

21 June 2016

Policy, Finance and Resources Committee

2015/16 Provisional Outturn and Annual Treasury Management Report

Report of: *Chris Leslie, Finance Director*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

1.1 This report deals with the 2015/16 provisional outturn for:

- The General Fund - paragraph 3.
- Housing Revenue Account - paragraph 4.
- The Capital Programme - paragraph 5.

1.2 The report also considers the reserves and working balance levels.

1.3 The Council is also required by regulations issued under the Local Government Act 2003 to produce an Annual Treasury Management review of activities and the actual prudential and treasury indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) - paragraph 6.

2. Recommendations

2.1 That the provisional outturn information for 2015/16, contained within this report, is approved.

2.2 That the capital programme carry forwards requested in Table 6 are approved.

2.3 That the Treasury Management activity and information for 2015/16 be noted.

3. General Fund - Provisional Outturn 2015/16

- 3.1 The General Fund provisional outturn figure shows a projected overspend of £194k.
- 3.2 The estimated outturn for the General Fund (as reported to Council in March 2016) was an over spend of £200k as at 31 March 2016. Table 1 provides a summary of the actual spend for the General Fund compared to the estimated outturn.

Table 1 - 2015/16 General Fund Outturn

	2015/16 Estimated Outturn £'000	2015/16 Actual £'000	2015/16 Variance £'000
Corporate Priorities Expenditure:			
Street Scene and Environment	3,178	3,149	(29)
Localism	1,214	1,089	(125)
A Prosperous Borough	831	625	(206)
Housing, Health and Wellbeing	613	504	(109)
A Safe Borough	1,662	934	(728)
A Modern Council	2,840	3,631	791
Total Spend on Corporate Priorities	10,338	9,932	(406)
Adjustment and Appropriations	(263)	362	625
TOTAL SPEND	10,075	10,294	219
Funding:			
Council Tax	(5,600)	(5,600)	0
Government Grant	(3,118)	(3,341)	(223)
Council Tax Freeze Grant	(59)	(56)	3
Collection Fund (Surplus)/Deficit	357	357	0
New Homes Bonus Grant	(1,455)	(1,460)	(5)
TOTAL COUNCIL FUNDING	(9,875)	(10,100)	(225)
Deficit / (Surplus) for the year	200	194	(6)

3.3 Table 2 outlines key variances within service areas:

Table 2 - 2015/16 General Fund Key Variances

Budget	Overspend/ (Under spend) £'000	Explanation
Legal Services	77	Higher than anticipated spend.
Revenues and Benefits	75	One off restructuring & software costs to generate savings in future years.
Revenues and Benefits	30	Additional costs incurred from the implementation of CIVICA.
Asset Management	10	Budgeted income not achieved.
Office Accommodation	9	Additional costs associated with maintaining the building in current state.
Hutton Community Centre	25	Net Cost to the Council for operating Hutton Community Centre.
Waste Management	95	Reduction in re-cycling credits from Essex County Council.
Waste Management	(66)	Income higher than anticipated from the hire of garden waste bins.
Planning Applications	(61)	Income higher than anticipated.
TOTAL VARIANCE	194	

General Fund Working Balance

- 3.4 The estimated working balance as at 31 March 2016 is £3.9 million which is the same as the anticipated level reported in March 2016.
- 3.5 The General Fund balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the working balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets.
- 3.6 General guidance and practice amongst other authorities varies. Options include a percentage of Gross Operating Costs and a percentage of Net Spending Requirement to be maintained as a minimum. A minimum reserve level of £2.2 million was agreed at the March 2016 Council meeting. This figure was calculated on the risk assessment which was carried out by the Finance Department.

General Fund Earmarked Reserves

- 3.7 As part of the year end procedures the Council must review its Earmarked Reserves. These Reserves are required in order to comply with proper accounting practice, whilst others have been created to earmark resources for known or predicted liabilities.
- 3.8 The total value of General Fund Earmarked Reserves after any adjustments is around £2.5 million. A schedule of the Earmarked Reserves is attached as Appendix 1 to this report.

4 Housing Revenue Account (HRA) - Provisional Outturn 2015/16

- 4.1 The HRA outturn figure shows a projected deficit of £398k. The estimated forecast for the HRA (as reported to Council in March 2016) was a potential surplus of around £240k as at 31 March 2016. The variance reflects the conscious decision to investment in the Council's housing stock and a continuing commitment to increase the 'Council Dwellings Investment Fund' by £0.5 million.
- 4.2 Table 3 provides a summary of the actual spend on the Housing Revenue Account compared to the estimated outturn.

