Kirklees COUNCIL

Name of meeting: Council
Date: 29 June 2016

Title of report: Council financial outturn & rollover report 2015-16; incorporating General Fund Revenue, Housing Revenue Account, Capital & Treasury Management

Key decision – is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes The report includes proposals to roll forward revenue and capital underspend from 2015-16 into 2016-17, to spend against specific activities.
Key decision - is it in the Council's Forward Plan (key decisions and private reports)?	Key decision - Yes Private report/private appendix - no
The Decision - Is it eligible for "call in" by Scrutiny?	No
Date signed off by Director and name **Is it signed off by Director of Resources?** **Is it signed off by the Assistant Director (Legal, Governance & Monitoring)?**	David Smith, 8 June 2016 Yes (see above) Julie Muscroft, 8 June 2016
Cabinet member portfolio	Resources

Electoral wards affected: All

Ward Councillors consulted: All

Public or private: Public

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1. Purpose of the Report

The purpose of this report is for Council to receive information on the Council's 2015-16 financial outturn position for General Fund revenue, Housing Revenue Account (HRA) and Capital Plan, including proposals for revenue and capital rollover from 2015-16 to 2016-17. This report also includes an annual review of Council Treasury Management activity.

RESTRICTIONS ON VOTING

Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where –

(a) they are present at a meeting of the Council, the Cabinet or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and

(b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in (b) above. It should be noted that such members are not debarred from speaking on these matters.

Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

2. Summary

2.1 The Council's General Fund (net) revenue budget for 2015-16 was set at **£314.1m**. The Council spent **£308.3m** in 2015-16, resulting in an underspend of **£5.8m**, equivalent to just 1.9%, against budget. The revenue outturn position is summarised in Table 1 below.

Table 1 – Overview of 2015-16 general fund revenue outturn position

Description	Net revenue Budget	Revenue Outturn	Variance
	£m	**£m**	**£m**
Directorates	230.6	234.8	4.2
Cross-Directorate activity (themes)	33.6	29.5	(4.1)
Central Budgets	48.8	48.8	nil
District Committee managed budgets	1.1	0.2	(0.9)
Sub-Total	**314.1**	**313.3**	**(0.8)**
Corporate Reserves applied in-year	**-**	**(5.0)**	**(5.0)**
total	**314.1**	**308.3**	**(5.8)**

2.2 The revenue outturn position set out in Table 1 above includes Cabinet approved drawdown of "one-off" revenue funding (Corporate Reserves) during 2015-16 totalling £5.0m, to offset Directorate budget pressures relating to vulnerable adults and looked after children; mainly demand led volume pressures.

2.3 Overall movements in general fund balances and earmarked reserves in-year, including those referred to in paragraph 2.2 above, totalled £18.2m, reducing overall general fund corporate reserves from £111.5m as at April 2015, to £93.3m as at 31 March 2016. These figures exclude statutory reserves held by the

Council on behalf of local authority controlled schools. These reserves cannot be used by the Council for other purposes, and as at 31 March 2016 totalled £19.9m.

2.4 The Council's Housing Revenue Account (HRA) accounts for all Council housing related revenue expenditure and income in a separate statutory (ring-fenced) account. The HRA had a bottom line surplus of £6.2m against an annual turnover of £95.8m in 2015-16; equivalent to 6.5%. HRA reserves at 31 March 2016 were £42.8m; an increase of £7.0m in the year (made up of the £6.2m HRA surplus transferred to reserves at year end, plus other approved transfers to reserves in-year).

2.5 Revenue rollover proposals from 2015-16 to 2016-17 are; £1.127m general fund revenue rollover, and the remaining £4.718m underspend available in general balances; £234k HRA revenue rollover, and the remaining £5.982m underspend available in HRA reserves.

2.6 The Council's capital budget for 2015-16 was £116.1m, and actual year-end spend was £73.4m, resulting in an underspend of £42.7m (36.8% variance compared to budget). This is summarised in Table 2 below.

Table 2 – Summary Capital Outturn 2015-16

Description	Budget £m	Outturn £m	Variance £m
Strategic Priorities	25.1	11.1	(14.0)
Baseline	61.4	39.1	(22.3)
Risks & Pressures	2.5	0	(2.5)
One-Off Initiatives	0.6	0.5	(0.1)
General Fund	**89.6**	**50.7**	**(38.9)**
Housing Revenue Account	26.5	22.7	(3.8)
Total	**116.1**	**73.4**	**(42.7)**

2.7 Of the General Fund capital underspend, the proposal is to roll-forward all existing commitments but to remove £1.1m of 'uncommitted' resources from the Plan. It is proposed to roll forward £1.7m, of the HRA capital underspend, to 2016-17. The allocated resources are considered sufficient to meet service objectives.

2.8 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management borrowing and investment activity during the financial year, and a review of treasury management activity for 2015-16 is incorporated into this report, for information.

3. Information required to make a decision

3.1 Appendix A, Sections 1-4 attached, set out in more detail the financial outturn position of the Council in 2015-16 in relation to the Council's general fund revenue, HRA revenue, Council capital budgets, and performance on treasury management activity.

3.2 Annual revenue rollover proposals are informed by Council Financial Procedure Rules, which set out the following principles to annual revenue rollover considerations :

i) total rollover proposals cannot exceed the overall net underspend position of the Council, and

ii) rollover proposals by Directorate should not exceed the net underspend position by Directorate

3.3 The £5.8m general fund revenue underspend in 2015-16 reverts to general balances as at 31 March 2016. Revenue rollover proposals total £1.126m and are summarised at Appendix D. The main rollover proposal is £876k rollover in respect of District Committee underspend.

3.4 The Council continues to face considerable financial challenges at least to 2020 (see also, Implications section 4 below), and the remaining underspend, at £4.718m, will remain in general balances in 2016-17, and can be considered as part of the wider medium term budget strategy update to be reported to Cabinet and Council in September and October 2016.

3.5 The £6.216m HRA surplus in 2015-16 reverts to HRA reserves as at 31 March 2016. HRA revenue rollover proposals totalling £234k are also summarised at Appendix D. Like the general fund, the Council's HRA faces significant financial challenges to 2020. The balance of HRA surplus, at £5.982m, which will remain in HRA general reserves in 2016-17, and can also be considered as part of the wider HRA business plan re-fresh that will inform future medium term budget proposals.

3.6 Capital rollover proposals total £39.4m; 92% of the total £42.7m year-end underspend. The £1.1m of 'uncommitted' General Fund capital recommended for removal from the Plan (Appendix G) generates £76k of ongoing treasury management revenue savings through reduced borrowing requirement. Revisions to grant assumptions and proposals for re-profiling the current approved 2016-21 Capital Plan, are set out in more detail at Appendix A, section 3.

4. Implications for the Council

4.1 The Council continues to face significant financial challenges and must ensure it can achieve a sustainable balanced budget over the medium term and beyond.

4.2 Current approved budget plans include a planned saving requirement of £31m over the 2016-19 period; much of which reflects the Council's journey to a New Council, including Cross-Directorate service re-design informed by key themes of economic resilience and early intervention and prevention. To achieve an overall balanced budget in 2016-17 has also required the approved drawdown of £15m general balances, which is one-off funding.

4.3 This still leaves current approved budget plans with a budget gap of £16m from 2017-18, increasing to £38m by 2019-20, and further savings options will need to be considered through the forthcoming budget round to balance the books over the period.

4.4 Given the scale of the financial challenges continuing to face the Council to 2020, prudent revenue rollover proposals means the majority of the 2015-16 underspend, at £4.7m, will be available in general balances to support updated budget strategies and plans to be considered by members in Autumn 2016.

4.5 The Council's updated budget plans will include consideration of Government's offer for a multi-year (4 year) financial settlement, conditional on Councils publishing an efficiency plan, by 14 October 2016. The efficiency plan can be combined with Council updated budget plans and strategies. Councils who do not produce a plan it may receive a lower grant settlement on an annual basis. A plan is also likely to require a balanced budget over 4 years. The Government 'offer' letter and conditions are set out at Appendix N attached, and we plan to report to October Council for approval of our efficiency plan.

4. 6 The impact on the HRA of an annual 1% rent reduction for social housing tenants over the next 4 years is a forecast reduction in annual rental income of £10.5m by 2020, against an annual turnover of £95m (equivalent to about 11%) The financial impact of this will be factored into HRA business plan re-fresh, and options considered to inform future HRA budget proposals.

4.7 Similar to the general fund, prudent HRA revenue rollover proposals means the balance of the 2015-16 surplus, at £6m, is available to support the HRA business plan re-fresh in preparation for the forthcoming budget round.

4.8 When the Capital Plan was presented to Council in February 2016, the proportion of overall budget taken up with interest and debt repayment was estimated to reach 12.81% by 2020-21. The actual prudential indicator (PI) rate for 2015-16 is 10.61% and after taking account of rollover, the re-phasing of schemes and changes to grant assumptions, the PI is now estimated at a lower figure of 11.86% by 2020-21. As revenue resources are under considerable pressure, close scrutiny will need to continue to ensure borrowing fulfils the criteria of being affordable, prudent and sustainable.

5. Consultees and their opinions

This report has been prepared by the Director of Resources in consultation with the Executive Team.

6. Next Steps

Subject to member approval, revenue and capital rollover proposals, and the update of the 5 year capital plan, to be incorporated into in-year financial monitoring in 2016-17, and reported quarterly to Cabinet, from Quarter 1 onwards.

7. Officer recommendations and reasons

Having read this report and the accompanying Appendices, Council are asked to:

General Fund Revenue

7.1 note the revenue outturn positon for 2015-16 (Appendix A, Section 1 & Appendices B-C)

7.2 approve proposals for £1.126m revenue rollover;£0.876m represents the District Committee underspend carried forward and £250k resources for Local Plan preparation (Appendix D)

7.3 note the use of corporate reserves, including general balances (Appendix A, Section 1, paras 1.21 to 1.28)

Housing Revenue Account (HRA)

7.4 note the revenue outturn positon for 2015-16 (Appendix A, Section 2)

7.5 approve proposals for £234k revenue rollover (Appendix D)

7.6 note the use of HRA reserves (Appendix A, Section 2 paras 2.12 to 2.17)

Capital

7.7 note the Council capital outturn position for 2015-16 and the proposed review during the summer of 2016 of all capital baseline allocations which will feed into the next capital budget round (Appendix E)

7.8 approve proposals to remove £1.1m uncommitted rollover from the capital Investment plan (Appendix G);

7.9 increase Disabled Facilities Grant baseline budget from £2.4m to £2.6m. (Appendix A, Section 3, para 3.19.ii)

7.10 approve the application of additional (DFG) grant allocation received as part of the Better Care Fund, against the Disabled Facilities Grant capital baseline and the previous borrowing commitment it replaces is removed from the Plan. (Appendix A, Section 3, para 3.19.iii)

7.11 approve £1.7m HRA capital rollover from 2015-16 to 2016-17. (Appendix A, section 3, paras 3.20 & 3.22)

7.12 approve the revised Capital Plan for the 5 year period 2016-17 to 2020-21, after taking into account rollover, the re-phasing of schemes, changes to grant assumptions, and the removal of the PV programme within HRA strategic priorities. (Appendix A, section 3, paras 3.12 – 3.33, & Appendix H)

Treasury Management

7.13 To note the review of treasury management activity for 2015-16 (Appendix A, Section 4)

8. Cabinet Portfolio Holder recommendation

Pending the full Council appointment of a strong leader and Cabinet, the Chief Executive endorses the proposals in this report.

