As cash balances held to fund capital expenditure were not required as planned, they were

reinvested into short-term deposits. These investments have generated an income of £100,300 compared to the budgeted income of £49,600.

11. **Borrowing costs** – As borrowing was not needed in 2013/14 the budget of £50,000 was not used.
12. **Operational and other costs** –These costs, which include the transfer of interest to trust funds, other balances held and fees, also benefitted from continued low interest rates.

Regulatory Framework

13. The Council has complied with all of the relevant statutory and regulatory requirements.
14. 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 practices demonstrate a low-risk approach.