Table 3 - 2015/16 HRA Outturn

	2015/16 Estimated Outturn £'000	2015/16 Actual £'000	2015/16 Variance £'000
Expenditure:			
Repairs and Maintenance	2,670	2,925	255
Supervision and Management	2,586	2,711	125
Rents, Rates, Taxes and Other Charges	194	207	13
Share of Corporate Costs	452	457	5
Depreciation and Impairment	2,184	2,216	32
Movement in the Allowance for Bad Debts	85	65	(20)
Interest and Debt Management	2,062	2,055	(7)
Appropriations & Other Charges	3,405	3,560	155
TOTAL EXPENDITURE	13,638	14,196	558
Income:			
Dwelling Income	(12,261)	(12,143)	118
Non Dwelling Income	(543)	(546)	(3)
Charges for Services and Facilities	(825)	(854)	(29)
Other	(249)	(255)	(6)
TOTAL INCOME	(13,878)	(13,798)	80
Deficit / (Surplus) for HRA Services	(240)	398	638

4.3 Table 4 outlines the key variances:

TABLE 4 - HRA VARIANCES

Budget	(Under)/Over Spend £'000	Explanation
Repairs & Maintenance	254	Variations to contractual works.
Revenue Contributions to Capital	366	Contribution to fund capital spend which was higher than expected.
Dwelling Income	118	Impact from RTB sales and also some properties were void for longer.
Increase to bad debt provision	(19)	Rent arrears on HRA properties have decreased. Therefore the provision against these arrears not being settled has been decreased.
Investment Interest	(27)	Return on cash invested at a higher rate than budgeted.
Payment to the Pension Fund	(30)	Pension strain payment less than anticipated.
Charges for Services & Facilities	(29)	More SP Grant as more tenants on HB in sheltered accommodation
Other minor over/under spends	5	Various budgets
TOTAL VARIANCE	638	

HRA Working Balance

4.4 The impact of the provisional outturn means that the estimated working balance as at 31 March 2016 is around £1.4million.

4.5 The HRA working balance must continue to be managed so that it provides the flexibility to manage unexpected demands and pressures without destabilising the Council's overall financial position. The level of the working balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets. The working balance can also be used to act as a source of pump priming investment and/or to deliver "invest to save" projects.

4.6 General guidance and practice amongst other authorities varies. Options include a percentage of total income, and a set value per Council Dwelling. However, individual risk assessments undertaken at a local level are considered best practice.

HRA Earmarked Reserves

4.7 In addition to the Working Balance, the HRA maintains 3 earmarked reserves. The total value of HRA Reserves is around £1.9 million. A schedule of the Earmarked Reserves is attached as Appendix 1 to this report.

5 Capital Programme – Provisional Outturn 2015/16

5.1 The projected forecast spend on the Capital Programme for 2015/16 is £5.427 million, compared to the budgeted capital programme of £14.591 million.

5.2 Table 5 shows details of the spend compared to the budgeted capital programme.

Table 5 - 2015/16 Capital Outturn

	2015/16 Budget	2015/16 Estimated Forecast £'000	2015/16 Actual £'000	2015/16 Variance to Budget £'000
Details of Expenditure				
Street Scene and Environment	370	220	108	(262)
Localism	1,353	1,273	166	(1,187)
A Prosperous Borough	2,163	361	286	(1,877)
Housing, Health and Wellbeing	6,431	4,060	4,452	(1,979)
A Safe Borough	301	267	114	(187)
A Modern Council	3,973	409	301	(3,672)
TOTAL EXPENDITURE ON CORPORATE PRIORITIES	14,591	6,590	5,427	(9,164)

5.3 The variance is due to capital works slipping from 2015/16 into future years and the funding will be required in future years.

5.4 The Capital Programme for 2015/16 has been fully funded without the need for any additional borrowing to be undertaken.

5.5 Table 6 lists each of the capital schemes which require funding to be carried forward to 2016/17:

Table 6 - 2015/16 Capital Carry Forwards into 2016/17

Scheme	Amount to be carried forward £'000	Explanation
Vehicle Replacement Programme	285	Committed expenditure.
Irrigation to Golf Course	30	Project delayed; re-profiled expenditure.
Play Area Refurbishments	53	Project delayed; re-profiled expenditure.
Unauthorised Caravan Defences	134	Ongoing works required for 2016/17.
Car Park Refurbishment & Upgrade	19	Ongoing works required for 2016/17.
Upgrade of Multi Storey Car Park	179	Ongoing works required for 2016/17.
Renaissance Group	39	Ongoing works required for 2016/17.
Town Hall Remodelling	3,609	Ongoing works required for 2016/17.
HRA Decent Homes Schemes	2,056	Works delayed - awaiting results of stock condition survey.
Folding Machine	2	Project delayed; re-profiled expenditure.
Asset Management Strategy	104	Ongoing works required for 2016/17.
Shenfield Improve & Parking	1,600	Project delayed; re-profiled expenditure.
S106 - Former British Gas Site	13	Unspent S106 Capital Grants..
S106 - Warley Hospital Site	808	Unspent S106 Capital Grants.
S106 - Willowbrook Primary School	12	Unspent S106 Capital Grants..
S106 - NV Tools Site St. James Road	115	Unspent S106 Capital Grants.
S106 - Mascals Park	106	Unspent S106 Capital Grants.
TOTAL	9,164	