9. Contact Officer

Eamonn Croston	Strategic Council Finance Manager	01484 221000
Philip Deighton	Strategic Council Finance Manager	01484 221000

Tim Mitchell Finance Manager 01484 221000

10. Background papers and History of Decisions

- Annual revenue budget report 2015-18 web link item
- Annual capital budge report 2015-20
- Annual budget report 2016-19
- Early review of Closedown report 2015-16
- CIPFA’s code of Practice on Treasury Management in the Public Services
- CIPFA’s Prudential Code for Capital Finance in Local Authorities
- Public Works Loan Board website

11. Assistant Director responsible

Debbie Hogg Assistant Director 01484 221000

APPENDIX A

SECTION 1 – GENERAL FUND REVENUE OUTTURN 2015-16

1. Summary revenue outturn position

1.1 The Council's general fund net revenue budget for 2015-16 was **£314.1million (m)**. The outturn spend was **£308.3m**, resulting in an overall **underspend of £5.8m**; equivalent to 1.9% against net revenue budget.

1.2 The overall revenue outturn position is summarised by Directorate, at Appendix B, and the more significant variances against Directorate activity, reported at Appendix C.

1.3 Headline Directorate pressures included demand led pressures regarding activity relating to vulnerable adults at £1.7m (net of £2.2m additional funding allocation – see also paragraph 1.6 below), looked after Children at £3.5m, and Waste Services at £0.9m.

1.4 The Council administers a current annual £29.8m pooled funding arrangement, also referred to as 'Better Care Fund' or BCF, with North Kirklees and Greater Huddersfield Clinical Commissioning Groups.

1.5 The BCF was implemented nationally by government, from 2014-15 onwards. It is intended to promote more joined up or integrated service commissioning and delivery, between the council and key health partner organisations.

1.6 Most of the BCF pooled funding allocation for 2015-16 relates to pre-existing spend commitments other than £2.2m funding allocation, which has been applied in-year against Adult Social Care services; £0.9m Older People, £1m Learning Disabilities, £0.3m Contracts and Commissioning.

1.7 It is anticipated that the £2.2m will be recurrent for future years, and has been factored accordingly into the Council's approved budget plans for 2016-19.

1.8 The Council's budget strategy includes the prudent set aside of some one-off revenue funding in corporate earmarked reserves to offset known budget risks. In 2015-16, Cabinet approved the drawdown of £5.0m corporate earmarked reserves in-year to offset Directorate budget pressures; mainly relating to vulnerable adults and looked after children activity demand led activities.

1.9 There was a £4.1m underspend on Cross-Directorate theme activity; Economic Resilience at £1.6m and Early Intervention and Prevention at £2.5m. This largely reflects savings made earlier than anticipated in preparation for 2016-17 planned saving requirement.

1.10 Central Budgets reported a nil variance against revenue budget in 2015-16. However, there was an underlying underspend of £6.8m. This includes treasury management at £2.5m; largely reflecting a lower borrowing requirement than anticipated. The Treasury Management underspend is sustainable and had already been factored into the approved 2016-19 budget plans. Elsewhere, there were a number of one-off savings in contingency budgets and Joint Services.

1.11 An early closedown review report 2015-16 was approved by Cabinet on 24 May. The link to this report is set out below ;

Early closedown review report 2015-16 (Item 7)

1.12 The report included proposals to use the £6.8m underspend in-year to fund existing capital expenditure instead of planned borrowing. This in turn will reduce future year financing costs with an estimated medium term financial plan (MTFP) annual saving of £320k against Treasury Management revenue budget, from 2016-17 onwards.

Collection Fund

1.13 The Collection Fund is a ring-fenced revenue account. It is administered by the Council (the billing authority).

1.14 Responsibilities include council tax and business rates annual billing, income collection, and annual planned payments from the Collection Fund to the billing authority's own general fund, relevant precepting bodies (fire, police and parishes), and central government.

1.15 Planned payments to the relevant bodies are set in advance of each financial year as part of the formal budget approval process, based on estimated income. Actual income collected during the year can vary from estimated, and any such differences are retained within the Collection Fund as surpluses or deficits.

1.16 The intention is that any (surpluses)/deficits built up are 'smoothed out' over time, through adjusting annual re-payments to/from the Council's general fund. Due to timing issues and emerging income trends, it often takes a number of financial years to achieve smoothing out of surpluses/deficits accumulated, in practice.

1.17 Table 1 below reflects the change in the Council share of the Collection Fund (surplus)/deficit, between 2014-15 and 2015-16, including income performance in-year:

Table 1- Collection fund (Council share); 2015-16 outturn

Collection Fund	Council Tax	Business Rates	Total
	£000	£000	£000
Actual (surplus)/deficit at 1 April 2015	(4,562)	5,234	672
Re-payment to/from general fund in 2015-16 In-year (surplus)/deficit	2,827 (2,910)	(3,021) 2,819	(194) (91)
Actual (surplus)/deficit at 1 April 2015	(4,562)	5,234	387
Re-payment to/from general fund in 2016-17	3,900	(4,200)	(300)
Estimated (surplus)/deficit at 31 March 2017	(662)	1,034	372

1.18 The in-year surplus of £2.5m on Council tax is equivalent to 1.8% against planned income of £141m, and is mainly due to council tax income collection performance in excess of targeted.

1.19 The in-year deficit of £2.8m on business rates income is equivalent to 5.4% against planned income of £51.4m, and is due mainly to continued volatility on outstanding backdated rating valuation appeals.

1.20 Council approved budget plans for 2016-19 had anticipated the in-year Collection fund income performance trends noted above, in setting 2016-17 council tax base and business rates estimates. However, the position with regard to rating valuation appeals remains volatile.

Reserves and Balances

1.21 Reserves here means accumulated "one-off" resources built up over time, and are categorised under a number of broad categories, and these are summarised below at Table 2 below:

Table 2 – Current Reserves position

General Fund Reserves	31st March 2015	In-Year Movements 2015-16	31st March 2016	Budget Approved Commitments 2016-17	Adjusted Total
	£m	£m	£m	£m	£m
Earmarked	(63.5)	6.1	(57.4)	1.4*	(56.0)
Risk Based	(10.0)	-	(10.0)	-	(10.0)
General Balances	(38.0)	12.1	(25.9)	16.2*	(9.7)
Sub-Total	**(111.5)**	**18.2**	**(93.3)**	**17.6**	**(75.7)**
Plus Statutory	(24.0)	4.1	(19.9)	-	(19.9)
Total	**(135.5)**	**22.3**	**(113.2)**	**17.6**	**(95.6)**

assumes £1.1m rollover approval & subsequent transfer of this amount from general balances to earmarked rollover reserve, in-year

1.22 There was a net drawdown of £6.1m earmarked reserves during 2015-16, which includes £5.0m to offset Directorate budget pressures in-year (see also paragraph 1.8 earlier), while the general balances drawdown at £12.1m was part of the 2015-16 approved Council budget plans, to achieve a balanced budget.

1.23 Statutory reserves movements in-year total £4.1m and these relate to school based reserves (mainly school balances plus Dedicated Schools Grant) which statutorily the Council has no flexibility to apply for other purposes.

1.24 Overall, (excluding statutory reserves), the net movement in reserves and balances over the period 2015-17 (inclusive of approved budget drawdowns in 2016-17) is a reduction from £111.5m to £75.7m; equivalent to 32% reduction in available corporate revenue reserves.

1.25 General balances has a remaining balance of £9.7m and this includes a £5m minimum balances provision; the remaining £4.7m available to support the medium term financial plan going forward.

1.26 Remaining earmarked reserves total £56m. Some key highlights include a £4m set aside to support Council transformation, £11m set aside for Council wide severance costs, and just under £10m to fund deferred spend commitments against approved rollover commitments (including approvals still outstanding from previous years).

1.27 Risk based reserves are informed by the Council's assessment of corporate risks, which highlight a range of key budget and other risks. An 'early review of 2015-16 general fund revenue outturn' report was approved by Cabinet on 24 May 2016. The report included acknowledgment of emerging issues and resource implications regarding another report on the same Cabinet agenda relating to child protection and social work practice, estimated to be in the region of £1.7m, to support a range of service improvements. Detailed costings will be reported to Cabinet through 2016-17 as part of quarterly financial monitoring, and it is intended that these costs will be met from risk reserves.

1.28 It is recommended that Council reserves should be retained for their agreed purposes as set out above, and that further assessments of reserves requirements will be undertaken through the year, and reported to Cabinet as part of established quarterly corporate revenue monitoring reporting processes.

Rollover Bids

1.29 It is proposed that the £876k District Committee underspend be rolled forward in full to 2016-17, and £250k be rolled forward into 2016-17 to support the development of the Local Plan. (Revenue rollover proposals are summarised at Appendix D)

Future developments

1.30 The Council Budget Report 2016-19 to full Council on 17 February 2016 includes the use of £15m available Council general fund "one-off" balances and a further £2.5m earmarked reserves to achieve a balanced budget for 2016-17; £17.5m in total. There is a forecast underlying budget gap of £16m in 2017-18, increasing to £30m in 2018-19 and £38m in 2019-20, and this will need to be addressed through future budget rounds.

1.31 The use of available "one-off" balances is part of the medium term budget strategy and is intended to buy the Council time to be able to invest in change programmes and smooth budget reductions required over the 2016-19 period and beyond.

1.32 In order to ensure that the longer financial position is affordable, the council will need to deliver in line with the Medium Term Financial Plan which means continuing to explore additional service redesign and transformation proposals to bridge the anticipated financial shortfall over the medium term, and address the longer term demographic and service volume pressures.

APPENDIX A

SECTION 2 – HOUSING REVENUE ACCOUNT OUTTURN 2015-16

2. Key Points

2.1 The Housing Revenue Account (HRA) is a statutory ring-fenced account. Under HRA self-financing, which was implemented from April 2012, all income streams and costs relating to the provision of landlord services to about 23,000 Council tenancies, are wholly accounted for in a separate statutory account.

2.2 The intention behind self-financing was to give Councils with HRA's more confidence in being able to forecast what were intended to be more sustainable future rental income streams to help with HRA business planning, than was possible under the previous housing subsidy system.

2.3 The HRA has to live within its means. Similar to the general fund, the HRA is also facing a number of significant financial challenges over the medium term, which provide broader context to the HRA revenue outturn position for 2015-16.

2.4 **The HRA revenue outturn position for 2015-16 reflects an overall surplus of £6.2m against an annual turnover of £95.8m; equivalent to 6.5%**. This is summarised at Appendix B.

2.5 The most significant variance is £4.0m relating to repairs and maintenance; this includes less than anticipated costs on empty homes at £1.0m and reduced volume of planned repairs at £1.1m. There was also an unanticipated year end £1.7m re-allocation of building services internal trading surplus to HRA. This is an accounting requirement for Council trading services; operating surpluses or deficits relating to internal customers (if material) are re-allocated to customers at each year end.

2.6 Highlight variances across a range of HRA activity headings are summarised at Appendix C.

2.7 Council approved HRA budget plans for 2016-19 had already anticipated some of the above underspend to the extent of identifying annual savings of £3.7m which could be achieved from 2016-17 by re-aligning existing budgets to match current spend, without impacting on services to tenants.

2.8 These represent early measures to manage the impact of Government national social housing rent policy, now enacted through the Welfare & Work Reform Act, regarding an absolute 1% annual rent reduction from April 2016; each year for the next 4 years, for social housing rents.

2.9 The financial impact of the 1% rent reduction on the Council's HRA was set out in a report to Cabinet on 12 January 2016 which also incorporated Cabinet approval for the 1% rent reduction in 2016-17. The link to this report is set out below:

http://democracy.kirklees.gov.uk/documents/s9111/Rent%20setting%20and%20Housing%20context%20cabinet%20report%20v3a%202015%2012.pdf

2.10 The financial impact was a forecast rental income loss of £10.5m per annum by 2020. Rental income accounts for 90% of total HRA income.

2.11 It is acknowledged that the £3.7m savings referred to in paragraph 2.7 above is a short-term strategy in the context and further budget savings would need to be identified in order to achieve a balanced Housing Revenue Account over the longer term.

HRA Reserves

2.12 The HRA statutory ring-fence applies equally to HRA reserves. In-year surpluses or deficits, at each year end transfer to HRA general reserves, which build up over time and can be drawn down to fund both future HRA revenue and capital spend commitments.

2.13 In addition, there is also a major repairs reserve. This is funded from the annual depreciation charge to HRA . This reserve can only be statutorily used for capital debt repayment or capital investment. The HRA reserves position is summarised in Table 1 below:

Table 1 – Summary HRA reserves movements 2015-16

Description	Reserves at 1 April 2015	Net Movement in reserves 2015-16	Reserves at 1 April 2016
	£m	£m	£m
General Reserves	(35.8)	(7.0)	(42.8)
Major Repairs Reserve	nil	nil	nil

2.14 Net movement in HRA general reserves during 2015-16 largely reflects the £6.2m 2015-16 year end surplus transfer to HRA reserves, plus other approved transfers in-year.

2.15 HRA general reserves commitments over the medium term includes £8.5m set aside for business risks; in particular, with regard to a number of welfare reform changes such as universal credit, and potential transitional impact on HRA rent arrears. A further £11.6m is earmarked to support the HRA capital plan (includes £9.2m for strategic priorities) over the 2016-21 period, and there is also a set aside £1.5m working balance. Remaining reserves at £21.2m are currently intended to roll forward to support longer term HRA business planning requirements; in particular maintaining decency in Housing stock.

2.16 The recently enacted Housing & Planning Act 2016 includes government policy intent with regard to high value council housing assets; namely an annual levy or charge to Council HRA's, from 2016-17 onwards, which will then be re-directed to private registered providers to compensate them for loss of housing stock through the introduction of right to buys in this sector.

2.17 The actual levy calculation for individual Councils has not been released yet by government. It is anticipated that short-term, existing HRA general reserves would have to absorb the impact of what is an unbudgeted pressure in 2016-17, acknowledging that longer term, this will present a further budget pressure on the HRA which will also need to be addressed through future budget rounds.

HRA borrowing 'cap'

2.18 As part of HRA self-financing implementation, Government set different borrowing limits for Councils with HRA's. This Council's HRA borrowing limit was set at £247.6m as at April 2012.

2.19 In practice, actual HRA debt outstanding at the time was £215.6m. The difference between HRA debt outstanding and the borrowing limit is also referred to as 'borrowing headroom'; £32m in this case. Since April 2012, the Council has continued to re-pay HRA debt annually, in line with the HRA loan repayment portfolio, and as at 31 March 2016, current HRA debt outstanding is £192.4m (see also, Appendix E), effectively increasing the HRA borrowing headroom to £55.2m.

2.20 While there is borrowing headroom, as with the general fund, the Council has to ascertain whether or not the HRA can "afford" to take on new borrowing, in view of the additional financing costs that HRA would have to incur. Consideration of any scope to review the current approach will be taken as part of a wider re-fresh of the HRA business plan (see also paragraph 2.22 below).

Revenue rollover proposals

2.21 HRA repair and maintenance underspend includes £234k against Tenant Led Environmental Works activity, which is a District Committee managed budget. It is proposed that this underspend is rolled forward in full from 2015-16 to 2016-17, against this activity.

Future developments

2.22 The annual 1% rent reduction each year for the next 4 years presents a significant financial risk to the HRA. There are also a number of other business risks potentially impacting on HRA, including the impact of universal credit on income collection, and the levy proposal noted earlier in paragraph 2.16 above. These business risks will continue to be reviewed in conjunction with the regular re-fresh of the HRA business plan, in-year, to inform future budget rounds.

2.23 This includes consideration of opportunities that could achieve significant efficiency savings over the medium term, including an assessment of potential sustainable medium term savings from a merger between Building Services & the Council's Arms Length Management Organisation partner, Kirklees Neighbourhood Housing (KNH), due to be implemented no later than April 2017.

APPENDIX A

SECTION 3 – CAPITAL OUTTURN 2015-16

3. Key Points

3.1 The Council's capital budget for 2015-16 was £116.1m, and actual spend at year end was £73.4m. There is a headline outturn **underspend of £42.7m** (36.8% variance compared to budget).

3.2 The General Fund underspend is £38.8m. The majority relates to slippage rather than anticipated scheme underspends. Only £8.1m was identified as being 'uncommitted' resources. As in previous years, the Assistant Director (AD) Strategic Investment Group reviewed these 'uncommitted' resources and the Group recommends £1.1m of 'uncommitted' rollover (all funded by borrowing) is removed from the Capital Plan (Appendix G).

3.3 The Housing Revenue Account (HRA) underspend is £3.9m. Of this, £1.7m is planned to be rolled forward into 2016-17. The HRA is facing significant financial challenges and the proposed rollover is considered to be a prudent re-alignment of budgets to meet future requirements

3.4 A re-appraisal of General Fund risks and pressures was undertaken to identify any areas where capital investment may need to be recognised in the next 5 years. At this point, there is no additional recommendation for extra investment over and above the recommended plan for 2016-17 to 2020-21.

3.5 It should be noted that AD Strategic Investment Group plan to carry out a review during summer 2016 of all capital baseline allocations. The review will challenge whether existing allocations represent the minimum capital investment levels needed to support each programme area. The conclusions of the Group will feed into the next capital budget round.

Capital Investment and Funding in 2015-16

3.6 The Capital Plan for 2015-16 (inclusive of rolled over funds from 2014-15) was approved by Council on 29th July 2015 and totalled £111.8m. Following adjustments reported at Quarter 3, the Capital Plan stood at £114.9m.

3.7 Subsequent adjustments have taken the total to £116.1m by the end of the financial year. The increase in budget of £1.2m is due to £0.7m additional funding via Revenue Contributions to Capital Outlay (RCCO) and £0.5m net additional funding received from grants and contributions.

3.8 Highlight variances analysing how the overall £42.7m underspend is broken down, are shown in Appendix E, along with explanations of the principal variations.

3.9 The Capital Plan included an assumption that £5m non-earmarked capital receipts would be generated in 2015-16 to support the overall funding of the capital investment programme. At year-end, capital receipts from land and building disposals totalled £5.7m.

3.10 The financing of new capital investment in 2015-16 compared with the borrowing assumptions in the MTFP show the Council has borrowed £21.2m less than expected in 2015-16. Of this total, £15.0m was provided for corporately in the Treasury Management Budget with the remaining £6.2m being 'self or externally funded' capital schemes i.e. the financing costs of the investment are met by services directly or recovered externally.

3.11 As a consequence of lower borrowing, there is expected to be an under-spend in the Treasury Management Budget in 2016-17 of around £1.8m. Of this, just under £430k is considered to be sustainable savings. This reflects the proposal to remove £1.1m uncommitted rollover (see also, para 3.19 below) and revenue funding of £6.8m applied in 2015-16 to fund existing capital expenditure instead of planned borrowing (see also, Appendix A, Section 1, para 1.12).

3.12 The balance of forecast £1.4m underspend in 2016-17 is considered not to be sustainable, but more reflective of timing issues i.e. deferred borrowing commitments re-profiled into later years as per the capital rollover proposals incorporated into the updated capital plan (see also para 3.17, Table 1 below).

3.13 The Council is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. This requires prudential indicators (indicators/limits which help manage the Council's borrowing and treasury management activities) to be set as part of the budgeting process, monitored through the year and reported at outturn.

3.14 Appendix F provides a schedule of the indicators applicable to affordability and prudence which have been reported as part of capital monitoring in 2015-16. Indicators applicable to treasury management are reported in the Annual Report on Treasury Management.

Updated Capital Investment Plan

3.15 When the Council approved the Capital Investment Plan in February 2016 for the 5 year period from 2016-17 to 2020-21, it made provision for an overall level of investment of £420.8m, split between £305m for the general fund and £115.8m for the HRA.

3.16 The Plan now needs to be updated to take account of slippage from 2015-16 and changes in the estimated levels of resources available. Services have also taken the opportunity to review progress on programmes and schemes with a view to achieving a more realistic spending profile over the Plan period.

3.17 The revised Capital Investment Plan for the period 2016-17 to 2020-21 (inclusive of the rollover proposals) totals £398.4m. The Plan is summarised below (see Appendix H for detail). The key changes made to the 5 year Plan are highlighted in the following sections.

Table 1 - Overall Expenditure Summary 2016-17 to 2020-21

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	Total £000
Strategic Priorities	24,846	31,785	28,226	5,632	4,132	94,621
Baseline	52,570	35,044	29,268	28,726	28,854	174,462
One-Off Initiatives	101	0	0	0	0	101
Risks & Pressures	5,000	2,500	2,500	2,500	2,500	15,000
Total General Fund	**82,517**	**69,329**	**59,994**	**36,858**	**35,486**	**284,184**
HRA	19,478	22,366	26,391	21,115	24,907	114,257
Council Total	**101,995**	**91,695**	**86,385**	**57,973**	**60,393**	**398,441**

General Fund Capital Investment Plan

3.18 An assessment of rollover requests was carried out by the AD Strategic Investment Group to identify what commitments exist against the £38.8m General Fund underspend. The review identified that only £8.1m rollover was ‘uncommitted’ and the Group recommend £1.1m of this ‘uncommitted’ rollover is removed from the Capital Plan. Details of the proposals are summarised in Appendix G.

3.19 The proposal to remove £1.1m of investment (all funded by borrowing) generates ongoing revenue savings of £76k per annum.

3.20 A presentational amendment has been made to how the strategic priorities funded via the West Yorkshire Transport Fund (WYTF) are recorded in the Investment Plan. Indicative scheme costs are no longer profiled across the 5 year Plan, these figures are now replaced with the grant levels that WYTF has allocated (mandated) to the Council to fund early feasibility works and high level option appraisals. This fundamental change has the impact of removing £53m grant from what was previously shown in the Capital Investment Plan.

3.21 In addition, the number of Kirklees schemes within the prioritised core package of projects to be delivered through the WYTF has reduced from 5 to 4, this is explained as follows:

- The scope of the original A653 Dewsbury to Leeds Corridor scheme (to be renamed ‘Mirfield to Dewsbury to Leeds Corridor’) has been expanded to include both the Ravensthorpe Relief Road scheme and South Dewsbury Development project.

- A mandate for £70k was recently approved (£3k spent in 2015-16) to undertake modelling and economic assessment work relating to a potential scheme at M62 Motorway Junction 24a.

3.22 Other significant changes incorporated into the Plan relate to:

i) The £2m grant assumption relating to a Regional Growth Fund bid for Pioneer House has been removed. The bid is now incorporated within Kirklees College’s application for financial support from the Local Enterprise Partnership (LEP) Skills Capital Fund. The application seeks a capital grant to undertake a fit-out programme to Pioneer House and the development of Dewsbury Learning Village. The remaining resources in the Capital Plan are evenly profiled across 2016-17 – 2017-18 and are available to fund a programme of landlord works at Pioneer House.

ii) It is proposed to increase the Disabled Facilities Grant (DFG) baseline, within Housing Private, from £2.4m to £2.6m. This reinstates some of the budget reduction agreed at February 2015 Budget Council, where the baseline was reduced from £2.9m to £2.4m. A caveat was included at the time stating that the baseline would be regularly monitored in order to review the impact of future volumes. The outturn spend in 2015-16 was £2.5m and therefore it is deemed prudent to raise the budget to £2.6m.

iii) The 2016-17 grant allocation for DFG which is part of the Better Care Fund has increased from £1.4m to £2.5m (see Table 2). The additional grant will be applied against the DFG baseline within Housing Private, with the balance of funding being made up from Right to Buy (RTB) receipts. It is recommended that the third current funding stream i.e. borrowing, which is released by the additional grant, be removed from the Plan.

In 2016-17, work will commence on developing an integrated strategy for 'Aids to Daily Living' which includes the Adaptations Service along with Integrated Community Equipment Service and Assistive Technology. Current budget lines, including the DFG capital baseline, will be subject to consideration by this review to ensure resources are utilised effectively to deliver desired outcomes.

iv) The annual capital allocation of £1m previously built into Adults baseline has been removed as the Adult Social Care Capital Grant is no longer received as part of the Better Care Fund.

v) Opportunity has been taken to update the phasing of several strategic priorities i.e. new pupil places in primary schools, the loan facility to develop a hotel as part of the HD One scheme, and European Grant match funding.

vi) The balance of grant available for Empty Clusters, £211k, has been built into the Plan.