6 Annual Treasury Management Report 2015/16

- 6.1 On 4 March 2015 Council approved the Annual Treasury Strategy for 2015/16. This report compares the treasury activity for 2015/16 against the annual strategy.

Introduction and Background

- 6.2 The regulatory environment places responsibility to Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 6.3 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the treasury management reports by the Policy, Finance and Resources Committee before they are reported to Full Council.
- 6.4 This report summarises:
- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required prudential and treasury indicators;
 - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
 - Detailed debt activity; and
 - Detailed investment activity.

The Council's Capital Expenditure and Financing 2015/16

- 6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc), which has no resultant impact on the Council's borrowing need;
Or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 6.6 The actual capital expenditure for the year forms one of the required prudential indicators. Table 7 shows the actual capital expenditure and how this was financed.

Table 7: Actual Capital Expenditure and Financing

	2014/15 Actual £'000	2015/16 Estimate £'000	2015/16 Actual £'000
Expenditure:			
- General Fund	1,276	8,470	1,122
- HRA	2,069	6,121	4,305
Total Expenditure	3,345	14,591	5,427
Financed by:			
- Capital receipts, grants & revenue contributions	1,310	7,116	3,212
- Major Repairs Reserve	2,035	2,184	2,215
- Borrowing	0	5,291	0
Total Financing	3,345	14,591	5,427

The Council's Overall Borrowing Need

- 6.7 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. It represents 2015/16 and prior year's capital expenditure which has not yet been paid for by revenue or other resources.
- 6.8 Under treasury management arrangements, actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy. However, the Council is required to make an annual revenue charge to reduce the General Fund element of the CFR. There is no statutory requirement to reduce the HRA element of the CFR.
- 6.9 This statutory revenue charge is called the Minimum Revenue Provision (MRP). The total CFR can also be reduced by:
- The application of additional capital resources (such as unapplied capital receipts);
Or
 - Charging more than the statutory revenue charge (MRP amount) each year through an additional Voluntary Revenue Provision (VRP) from either the HRA or General Fund.

- 6.10 The Council's CFR at the year end is shown in Table 8, and represents a key prudential indicator.

Table 8: Capital Financing Requirement

	31-Mar-15 Actual £'000	31-Mar-16 Forecast £'000	31-Mar-16 Actual £'000
CFR – General Fund	7,941	7,924	7,441
CFR - HRA	68,347	66,847	66,796
Total CFR	76,288	74,771	74,237

- 6.11 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit, as set out later in this report.

The Council's Treasury Position at the Year End

- 6.12 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.
- 6.13 The treasury position as at 31 March 2016 compared with the previous year is shown in Table 9:

Table 9: Year End Treasury Position

	31 March 2015 Principal £'000	Average Rate	31 March 2016 Principal £'000	Average Rate
Fixed Interest Rate Debt	2,000	8.08%	2,000	8.08%
HRA Subsidy Reform	64,166	2.82%	64,166	2.82%
Total External Debt	66,166		66,166	
CFR – General Fund	7,941		7,441	
CFR - HRA	68,347		66,796	
Total Capital Financing Requirement	76,288		74,237	
Under Borrowing	(10,122)		(8,071)	
Investments				
Short-term deposits with banks & building societies	8,882	0.60%	9,300	0.73%
Total Investments	8,882		9,300	
Net Borrowing Position	57,284		56,866	

Debt decisions taken during 2015/16

- 6.14 Table 10 summarises the long term loans held at 31 March 2016. No additional long term borrowing was taken out during the year. These loans are all maturity, fixed interest rates.