<u>HRA – Capital Investment Plan</u>

3.23 The opportunity was taken to review how much of the £1.6m underspend in HRA baseline was required to fund future works and only £0.3m rollover is being carried forward to 2016-17. The rollover reflects the early completion of multi-year schemes (including roofing) and the fact that many Maintaining Decency programmes are sufficiently resourced to fund future year's requirements. The capital baseline for 2016-21 totals £83.1m.

3.24 The strategic priorities budget has been adjusted to reflect the withdrawal from of the solar photo-voltaic (PV) programme, resulting in £3.2m of capital being removed in 2016-17. Cabinet approval to withdraw from the works programme to install PV systems on Council houses (projected to achieve 574 out of the

2000 target) was received on 5th April 2016 and was in response to the Department of Energy and Climate Change announcement that feed-in tariff rates would reduce by 60% for all systems registered after 15 January 2016.

3.25 Rollover of £1.4m has been applied to strategic priority capital allocations, including £1m for Extra Care housing and the revised Plan now totals £31.2m.

3.26 The HRA Capital Investment Plan reflects the current ambition for the HRA looking at both existing stock and future developments around extra care housing within the Excellent Homes for Life project. The use of 'over-programming' within the capital plan is to be removed from 2016-17 onwards to ensure accurate reporting is maintained within the financial ledger.

Capital Resources

3.27 The government grant allocations built into the 5 year Capital Plan approved by Council on 17th February 2016 have been revisited. A number of these assumptions require updating.

Table 2 - Proposed External Resource Allocation

		2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Housing Private – Disabled Facilities	*Feb Plan*	1,362	1,362	1,362	1,362	1,362
	Rollover Plan	2,483	2,483	2,483	2,483	2,483
CHYPs – Basic Need, Capital Maintenance, Devolved Formula Capital	*Feb Plan*	10,577	13,938	9,717	9,717	9,717
	Rollover Plan	10,350	13,469	12,835	9,491	9,491
Highways – Local Transport Plan	*Feb Plan*	8,185	7,395	6,639	6,434	6,229
	Rollover Plan	9,403	7,395	6,639	6,434	6,229
Total	*Feb Plan*	**20,124**	**22,695**	**17,718**	**17,513**	**17,308**
	Rollover Plan	**22,236**	**23,347**	**21,957**	**18,408**	**18,203**

3.28 The Department for Education (DfE) announced on 12th March 2016 that the level of Capital Maintenance grant for 2016-17 will be £4m per annum (a reduction of £201k p.a. compared to the previous assumption of £4.2m). The assumption incorporated in the Plan is that as more schools become academies this figure will reduce further and an indicative grant of £3.8m has been built into Plan from 2017-18 onwards.

3.29 The final Devolved Formula Capital allocations for 2016-17 were announced on 12th May 2016 and are updated to reflect the academy status of schools as at 31st March 2016. The grant level is £1.1m in 2016-17. This level of grant is assumed to remain constant across the 5 years of the Plan.

3.30 On 17th March 2016, the DfE confirmed the basic need grant allocation for 2018-19. Previously, an indicative amount of £4.6m had been built into the Plan. The announcement was for a grant settlement of £8m. The additional grant is built into the Plan but future years remain at the lower indicative amount.

3.31 The LTP Integrated Transport (IT) grant is administered by West Yorkshire Combined Authority. The forward programme beyond 2016-17 is still to be determined consequently the annual £1m IT grant built into the Plan from 2017-18 onwards is an estimate. In 2017-18, a new Single Transport Plan will be introduced and this will determine future spend priorities on transportation across West Yorkshire.

3.32 Table 3 shows how the Capital Plan is funded (Appendix H shows the detail).

Table 3 - Overall Funding of Capital Plan

	Grants £000	Ring-fenced Receipts £000	Borrowing/ non ring-fenced receipts £000	Capital Reserves/ Revenue £000	Total £000
Strategic Priorities	35,198	0	59,423	0	94,621
Baseline	85,089	3,723	85,650	0	174,462
One-off Initiatives	0	0	101	0	101
Risks & Pressures	0	0	15,000	0	15,000
Total General Fund	**120,287**	**3,723**	**160,174**	**0**	**284,184**
HRA	1,224	8,134	0	104,899	114,257
Council Total	**121,511**	**11,857**	**160,174**	**104,899**	**398,441**

3.33 Over the 5 year period of the General Fund Capital Plan, £160.2 million (56%) is funded from borrowing and non ring-fenced capital receipts. Of this total, £59.4 million borrowing (37%) relates to schemes within Strategic Priorities, £85.7 million (54%) relates to Baseline investment and £15 million (9%) for Risks and Pressures.

3.34 The impact on borrowing through adoption of the proposed 5 Year Capital Plan 2016-17 to 2020-21 including rollover is summarised below. The figures build in an assumed level of slippage between the years:

Table 4 - General Fund Prudential Indicators

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Revenue Debt Charges	31,171	31,546	33,016	33,743	33,223
New Borrowing	24,928	37,130	33,098	17,788	10,827
Debt repayment in Yr	22,329	24,313	22,215	22,728	22,204
Debt Outstanding (excl. PFI)	413,930	426,747	437,630	432,690	421,313
Debt Outstanding (excl. PFI and external loans)	391,003	403,251	410,600	406,413	395,783
Net Revenue Stream (excl.PFI)	291,336	285,002	280,807	280,179	280,179
Ratio of Financing Costs (excl. PFI)	**10.70%**	**11.07%**	**11.76%**	**12.04%**	**11.86%**

3.35 The ratio for 2020-21 has fallen from 12.81% reported in the February Capital Plan Report to 11.86%.

3.36 The proportion of the revenue budget absorbed by repaying debt and interest is a matter of local decision. However, as borrowing grows as a proportion of the revenue budget, the Council's ability to provide day to day services is restricted as repayment of debt is a first call on the Council's finances.

3.37 A PI target was considered to be 12.3%. The amount of historical debt coupled with the decline in Council revenue funding has meant we have not previously been able to reach this target but low interest rates and the regular review of capital allocations and commitments against resources has meant this is the first time the Capital Investment Plan has fallen within the target PI

APPENDIX A

SECTION 4 – TREASURY MANAGEMENT

4. Borrowing and Investment Strategy 2015-16

4.1 With the continuation of instabilities in the financial markets and fragility of economic activity, the over-riding policy was one of ensuring the security of the Council's balances. The Council chose to invest externally balances of around £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements. The investment strategy was designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds.

4.2 It was expected that the Council's external borrowing would increase by up to £13.6 million, arising from the need to finance capital expenditure and replace balances used. Short term borrowing rates were forecast to stay low and it was suggested to look for opportunities to take short term loans either at fixed or variable rates. However, with long term rates forecast to rise in the coming years, any such short term savings would need to be balanced against potential longer term costs.

The economy and interest rates

4.3 The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. The labour market further improved (the unemployment rate of 5.1% was a 12 year low). Inflation continued around 0.0% and wage growth remained modest at around 2.2% excluding bonuses. The slowdown in the Chinese economy has affected global growth and this might be further affected by the outcome of the US presidential election and the UK's EU referendum.

4.4 Whilst the Bank of England maintained the Bank Rate at 0.5% (its eighth year at this level), the US increased their rate for the first time in nine years in December but the Eurozone, Switzerland and Japan were forced to move their policy rates into negative territory. Longer term rates have been kept low by uncertainties around growth, the election and referendum results.

4.5 At the beginning of each quarter, interest rates for the UK were as follows:

		Base rate	50 year PWLB (maturity)*
2015	Apr	0.5%	3.11%
	Jul	0.5%	3.41%
	Oct	0.5%	3.18%
	Jan	0.5%	3.27%
2016	Apr	0.5%	2.95%

*Includes the 0.20% discount that the Council can access as part of the "certainty rate" scheme.

Investment activity

4.6 The Council's treasury management investments totalled £38.3 million as at 31 March 2016 (£38.7 million 31 March 2015). The Council invested an average balance of £59.0 million externally during the year (£54.8 million 2014/15). Central Government has flattened the payment profile for Revenue Support Grant for 2016-17 onwards, so it expected that the Council will not be as cash rich going forward. Income of £0.264 million was generated through these investments (£0.229 million 2014/15). Appendix I shows where investments were held at the beginning of April, the end of September and the end of March, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.45% (0.42% 2014/15), being below the weighted average 7 day London Interbank borrowing rate of 0.49%.

4.7 The change in regulations on bank bail-ins has been reflected in movements in credit ratings, along with other factors such as changes in underlying strength. Some institution's ratings have improved whilst others have suffered, notably in terms of the Council's investment activity –

- Coventry Building Society improving its ratings such that it has moved into the Council's specified category, thus increasing potential investment limits (up to £10 million)
- Nottingham and Yorkshire Building Societies improving their ratings such that they moved into the Council's non-specified category, thus increasing potential counterparties (up to £3 million)
- Barclays' ratings falling such that it moved into the Council's non-specified category from specified, thus reducing potential investment limits (down from £10 million to £3 million)

Borrowing requirement and debt management

4.8 In terms of borrowing, long-term loans at the end of the year totalled £408.4 million and short-term loans (excluding interest accrued) £16.0 million (£422.6 million and £21.1 million 31 March 2015). There was no new long-term borrowing taken during the year and repayments are detailed in Appendix J. Largely because of slippage on the Capital Plan, the level of external borrowing for the year decreased -

	Actual £m
Decrease in Capital Financing Requirement excluding PFI	-15.1
Increase in net balances	-4.2
Net external borrowing requirement	-19.3

4.9 Fixed rate loans account for 75% of total long-term debt giving the Council stability in its interest costs. The maturity profile for fixed rate long-term loans is shown in Appendix K and shows that no more than 10% of fixed rate debt is due to be repaid in any one year. This is good practice as it reduces the

Council's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

4.10 The primary source of the Council's borrowing is from the Government ie Public Works Loan Board (PWLB). In January 2015, DCLG announced that the PWLB would be abolished and proposals on new arrangements have recently been published. It is likely that Treasury will take over the PWLB's responsibilities and lending arrangements will remain unaffected. The Council also has £106.6 million of LOBO (Lender's Option, Borrower's Option) loans as at 31 March 2016. The lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No options were exercised during the year.

4.11 The Local Capital Finance Company established in 2014 by the Local Government Association as an alternative source of local authority finance opened for business in early 2016. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time of several months between committing to borrow and knowing the interest rate payable; and up to 5% of the loan proceeds may be withheld from the authority and used to bolster the Agency's capital strength instead. Officers will continue to monitor developments of this new funding source.

4.12 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity.

4.13 The average borrowing rate for 2015-16 was 4.95% (5.03% 2014/15). Other than a small amount of borrowing in the first week of the financial year, the Council undertook no further temporary borrowing during the year. The borrowing in April was taken from another local authority at a rate of 0.28%.

Trends in treasury management activity

4.14 Appendix L shows the Council's borrowing and investment trends over the last 9 years. The analysis shows that at the onset of the "Credit Crunch" (2008), the Council was externally investing over £100 million, with average investment rates over 5%. From 2009-10 onwards as the banking crisis grew worse and investment rates fell, the Council adopted a policy of holding external investments for cash flow purposes only, initially at around £50 million and then further reduced to £30 million. Any further balances have effectively been "invested internally" to offset new borrowing requirements. It can be seen that the current level of internal investment is £175 million.

4.15 The Capital Financing Requirement (CFR) is the authority's underlying need to borrow for a capital purpose. It is funded by external borrowing and balances internally invested. The CFR for both General Fund and HRA has fallen since the end of 2011, the former by £47.6 million and the latter by £50.0 million. The fall on HRA CFR includes £31 million of debt repaid by Central Government in March 2012 as part of the housing finance reforms.

Revenue Budget Monitoring

4.16 The outturn showed an under-spend of £2.5 million on a net spend of £34.2 million. The under-spend was due to savings on principal and interest arising from capital slippage and the full year effect of £10.5 million capital receipt/revenue contribution/capital grant applied to service debt in 2014-15. The unspent budget contributed towards a year end revenue contribution of £6.8 million to fund capital expenditure which will reduce future capital financing costs.

Risk and Compliance Issues

4.17 The Council can confirm that it has complied with its prudential indicators for 2015-16, which were approved as part of the Treasury Management Strategy. Details can be found in Appendix M. Indicators relating to affordability and prudence are reported in the Capital Outturn report.

4.18 There has been some adverse publicity during the year, including a Channel 4 documentary on 6 July, about LOBO (Lender's Option, Borrower's Option) loans, claiming that these loans are offering poor value for money for local authorities. The publicity has resulted in a DCLG Select Committee taking evidence from various areas, including the participants of the documentary. The Council currently has eleven LOBOs with various UK and foreign banks, totalling £105 million. They were all taken between 1997 and 2008, and their average interest rate equates to 4.4% compared to the Council's PWLB loan average interest rate of 5.1%. All the LOBOs are on their original terms – in one case, where a bank proposed to increase an interest rate from 3.36% to 4.20%, the Council decided to immediately repay that loan. The Council has no "inverse floating" LOBOs, of which the Channel 4 documentary was particularly critical.

4.19 The Council moved its current account banking arrangements from the Co-Operative to Barclays on 1 July 2015, on an initial five year contract. The service being provided is good and a strong working relationship has been built up with the bank.

4.20 On four occasions when the Council has received unexpected monies late in the day, officers have had no alternative but to put the monies into the Barclays Business Reserve Account overnight. This has led to a marginal breach of the investment limit on Barclays on each occasion. Other than those circumstances, the Council has complied with all of the relevant statutory, regulatory and internal requirements which limit the levels of risk associated with its treasury management activities. Officers have adapted investment policies during the year in order to minimise risk in light of changes in counterparty credit ratings and other changes in circumstances. The Council's adoption and implementation of both the Prudential Code and the

CIPFA Code of Practice on Treasury Management means that its capital expenditure is prudent, affordable and sustainable.

4.21 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council’s consultants (Arlingclose), has proactively managed the debt and investments over the year. Arlingclose were re-appointed as the Council’s advisors for the next three years from the beginning of February.

4.22 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2015-16. Arlingclose provided training to Members on 30 March 2015.

4.23 The effect of the reduced borrowing requirements, additional balances and the continuation of lower interest rates will be reflected in revenue budget monitoring reports during the year.

REVENUE OUTTURN 2015-16 **APPENDIX B**

General Fund Directorate	Net Controllable Budget	Revenue Outturn	Variance before reserves applied	Reserves applied	Variance after reserves applied	%
	£000s	£000s	£000s	£000s	£000s	
Children & Young People	67,939	71,804	3,865	(3,325)	540	0.8%
Commissioning, Public Health & Adults	86,218	89,301	3,083	(1,689)	1,394	1.6%
Place	35,853	34,630	(1,223)		(1,223)	-3.4%
Resources	34,130	32,874	(1,256)		(1,256)	-3.7%
Communities, Transformation & Change	6,483	6,185	(298)		(298)	-4.6%
Cross-Directorate Themes	33,573	29,447	(4,126)		(4,126)	-12.3%
Sub-Total	**264,196**	**264,241**	**45**	**(5,014)**	**(4,969)**	**-1.9%**
Central Budgets	48,815	48,815	0		0	0.0%
District Committee managed budgets	1,091	215	(876)		(876)	-80.4%
Total	**314,102**	**313,271**	**(831)**	**(5,014)**	**(5,845)**	**-1.9%**

Housing Revenue Account (HRA)	Controllable Budget	Revenue Outturn	Variance	%
	£000s	£000s	£000s	
Repairs & Maintenance	24,041	20,071	(3,970)	-16.5%
Housing Management	33,239	31,617	(1,622)	-4.9%
Other Expenditure	28,715	27,451	(1,174)	-4.1%
Sub-total	**85,995**	**79,139**	**(6,767)**	**-7.9%**
Income	(95,735)	(95,875)	(139)	0.1%
Operating Surplus for the year	**(9,740)**	**(16,646)**	**(6,906)**	
Revenue contribution to capital expenditure in-year	9,740	10,430	690*	7.0%
Transfer to HRA reserves	**0**	**(6,216)**	**(6,216)**	

**approved set aside in existing HRA reserves to offset this additional cost*

General Fund Outturn highlight variances **APPENDIX C**

Directorate	Activity	Highlight Variances £000	Earmarked Reserves applied £000	Additional comments on Highlight variances (before BCF/reserves applied)
Children & Young People	Safeguarding & family support; demand led activity	+3,480	(3,240)*	+£1.1m fostering; +£1.6m external placements (includes £237k less Clinical Commissioning Groups income than expected)
	Disabled Children's Services	+363		+£292k Direct Payments, +£146k Short Breaks
	Child Sexual Exploitation (CSE) Team	+85	(85)	Additional costs arising from CSE
	Safeguarding & family support; Legal Costs	+816		Overspend on external Legal costs
	Sub-total	+4,744	(3,325)	
Commiss-ioning, Public Health & Adults	Placement equivalent demand	+1,702	(1,317)*	(£0.8m) Older People; +£0.3m Physical Disabilities; +£1.3m Learning Disabilities; +£0.9m mental health.
	(Older People) In-house residential	+536		Mainly agency costs re sickness & vacancies
	Best Partnering	+197		Savings not realised
	Public health expenditure	(210)		+£1m timing issue on sexual health and substance misuse new contracts , (£348k) Smoking and Tobacco reduced demand, (£385k) other saving on substance misuse and savings on other activities.
	Public Health Income	+1,551	(372)	In-year grant reduction part offset by grant reserves applied in-year
	Sub-total	+3,776	(1,689)	
Place	Waste Services	+859		Contract waste/landfill costs; demand led activity
	Cleansing	+388		Changes to working practices & employee reductions ; slippage on MTFP savings
	Seasonal Weather	(320)		Includes (£485k) winter maintenance due to fewer grits than forecast, part offset by overspends on flood damage+ £142k and storm damage +£23k.
	Environment	(551)		Mainly Streetscene Action Team (£301k) and PCSO contribution (£233k).
	Parks and Open Spaces	(389)		Mainly Grounds Maintenance staff (£578k) part offset by other activities.
	Parking	+356		+£140k Residents Permits, implemented Feb 2016, +£240k moving Traffic Enforcement. Part offset by vacancy savings (£100k) and other operational savings.

Directorate	Activity	Highlight Variances £000	Earmarked Reserves applied £000	Additional comments on Highlight variances (before BCF/reserves applied)
Place (continued)	Schools Transport	+1,049		Includes increased volumes and slippage on procurement savings.
	Schools Facilities Management	(1,338)		Mainly catering saving due to increased efficiency on labour and food costs of supplying Universal Free School Meals.
	Corporate Landlord	(374)		reduced costs in repairs and maintenance and utilities and improved income streams.
	Building services	(460)		Improved income levels
	Sub-total	(780)	-	
Resources	Support for Council as Democratic Organisation	(381)		Mainly (£120k) governance, +£246k Councillor Allowances.
	IT	(541)		Employee and supplies and services underspends part offset by overspends on income
	Corporate & Democratic Core	(256)		(£190k) External Subscriptions, (£131k) Corporate Management ; including (£82k) External Audit Fee.
	Sub-total	(1,178)	-	
CTC	Support services	(573)		(£192k) Communications and Marketing additional income and staffing savings, (£382k) HR Professional vacancies held and additional income.
	Communities & Leisure	(357)		Includes (£214k) Organisational change service redesign ; transitional savings achieved, (£79k) Health Watch savings made, +£140k Engaging Communities & Building Capacity employees overspend
	Sub-total	(930)	-	
Cross-Directorate themes	Economic resilience & early intervention & prevention	(4,126)		(£2,512k) EIP, (£1,614k) ER
	Sub-total	(4,126)	-	
District Committee Managed Budgets	Activity Budgets	(876)		Slippage into future years
	Grand total (highlight variances)	**630**	**5,014**	

APPENDIX C (Continued)

Housing Revenue Account (HRA) revenue outturn 2015-16 ; highlight variances

Activity	Variance £000	Additional comments on variances
Repairs & Maintenance	(3,970)	Main variances include (£1.0m) planned repairs reduction in volume of work, (£1.0m) empty homes, (£1.7m) Building Services trading surplus year end transfer to HRA
Housing Management	(1,622)	Includes (£0.7m) reduced projection in PFI in line with reductions in unitary charges, (£0.3m) temporary accommodation savings due to late implementation of Universal credit and (£0.4m) on Council Services Bought In.
Other	(1,174)	Includes (£1.2m) reduced bad debt provision due to delayed implementation of Welfare reform part offset by overspends in Council Tax Voids and other headings.
Revenue Contribution to Capital	+690	+0.7m additional expenditure largely reflects financing of rolled over capital schemes from 2014-15. Approved set aside in existing HRA reserves to offset this.
Income	(140)	(£0.2m) Lower voids and (£0.2m) leaseholder charges, part offset by District heating Income, rechargeable repairs offset and other rents.
Total (highlight variances)	**(6,216)**	

APPENDIX D

REVENUE ROLLOVER PROPOSALS 2015-16 to 2016-17

	Description	**Total £000**	**Bid Details**
General Fund	Local Plan	250	Additional resource requirement
	District Committee Managed Budgets	876	District Committees 2015-16 underspend to roll forward in full.
	Total General Fund	**1,126**	
Housing Revenue Account	Tenant led environmental works managed through District Committees	234	Tenant led budget 2015-16 underspend to roll forward in full.
	Total HRA	**234**	

CAPITAL PLAN 2015/16 OUTTURN – HIGHLIGHT VARIANCES   APPENDIX E

Capital Plan	Revised Budget	Outturn	Variance	%
	£'000	£'000	£'000	
Strategic PrioritiesTotal	**25,109**	**11,102**	**(14,007)**	**56%**
Baseline				
Childrens & Young People	12,940	7,700	(5,240)	40%
Adults	1,167	106	(1,061)	91%
Place	40,599	28,807	(11,792)	29%
Communities, Transformation & Change	2,720	687	(2,033)	75%
Resources	2,088	1,855	(233)	11%
Leeds City Region Revolving Fund	1,874	0	(1,874)	100%
Baseline Total	**61,388**	**39,155**	**(22,233)**	**36%**
One-Off Initiatives	**640**	**539**	**(101)**	**16%**
Risks & Pressures	**2,500**	**0**	**(2,500)**	**100%**
General Fund Total	**89,637**	**50,796**	**(38,841)**	**43%**
HRA	**26,487**	**22,655**	**(3,832)**	**14%**
Overall Total	**116,124**	**73,451**	**(42,673)**	**37%**

Strategic Priorities Capital Plan	Highlight Variance	Comments on Highlight Variances
	£'000	
New Pupil Places in Primary Schools	(1,173)	Approval has been given for Royds Hall School (North Kirklees) but the New Primary School in South Kirklees is still in the development stages. Any underspend in funding on Strategic Priorities will be required to rollover for 2016-17 to enable the rolling programme on schools to be delivered as part of the Schools Investment Needs Strategy.
Reprovision of Lydgate Special School	(2,927)	Cabinet approvel received (16.12.14) for new school construction on former Almondbury Junior school site and COR approved on 30th March 2016. Delays have been incurred with getting on site causing slippage to the programme.
Spenborough Sport Facility	(914)	Slippage caused by site location issues and option appraisals. Only survey fees charged this financial year.
KSDL - HD-One	(2,250)	Delayed progress on KSDL's development plans mean that drawdown of loan funding has slipped into future years.
Kirklees College Loan	(3,100)	The College has not fully utilised the short term loan facility this year.
Local Growth Fund	(945)	Works are not due to start on two sites until 2016-17.
Strategic Priorities Total	**(11,309)**	