Table 10: Schedule Of Outstanding Loans at 31 March 2016

Repayment Date	Period of Loan (Years)	Interest Rate	Amount Outstanding £'000
28/03/2017	5	1.24%	5,000
28/03/2022	10	2.40%	5,000
28/03/2027	15	3.01%	10,000
08/01/2028	25	4.88%	400
28/03/2032	20	3.30%	15,000
28/03/2037	25	3.44%	15,000
28/03/2042	30	3.50%	14,166
24/02/2055	60	8.88%	800
30/04/2055	60	8.88%	800
Total			66,166

- 6.15 **Short Term Borrowing** – the Council has no short terms loans outstanding as at 31 March 2016.
- 6.16 **Debt Re-scheduling** – all of the Council's long term borrowing is with the Public Works Loans Board (PWLb). Due to changes made by the PWLB in the way in which it calculates the premiums and discounts on premature loan repayments, it has become more expensive to undertake any debt rescheduling. Consequently no debt rescheduling opportunities were undertaken during the year.

Investment decisions taken during 2015/16

- 6.17 **Investment Policy** - the Council's Treasury Management Strategy Statement was approved by Full Council on 4 March 2015. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 6.18 **Major Transactions** – the Council did not undertake any long term investments during 2015/16.

6.19 **Investments held by the Council** – Table 11 details the investments held by the Council at 31 March 2016.

Table 11: Schedule Of Outstanding Investments at 31 March 2016

Date Invested	Date to be Repaid	Invested With	Interest Rate	Investment Amount £'000
Call Account	Call	Bank of Scotland Plc	0.40%	1,300
Call Account	Call	Santander UK Plc	0.40%	2,000
Fixed Term Deposit	22/04/2016	Blackpool Borough Council	0.47%	1,000
Fixed Term Deposit	01/04/2016	Coventry Building Society	0.60%	1,000
Fixed Term Deposit	01/12/2016	Lloyds Bank	1.05%	1,000
Fixed Term Deposit	04/01/2017	Lloyds Bank	1.05%	1,000
Fixed Term Deposit	11/11/2016	Nationwide Building Society	0.84%	1,000
Fixed Term Deposit	03/01/2017	Santander	0.98%	1,000
Total				9,300

Prudential Indicators and Compliance Issues

6.20 The Council is required by the Prudential Code to report the actual prudential indicators after the year end. These indicators provide either an overview or a limit on treasury activity.

6.21 **The Capital Financing Requirement (CFR)** - shows the Council's underlying need to borrow for capital purposes and should only increase in relation to capital expenditure that is not met from the Council's own resources, i.e. it is unfinanced. External borrowing should not exceed the CFR except in the short term under exceptional circumstances. Any borrowing in excess of the CFR would be deemed to be for revenue purpose, which is not allowed. This indicator aims to show that gross borrowing does not exceed the CFR. The gross borrowing position is the sum of external debt and finance lease liabilities. Table 12 demonstrates that the Council has complied with this requirement.

Table 12: Gross Borrowing and CFR Position

	31 March 2015 Actual £000	31 March 2016 Actual £000
Gross borrowing position	66,166	66,166
Capital Financing Requirement	77,804	74,237

- 6.22 **The Authorised Limit** – this is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. This represents a limit beyond which external debt is prohibited. The limit is set or revised by the Full Council. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within this limit.
- 6.23 **The Operational Boundary** – this is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 6.24 **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.

Table 13: Other Prudential Indicators

	2015/16 £000
Authorised limit	87,000
Maximum gross borrowing position	68,000
Operational boundary	85,000
HRA Debt Limit	73,000
Financing costs as a proportion of net revenue stream:	
Non- HRA	1.16%
HRA	14.89%

- 6.25 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.
- 6.26 The Council is aware of the risks of passive management of the treasury portfolio (reduced investment income, counterparty risk etc) and, with the support of Capita Asset Services the Council’s Treasury Management Advisers, has proactively managed the debt and investments over the year by continually reviewing market conditions, appraising investment and debt rescheduling opportunities and assessing their effects on the Council’s balance sheet.
- 6.27 There is little risk of volatility of costs in the current debt portfolio as the interest rates are fixed, utilising long-term loans.

- 6.28 Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult and will continue to impact on the revenue accounts.

7 References to Corporate Plan

- 7.1 Good financial management underpins all priorities within the Corporate Plan.

8 Implications

Financial Implications

Name & Title: Ramesh Prashar, Financial Services Manager

Tel & Email T 01277 312513 / ramesh.prashar@brentwood.gov.uk

- 8.1 The financial implications are set out in the report.

Legal Implications

Name & Title: Daniel Toohey, Monitoring Officer

Tel & Email 01277 312860 / daniel.toohey@brentwood.gov.uk

- 8.2 The Council is obliged under Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs

9 Background Papers

- 9.1 2 March 2016 Council – Medium Term Financial Plan 2016/17 – 2018/19

10 Appendices to this report

- 10.1 Appendix A – Earmarked Reserves

Report Author Contact Details:

Name: Ramesh Prashar, Financial Services Manager

Telephone: 01277 312513

E-mail: ramesh.prashar@brentwood.gov.uk