Baseline Capital Plan	Highlight Variance	Comments on Highlight Variances
	£'000	
Childrens		
Basic Need	(1,494)	The 2015-16 basic need programme was approved at the 24th March 2015 Cabinet. Any underspend in funding will be required to rollover into 2016-17 to enable the rolling programme to be delivered.
One-off Initiatives	(3,080)	Section 106 (£1.6m) remain unallocated or developer fees awaited. Ongoing discussions to identify schools to benefit or funds held pending emergence of new Investment Needs Strategy. Uncommitted balance of £699k is supported by AD Strategic Investment Group to roll forward into 2016/17.
Childrens Total	**(4,574)**	

Baseline Capital Plan	Highlight Variance	Comments on Highlight Variances
Adults Total	**(1,061)**	Plans with partners not yet fully developed as to how the ringfenced Better Care Fund social care capital allocation can best be used to deliver its objectives.
Place		
Housing (Private)	(1,118)	Slippage on i) section 106 budget of (£693k) to be applied on Large Housing Sites programme in 2017-18 ii) CASSH supported Housing Project (£216k) to pay final instalment in 2016-17 iii) demolition of properties in Moldgreen (£205k).
Highways	(2,529)	Various schemes have fallen behind schedule across the programme areas due to weather and others are in various stages of the tender process, legal consultation or subject to other practical delays. Of the total underspend, only (£638k) is uncommitted and AD Strategic Investment Group have supported bids to rollover these uncommitted balances.
Economic Delivery	(1,661)	£810k uncommitted resources are being offered up to reduce overall borrowing levels. AD Strategic Investment Group support £223k of bids to retain uncommitted rollover.
Parks & Open Spaces (POS)	(1,017)	The underspend is a result of i) The POS 2015-16 capital plan (-£150k) went to Cabinet late in the year ii) a lack of resources has led to s106 schemes having to be phased (£556k) iii) two District Committee schemes are on site but not complete (£102k) iv) Revenue funding contribution done near to year end (£188k)
Transport Services	(1,413)	The budget has been fully committed and orders have been placed but a number of vehicles are still in the build process and awaiting delivery between May and July 2016
Investment in Buildings	(1,790)	£1.2m rollover is contractually committed. AD Strategic Investment Group support £288k of bids to retain uncommitted rollover with the balance of uncommitted capital i.e. £260k being offered up for removal from the Plan.
Asset Utilisation/Rationalisation	(1,564)	£569k rollover is contractually committed. AD Strategic Investment Group support £995k bids to retain uncommitted rollover.
Place Total	**(11,092)**	
KAL Self-Funded	(1,497)	The focus during 2015-16 has been on establishing the operation of the new Huddersfield Leisure Centre, alongside some medium scale capital projects at a number of other sites. This has meant that, while a number of future major capital projects continue to be considered and progressed where possible, the proposal is to defer actual capital expenditure to future years.
CTC Total	**(1,497)**	
Leeds City Region Revolving Fund	(1,874)	Slippage. £1,160k loan payment incurred in 2016-17, leaving £714k balance. Likelihood of a further drawdown of loan to support a prefab housing manufacture in Leeds.
Baseline Total	**(20,098)**	
Risks & Pressures Total	**(2,500)**	No claim was made against this contingency budget. It is recommended that these resources are carried forward into 2016/17.

HRA Capital Plan	Highlight Variance	Comments on Highlight Variances
	£'000	
Baseline	(1,618)	Environmental Schemes - Tenant Led Works (£848k), approval for these schemes was received in November 2016 with only a small amount deliverd in 2015-16 and the main focus being 2016-17 as a priority. Maintaining Decency - Windows (£653k), slippage due to delays in procurement and installation whilst contractors work to new specifications. Maintaining Decency - Roofing (Working at Heights) +£530k higher than anticipated delivery on schemes at Overthorpe and Schools Estate. Favorable weather also allowed more roofing works to be delivered.
Strategic Priorities	(5,123)	Renewable Energy ; Photo Voltaic (PV) Programme (£3,477k) Central Government reduced Feed in Tariff rates from Janauary 2016, leading to Council decision to curtail the programme. New Build - Phase 1 (£1,000k) Procurement and development of these sites has not proceed as quickly as anticipated, leading no spend occurring in 2015-16.
Overprogramming	2,910	
HRA Total	**(3,832)**	

APPENDIX F

PRUDENTIAL INDICATORS ACTUALS 2015-16

Capital Expenditure, Capital Financing Requirement and External Debt

The table below draws together the main elements of Capital Plan expenditure, highlighting the supported and unsupported elements of borrowing and other financing arrangements. The table also shows the Capital Financing Requirement (CFR), which is the Council's underlying external indebtedness for a capital purpose, compared with the expected borrowing position.

	2014-15	2015-16	
	Actual £000s	Estimate £000s	Actual £000s
Capital Expenditure			
General Fund	60,534	89,637	50,796
General Fund - PFI	1,692	1,526	1,539
HRA	24,033	26,487	22,655
HRA – PFI	-76	151	151
Total	86,183	117,801	75,141
Financed by -			
Borrowing	5,056	44,425	11,264
PFI	1,616	1,677	1,690
Other	79,511	71,699	62,187
Total	86,183	117,801	75,141
CFR as at 31 March			
General Fund excl PFI	422,263	440,064	411,332
General Fund PFI	60,834	58,029	58,058
HRA excl PFI	196,579	192,406	192,440
HRA PFI	60,918	58,910	58,910
Total CFR	740,594	749,409	720,740
External debt as at 31 March			
Borrowing (excl interest accrued)	443,715	474,622	424,418
Other LT Liabilities	126,285	121,330	121,360
Total debt	570,000	595,952	545,778

The difference between the CFR and total debt reflects the amount of internal balances that are being "borrowed" to finance capital indebtedness. The General Fund CFR is less than estimated primarily due to capital expenditure slippage.

Limits to Borrowing Activity

The first key control over the Council's borrowing activity is a Prudential Indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short-term, exceed the total CFR. This allows some flexibility for limited early borrowing for future years. As can be seen from the table above, the Council kept its total debt within the CFR and this has also been the case in previous years.

A further two Prudential Indicators control overall level of borrowing. These are the Authorised Limit and the Operational Boundary. The Authorised Limit represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during this year.

	2014-15	2015-16	
	Actual (max) £m	Limits/ Boundary £m	Actual (max) £m
Authorised limit for external debt			
Borrowing	460.9	543.7	443.7
Other Long Term Liabilities	131.4	126.3	126.3
Total	592.3	670.0	570.0
Operational boundary for external debt			
Borrowing	460.9	495.3	443.7
Other Long Term Liabilities	131.4	126.3	126.3
Total	592.3	621.6	570.0

The Council was well within its Authorised limit and Operational Boundary for the year.

There is also a limit on HRA indebtedness set by the Department for Communities and Local Government under the recent HRA self-financing reform. The limit is set at £247.6 million for the HRA CFR excluding PFI liabilities. The actual HRA CFR excluding PFI liabilities as at 31 March 2015 is £192.4 million which is well within the limit**.**

Affordability Prudential Indicators

Ratio of financing costs to net revenue stream

This indicator identifies the cost of capital (borrowing costs net of investment income) against the net revenue stream. The net revenue stream for General Fund is defined as the amount to be met from unringfenced government grants and local taxpayers, and for HRA it refers to the total HRA income (rent, other income and grant).

	2014-15	2015-16	
	Actual	Estimate	Actual
Ratio of financing costs to net revenue stream			
General Fund	12.88%	13.76%	12.65%
General Fund excl PFI	10.79%	11.74%	10.61%
HRA	34.31%	30.19%	30.89%
HRA excl PFI	29.90%	27.75%	28.51%

The actual for General Fund for 2015-16 was less than estimated mainly because of lower borrowing due to capital expenditure slippage and because the net revenue stream was marginally higher than estimated.

APPENDIX G

RECOMMENDATIONS OF ASSISTANT DIRECTOR STRATEGIC INVESTMENT GROUP RELATING TO £8.1m 'UNCOMMITTED' RESOURCES

	Funding	Resources to be carried forward	Recommended for Removal		Comments
			Capital Amount	Annual Revenue Impact	
		£'000	£'000	£'000	
STRATEGIC PRIORITIES					
	Borrowing	0	10	1	The £220k subway scheme is now complete. The resultant £10k underspend is offered up for removal.
Total Strategic Priorities		**0**	**10**	**1**	
BASELINE					
CHYPs					
Completed Schemes	Grant	400	0	0	Assistant Director Strategic Investment Group supported a bid to use the £400k balance of completed scheme funding to help alleviate grant reductions on Capital Maintenance budgets.
2 Yr Old Capital	Grant	223	0	0	Rollover required to meet the basic need pressures for free early education places for eligible two year old.
Free School Meals	Grant	76	0	0	The rollover was agreed as part of last year's 14/15 uncommitted exercise but due to programme slippage it is required to rollover again to cover the cost of an extension at Marsden I & N School kitchen.
Adults					
Social Care Capital Grant	Grant	1,061	0	0	The Social Care Capital Grant is ringfenced to the Better Care Fund and was allocated from central government to fund capital spend on projects consistent with the aims and objectives of the Better Care Fund, including implementation of the Care Act and integration of social care and health. The proposals comprise two elements; provision for a core level of spend on IT system enhancements and equipment, and contribution to the funding of alternative day care facilities in North Kirklees.
Place					
Housing Private	Capital Allowance	205	0	0	Cabinet approval was given on 22nd September 2015 to demolish seven vacant properties on Wakefield Road but there have ben scheme delays.
Highways	Borrowing	638	0	0	AD SIG supported bids to rollover uncommitted balances to fund i) the cost of surfacing Kirkgate and Westgate in Summer 2016 (£350k) ii) priority unadopted road scheme in James St, Slaithwaite (£90k) iii) drop off facility at Springwood Road, Holmfirth (£120k) iv) Kirklees culvert programme (£75k) linked to delays with the Environment Agency funded programme
Economic Delivery	Borrowing	223	810	54	AD SIG recommend that £223k uncommitted rollover is retained to fund heritage protection work at McKinnons Mill (£55k), deliver projects to improve buildings within the THI area (£145k) and complete District Heating feasibility work (£23k). Various underspends totalling £810k across Economic Delivery are offered up for removal.
Parks & Open Spaces	Borrowing	39	0	0	Uncommitted resources are to be used to provide a new toddler play area in Greenhead Park.
Bereavement	Borrowing	195	50	3	AD SIG supported bids to retain £195k uncommitted rollover to fund additional capacity for muslim faith burials at Batley Cemetary (£50k), modernise facilities at Huddersfield Crematorium (£30k), Improvements to Paths and Driveways within Edgerton cemetery (£45k), installation of ventilation within the chapel at Huddersfield Crematorium (£25k), Safety & Efficiency of Cremation Operations (£20k) and Development of green burial space (£25k). Various underspends totalling £50k across Bereavement are offered up for removal.
Investment in Buildings	Borrowing	288	260	18	It is recommended that £288k rollover is used to fund emergency lighting at Dewsbury Town Hall (£150k), roof light/roofing repairs at Somerset Buildings (£68k) and roof light/roofing repairs at Byram Arcade (£70k). The balance of uncommitted capital £260k is due to a combination of savings on some schemes, unforeseen circumstances and programme alterations and is offered up for removal.
Asset Utilisation/ Rationalisation	Borrowing	995	0	0	Seven bids were submitted to AD Strategic Investment Group to retain the £995k balance of uncommitted rollover. These projects related to: Red Doles corporate archive facility (£400k), demolition of surplus buildings (£167k), George Street refurbishment (£268k), Emerald Street refurbishment (£30k), Mirfield Depot demolition (£40k), St Johns Parochial Hall demolition (£40k) and CC1 ground floor alteration works (£50k).
School Catering	Borrowing	88	0	0	AD SIG supports the bid of £88k to be allocated to schools meals service to support business retention.
Total Baseline		**4,431**	**1,120**	**75**	
Risks & Pressures		**2,500**	**0**	**0**	The full amount of £2.5m is supported for rollover into 2016-17
TOTAL		**6,931**	**1,130**	**76**	

APPENDIX H i)

CAPITAL INVESTMENT PLAN 2016-17 to 2020-21
(Inclusive of Rollover from 2015-16)

BASELINE SUMMARY

Portfolio	Funding	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	2020-21 Budget £'000	Total Budget £'000
Children & Young People							
Basic Need	G	1,523	500	500	500	500	3,523
Capital Maintenance	G	4,796	3,800	3,800	3,800	3,800	19,996
Devolved Formula Capital	G	1,435	1,059	1,059	1,059	1,059	5,671
One-Off Initiatives	S106	2,619	65	0	0	0	2,684
Children & Young People Total		**10,373**	**5,424**	**5,359**	**5,359**	**5,359**	**31,874**
Adults	G	**500**	**561**	**0**	**0**	**0**	**1,061**
Place							
Housing Private Sector							
Disabled Facilities Grants	G/R	2,600	2,600	2,600	2,600	2,600	13,000
Discretionary Assistance	R	100	100	100	100	100	500
Minor Adaptations	R	290	290	290	290	290	1,450
PPS3	G	889	0	0	0	0	889
Other	G/R	426	766	0	0	428	1,620
		4,305	3,756	2,990	2,990	3,418	17,459
Highways							
Maintenance							
Principal Roads	G	1,985	2,037	1,805	1,805	1,805	9,437
Roads Connecting Communities	G	2,504	2,393	2,369	2,164	1,959	11,389
Unclassified Roads	B/G	2,995	1,967	1,707	1,912	2,117	10,698
Structures	G	2,034	1,700	1,200	1,200	1,200	7,334
Street Lighting Replacement Strategy	B/G	2,102	2,029	2,029	2,029	2,029	10,218
Unadopted Roads	B	145	50	50	50	50	345
CCTV	G	72	0	0	0	0	72
Integrated Transport							
Integrated Public Transport	B/G	717	412	412	412	412	2,365
Network Management	G	1,032	223	323	323	323	2,224
Cycling & Walking	B/G	726	768	118	118	118	1,848
Safer Roads	B/G	1,174	645	645	545	545	3,554
Town Centre Car Parking	B	223	150	150	150	150	823
Flood Management and Drainage Improvements	B/G	607	450	450	450	450	2,407
		16,316	12,824	11,258	11,158	11,158	62,714
Economic Delivery	B	2,614	1,800	1,800	1,800	1,800	9,814
Parks & Open Spaces	B	1,167	150	150	150	150	1,767
Bereavement	B	522	175	175	175	175	1,222
Investment in Buildings	B	3,530	2,000	2,000	2,000	2,000	11,530
Strategic Asset Utilisation/Rationalisation	B	3,784	810	300	300	0	5,194
KAL - KC Funded	B	557	400	400	400	400	2,157
Environment & Strategic Waste	B	159	100	100	100	100	559
Transport	B	3,990	2,577	2,577	2,577	2,577	14,298
School Catering	B	288	200	200	200	200	1,088
Place Total		**37,232**	**24,792**	**21,950**	**21,850**	**21,978**	**127,802**
Communities, Transformation & Change							
KAL - Self Funded	B*	922	1,367	1,059	617	617	4,582
District Committees	B	536	0	0	0	0	536
Communities, Transf & Change Total		**1,458**	**1,367**	**1,059**	**617**	**617**	**5,118**
Resources							
Information Technology	B*	1,133	900	900	900	900	4,733
Resources Total		**1,133**	**900**	**900**	**900**	**900**	**4,733**
Leeds City Region Revolving Fund	B	**1,874**	**2,000**	**0**	**0**	**0**	**3,874**
TOTAL BASELINE		**52,570**	**35,044**	**29,268**	**28,726**	**28,854**	**174,462**

KEY :

B = Borrowing	G = Grant	R = Capital Receipts

B* = These programmes were previously categorised as **service funded**. Work is ongoing to remove this category and have one system of prudential borrowing.

CAPITAL INVESTMENT PLAN 2016-17 to 2020-21 (Inclusive of Rollover from 2015-16)

FUNDING SUMMARY

	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	2020-21 Budget £'000	Total Budget £'000
TOTAL FUNDING REQUIREMENT	**101,995**	**91,695**	**86,385**	**57,973**	**60,393**	**398,441**
Funded by...						
Direct/Earmarked Contributions to Schemes						
Capital Grants / Contributions						
- In year	24,638	24,755	22,202	18,653	18,448	108,696
- Funding brought forward from previous year	13,945	2,218	1,658	1,558	1,558	20,937
- Funding carried down to following year	-2,218	-1,658	-1,558	-1,558	-1,130	-8,122
Earmarked Capital Receipts	3,278	3,042	3,258	1,615	2,664	13,857
Revenue Contributions (HRA)	9,243	7,490	7,742	6,055	3,803	34,333
Reserves (HRA)	9,641	12,862	15,652	13,708	18,702	70,565
Pooled resources						
Non Earmarked Capital Receipts	5,500	6,000	6,000	6,000	6,000	29,500
Corporate Prudential Borrowing	37,968	36,986	31,431	11,942	10,348	128,675
TOTAL	**101,995**	**91,695**	**86,385**	**57,973**	**60,393**	**398,441**

FUNDING SUMMARY - Including Assumed Slippage

For revenue budget planning and associated Prudential Indicators it is appropriate to make overall assumptions about slippage. This table shows the corporate assumptions made for that purpose and assumes a level profile of spend over the five years. This is considered a realistic assumption based on historical information on slippage on major capital programmes of this level.

	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	2020-21 Budget £'000	Total Budget £'000
Assumed Slippage b/f	0	20,264	17,910	15,640	9,065	62,879
General Fund Maximum Authorised Spend	82,517	69,329	59,994	36,858	35,486	284,184
Assumed Slippage c/f	-20,264	-17,910	-15,640	-9,065	-8,630	-71,509
	62,253	71,683	62,264	43,433	35,921	275,554
HRA Planning Allocation	19,478	22,366	26,391	21,115	24,907	114,257
TOTAL FUNDING REQUIREMENT	**81,731**	**94,049**	**88,655**	**64,548**	**60,828**	**389,811**
Funded by...						
Direct/Earmarked Contributions to Schemes						
Capital Grants / Contributions						
- In year	24,638	24,755	22,202	18,653	18,448	108,696
- Funding brought forward from previous year	13,945	9,442	6,672	5,969	5,240	41,268
- Funding carried down to following year	-9,442	-6,672	-5,969	-5,240	-4,856	-32,179
Earmarked Capital Receipts	3,278	3,042	3,258	1,615	2,664	13,857
Revenue Contributions (HRA)	9,243	7,490	7,742	6,055	3,803	34,333
Reserves (HRA)	9,641	12,862	15,652	13,708	18,702	70,565
Pooled resources						
Non Earmarked Capital Receipts	5,500	6,000	6,000	6,000	6,000	29,500
Corporate Prudential Borrowing	24,928	37,130	33,098	17,788	10,827	123,771
TOTAL	**81,731**	**94,049**	**88,655**	**64,548**	**60,828**	**389,811**

APPENDIX H iii)

CAPITAL INVESTMENT PLAN 2016-17 to 2020-21
(Inclusive of Rollover from 2015-16)

STRATEGIC PRIORITIES SUMMARY

	Funding	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	2020-21 Budget £'000	Total Budget £'000	Scheme Budget £'000
A62 Leeds Road Corridor (Cooper Bridge)	G	185	0	0	0	0	185	60,000-120,000
A653 Dewsbury to Leeds Corridor (Mirfield to Dewsbury to Leeds)	G	149	0	0	0	0	149	40,000-80,000
A629 Huddersfield to Halifax Corridor	G	157	0	0	0	0	157	10,000-15,000
M62 Junction 24a	G	67	0	0	0	0	67	18,000-50,000
Pioneer House	B/G	1,401	1,375	0	0	0	2,776	
Huddersfield Town Centre Action Plan	B	344	2,887	7,250	500	0	10,981	
Dewsbury Town Centre Action Plan	B	0	4,000	1,000	0	0	5,000	
European Grant Funding Opportunities	B	500	1,250	1,250	0	0	3,000	
Town & Village Centres	B	110	0	0	0	0	110	
Empty Clusters	G	211	0	0	0	0	211	
Huddersfield Leisure Centre	B	580	0	0	0	0	580	
Sports Facility (Spenborough area)	B	914	6,000	7,000	1,000	0	14,914	
New Pupil Places in Primary Schools	B/G	11,147	11,809	7,476	4,132	4,132	38,696	
Reprovision of Lydgate Special School	B	4,206	214	0	0	0	4,420	
Powerhouse	B	165	0	0	0	0	165	
HD-One (KSDL)	B	500	4,250	4,250	0	0	9,000	
Contingencies	B	165	0	0	0	0	165	
Kirklees College Loan	B	3,100	0	0	0	0	3,100	
Local Growth Fund	B	945	0	0	0	0	945	
STRATEGIC PRIORITIES TOTAL		**24,846**	**31,785**	**28,226**	**5,632**	**4,132**	**94,621**	

RISKS & PRESSURES TOTAL	**B**	**5,000**	**2,500**	**2,500**	**2,500**	**2,500**	**15,000**
ONE-OFF INITIATIVES TOTAL	**B**	**101**	**0**	**0**	**0**	**0**	**101**

HOUSING REVENUE ACCOUNT PLAN

	Funding	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 Budget £'000	2019-20 Budget £'000	2020-21 Budget £'000	Total Budget £'000
HRA STRATEGIC PRIORITIES							
Miscellaneous Properties-Conversions/Back into Stock		1,130	800	800	800	800	4,330
New Build Phase 1 - Ashbrow Extra Care		1,000	3,500	3,500	0	0	8,000
New Build Phase 2 - Soothill Extra Care		0	0	3,500	3,500	0	7,000
New Build Phase 3		0	0	0	0	7,000	7,000
New Build Phase 4 - Environmentally Friendly Housing		0	2,000	2,000	0	0	4,000
New Build - KNH/Building Services Pilot		800	0	0	0	0	800
PFI		65	0	0	0	0	65
		2,995	**6,300**	**9,800**	**4,300**	**7,800**	**31,195**
HRA BASELINE							
Heating Programmes(Boilers)		2,046	1,861	1,917	1,934	1,958	9,717
Maintaining Decency		8,952	9,712	10,040	10,166	10,332	49,202
Batched works		251	284	295	300	307	1,437
Fuel poverty		974	737	765	778	795	4,049
Major Adaptations		2,381	2,423	2,517	2,561	2,616	12,498
Minor Adaptations		229	233	242	246	251	1,200
Misc		337	343	324	329	336	1,669
Estate & Environmental Works (Managed through District Committees)		1,313	473	492	500	511	3,290
		16,483	**16,066**	**16,591**	**16,815**	**17,107**	**83,062**
HOUSING REVENUE ACCOUNT TOTAL		**19,478**	**22,366**	**26,391**	**21,115**	**24,907**	**114,257**

APPENDIX I

Kirklees Council Investments 2015-16										
		Credit	1 April 2015			30 September 2015			31 March 2016	
Counterparty		**Rating Mar 2016***	**£m**	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**
Specified Investments											
LB Merton	Local Govt		3.2	0.40%	1 mth fixed						
Nationwide	Bldg Soc	F1/A	6.5	0.43%	1 mth fixed	8.0	0.43%	1 mth fixed x 3			
Bank of Scotland	Bank	F1/A+				2.0	0.40%	Instant Access			
Handelsbanken	Bank	F1+/AA-	9.0	0.45%	Instant Access	5.0	0.45%	Instant Access	2.9	0.45%	Instant Access
Std Life (Ignis)	MMF**	AAAmmf	10.0	0.47%	MMF-Instant	7.6	0.49%	MMF-Instant Acc	7.5	0.50%	MMF-Instant
Aviva	MMF**	Aaa-mf	5.0	0.39%	MMF-Instant	7.6	0.46%	MMF-Instant Acc	7.3	0.48%	MMF-Instant
Aviva - Govt	MMF**	Aaa-mf				10.0	0.39%	MMF-Instant Acc			
Deutsche	MMF**	AAAmmf				7.5	0.45%	MMF-Instant Acc	6.7	0.46%	MMF-Instant
Goldman Sachs	MMF**	AAAmmf	5.0	0.41%	MMF-Instant	7.1	0.45%	MMF-Instant Acc	6.0	0.44%	MMF-Instant
Coventry	Bldg Soc	F1/A				4.7	0.41%	1 mth fixed x 2			
Santander UK	Bank	F1/A							5.0	0.65%	31 day notice
Non-specified investments											
Barclays	Bank	F1/A				2.9	0.10%+0.40%	Instant Access	2.9	0.10%+0.40%	Instant Access
Nottingham	Bldg Soc	P2/Baa1				3.0	0.40%	1 mth fixed			
			38.7			**65.4**			**38.3**		
Sector analysis											
Bank			9.0	23		9.9	15		10.8	28	
Building Society			6.5	17		15.7	24				
MMF**			20.0	52		39.8	61		27.5	72	
Local Authorities/Cent Govt			3.2	8							
			38.7	100		**65.4**	100		**38.3**	100	
Country analysis											
UK			9.7	25		20.6	31		7.9	21	
Sweden			9	23		5.0	8		2.9	7	
MMF**			20	52		39.8	61		27.5	72	
			38.7	100		**65.4**	100		**38.3**	100	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

APPENDIX J

Key – Fitch's credit ratings:

		Long	Short
Investment Grade	Extremely Strong	AAA	
	Very Strong	AA+	
		AA	F1+
		AA-	
	Strong	A+	
		A	F1
		A-	
	Adequate	BBB+	F2
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	
		BB	
		BB-	
	Very Speculative	B+	B
		B	
		B-	
	Vulnerable	CCC+	
		CCC	
		CCC-	C
		CC	
		C	
	Defaulting	D	D

MOVEMENT IN PWLB BORROWING

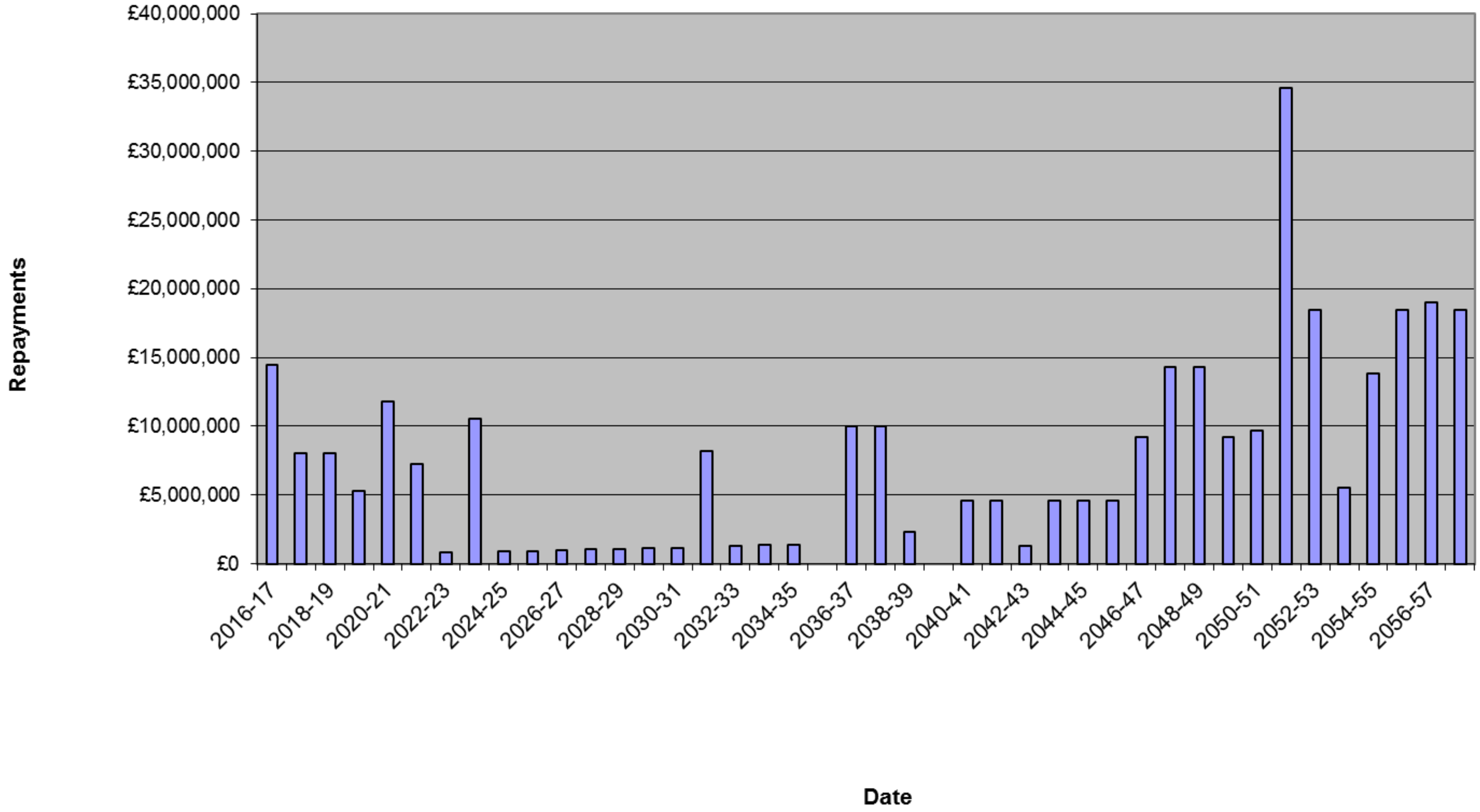
LOANS REPAID 2015-16

	Rate %	**Date repaid**	**Amount £000s**
Repayments on maturity			
PWLB (467195)	9.25	7 Aug 15	9,225
Repayments on annuity loans			
PWLB (496956)*	4.58	29 Sep 15	294
PWLB (496956)*	4.58	29 Mar 16	301
Total			

* represents loan extended to Kirklees College, for which the College is making similar repayments to the Council

APPENDIX K

KMC Loan Maturity Profile (Fixed-Rate)



APPENDIX L

Kirklees Council - Borrowing and Investment Trends

At 31 March	2016	2015	2014	2013	2012	2011	2010	2009	2008
Investments	38.3m	38.7m	33.1m	30.2m	19.3m	42.7m	38.7m	102.1m	134.8m
ST Borrowing (excl interest accrued)	16.0m	21.1m	29.6m	27.3m	30.6m	33.2m	18.6m	9.1m	1.8m
LT Borrowing	408.4m	422.6m	432.4m	452.1m	471.5m	527.1m	525.1m	528.4m	553.4m
Total Borrowing	424.4m	443.7m	462.0m	479.4m	502.1m	560.3m	543.1m	537.5m	555.2m
Deferred liabilities (non PFI)	4.3m	4.4m	4.5m	4.7m	4.8m	5.0m	5.1m	5.2m	5.3m
Net debt position	**390.4m**	**409.4m**	**433.4m**	**453.9m**	**487.6m**	**522.6m**	**509.5m**	**440.6m**	**425.7m**
Capital Financing Requirement (excl PFI)									
General Fund	411.3m	422.2m	447.5m	448.5m	458.6m	458.9m	435.9m	369.5m	327.8m
HRA	192.4m	196.6m	203.3m	209.3m	215.6m	242.4m	241.0m	241.0m	241.0m
Total CFR	**603.7m**	**618.8m**	**650.8m**	**657.8m**	**674.2m**	**701.3m**	**676.9m**	**610.5m**	**568.8m**
Balances “internally invested”	175.0m	170.7m	184.3m	173.7m	167.3m	136.0m	128.7m	67.8m	8.3m
Ave Kirklees’ investment rate for financial year	0.4%	0.4%	0.4%	0.5%	0.6%	0.8%	1.5%	5.2%	5.9%
Ave Base rate	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	5.25%
Ave LT Borrowing rate	3.2%	3.7%	4.3%	4.1%	4.4%	5.3%	4.7%	4.6%	4.4%

APPENDIX M

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2015-16	Actual 2015-16
Interest at fixed rates as a percentage of net interest payments	60% - 100%	78%
Interest at variable rates as a percentage of net interest payments	0% - 40%	22%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2014-16	Actual Levels 2015-16
Under 12 months	0% - 20%	0% - 5%
12 months to 2 years	0% - 20%	2% - 5%
2 years to 5 years	0% - 60%	5% - 8%
5 years to 10 years	0% - 80%	6% - 10%
More than 10 years	20% - 100%	78% - 79%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

Appendix N

Annex

Conditions of the multi-year settlement

The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20. This includes:

- Common Council of the City of London
- London borough councils
- district councils
- county councils
- Council of the Isles of Scilly
- Greater London Authority
- metropolitan county fire and rescue authorities
- combined fire and rescue authorities.

The Government is making a clear commitment to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan.

What the offer includes

On 9 February we provided summaries and breakdown figures for each year to your s151 Officer. From those figures the relevant lines that are included in the multi-year settlement offer, where appropriate, are:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

The Government is committed to local government retaining 100% of its business rate revenues by the end of this Parliament. This will give them control over an additional £13 billion of tax that they collect.

To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate.

The new burdens doctrine operates outside the settlement, so accepting this offer will not impact on any new burden payments agreed over the course of the four years.

The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

Process for applying for the offer

Interest in accepting this offer will only be considered if a link to a published efficiency plan is received by 5pm Friday 14th October. We will provide confirmation of the offer shortly after the deadline.

Efficiency Plans

Efficiency plans do not need to be a separate document. They can be combined with Medium Term Financial Strategies or the strategy set out in the guidance (https://www.gov.uk/government/publications/guidance-on-flexible-use-of-capital-receipts) on how you intend to make the most of the capital receipt flexibilities if appropriate.

The Home Office will provide guidance on the criteria and sign off process for efficiency plans for single purpose Fire and Rescue authorities. All Fire and Rescue authorities, including those which are county councils, should set out clearly in their efficiency plans how they will collaborate with the police and other partners to improve their efficiency.

Process for those who do not take up the offer

Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.

At present we do not expect any further multi-year settlements to be offered over the course of this parliament

Department for Communities and Local Government

The Rt Hon Greg Clark MP
Secretary of State for Communities and Local Government

Department for Communities and Local Government
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3450
Fax: 0303 444 3289
E-Mail: greg.clark@communities.gsi.gov.uk

www.gov.uk/dclg

10 March 2016

Dear Colleagues

MULTI-YEAR SETTLEMENTS AND EFFICIENCY PLANS

On 17 December I announced a historic opportunity for councils to achieve greater certainty and confidence from a 4-year budget. I see this as a key step to supporting you to strengthen your financial management, at the same time as working collaboratively with your local partners and reforming the way services are provided.

The settlement consultation process showed great support for this approach and identified a number of queries about what the offer includes and the requirements for applying to accept this offer. I have therefore set out some further details in the attached annex. But I want to reiterate that I want this offer, and the production of an efficiency plan, to be as simple and straightforward as possible, and reassure you that this is not about creating additional bureaucracy.

If you wish to apply to accept the offer you simply need to send an email or letter to MultiYearSettlements@communities.gsi.gov.uk by **5pm on Friday 14th October** and include a link to your published efficiency plan.

I do not intend to provide further guidance on what efficiency plans should contain – they should be locally owned and locally driven. But it is important that they show how this greater certainty can bring about opportunities for further savings. They should cover the full 4-year period and be open and transparent about the benefits this will bring to both your council and your community. You should collaborate with your local neighbours and public sector partners and link into devolution deals where appropriate.

Of course this offer is entirely optional. It is open to any council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding to those who prefer not to have a four year settlement.

I have been delighted by the response of councils all over the country to the offer of four year budgets and I look forward to hearing from you if you would like to avail yourself of it.

For any further queries, please contact officials at the above address.

Yours sincerely

THE RT HON GREG CLARK MP