Kirklees COUNCIL

| | |
|---|---|
| **Name of meeting:** | Cabinet |
| **Date:** | 15 November 2016 |
| **Title of report:** | Quarter 2, 2016-17 - Corporate Monitoring Report incorporating General Fund Revenue, Housing Revenue Account, Capital and 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 |
| **Key decision - is it in the Council's Forward Plan (key decisions and private reports)?** | Key decision - Yes<br>Private report/private appendix - no |
| **The Decision - Is it eligible for "call in" by Scrutiny?** | No |
| **Date signed off by Director and name**<br><br>**Is it signed off by Director of Resources?**<br><br>**Is it signed off by the Assistant Director (Legal, Governance & Monitoring)?** | Debbie Hogg, 4th Nov 2016<br><br><br><br>Julie Muscroft, 4th Nov 2016 |
| **Cabinet member portfolio** | Resources |

| | |
|---|---|
| **Electoral wards affected:** | All |
| **Ward Councillors consulted:** | All |
| **Public or private:** | Public |

---

## 1. Purpose of the Report

The purpose of this report is for Council to receive information on the Council's 2016-17 forecast financial outturn position for General Fund revenue, Housing Revenue Account (HRA) and Capital Plan, as at Quarter 2 (month 6). The report also incorporates the mid-year summary of treasury management operational activity; covering the period 1 April to 30 September.

## 2. Summary

2.1 The Council's General Fund (net) revenue budget for 2016-17 was set at **£310.8m**. The Council's forecast net revenue spend is **£315.9m** in 2016-17, resulting in an overspend of **£5.1m**, equivalent to 1.7%, against budget. The forecast net revenue spend position is summarised in Table 1 below.

**Table 1 – Overview of 2016-17 general fund forecast revenue outturn position, as at Quarter 2 (month 6):**

| **Description** | **Net Revenue Budget** | **Forecast Revenue Outturn** | **Variance** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Directorates | 265.0 | 279.2 | 14.2 |
| Reserves Drawdown | - | (4.8) | (4.8) |
| **Directorate Sub-total** | **265.0** | **274.4** | **9.4** |
| Central Budgets | 44.5 | 41.1 | (3.4) |
| District Committee managed budgets | 1.3 | 0.4 | (0.9) |
| **Grand Total** | **310.8** | **315.9** | **5.1** |

2.2 The forecast revenue outturn position summarised in Table 1 above includes a proposed drawdown of “one-off” revenue funding (Corporate Reserves) in-year to offset Directorate budget pressures relating to Children’s service developments (£4.8m).

2.3 The monitoring forecast presented at Quarter 2 does not include unexpected one off site clearance costs arising from an environmental incident at a commercial site at Lockwood. Estimated costs are still being worked up, including ongoing discussions with other interested parties to determine liability for costs. Officers will report back to a future Cabinet pending clarification of the above.

2.4 Overall, general fund corporate reserves are forecast to reduce from about £93m as at April 2016, to about £53m as at 31 March 2017; equivalent to a 43% reduction over the year.

2.5 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 about £20m.

2.6 Estimated movements in general fund balances and earmarked reserves in-year, including those referred to in paragraph 2.2 above, are forecast to total £40m. This includes a budget approved drawdown of £17.5m to support the delivery of a balanced budget in 2016-17.

2.7 The balance of estimated in-year drawdowns total £18m. These relate to earmarked reserves previously set aside from previous years, to fund a number of specific “one-off” spend commitments materialising in the current year, including approved revenue rollover, staff severance costs (workforce restructure reserve) and specific projects funded from grants reserve, including Stronger Families Project. These are early year drawdown forecasts, and will continue to be reviewed and updated in subsequent quarterly monitoring reports to Cabinet.

2.8 The £5.1m Quarter 2 projected overspend, if not corrected, will be a further call on available reserves.

2.9 Of the remaining £53m forecast reserves at year end, there are a number of significant future year commitments against these intended to support the level of service re-design and change required within current approved budget plans, working to a New Council. These include set asides for future severance costs and Transformation reserves, plus the balance of deferred spend commitments against approved revenue rollover. These also include a minimum balances requirement of £5m. In total these come to about £26m, and effectively leaves just £27m corporate reserves available to support the Council's budget plans going forward; equivalent to just 9% of the current year net budget.

2.10 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 forecast revenue outturn is a surplus of £490k against an annual budgeted turnover of £94.5m in 2016-17; equivalent to 0.5%. HRA reserves at 31 March 2016 were £42.8m, and it is anticipated that this will roll forward into future years to resource future year HRA business plan requirements.

2.11 The Council's capital budget for 2016-17 is £82.3m, net of £20.3m assumed slippage and the forecast capital outturn position is £78.7m, resulting in a relatively small underspend of £3.6m (4.4% variance compared to budget). This is summarised in Table 2 below.

**Table 2 – Forecast Capital Outturn 2016-17**

| Description | Budget £m | Outturn £m | Variance £m |
|---|---|---|---|
| Strategic Priorities | 24.5 | 15.1 | (9.4) |
| Baseline | 53.5 | 46.5 | (7.0) |
| One-Off Initiatives | 0.1 | 0.1 | 0 |
| Risks & Pressures | 5.0 | 0.0 | (5.0) |
| Assumed slippage | (20.3) | 0.0 | 20.3 |
| **General Fund** | **62.8** | **61.7** | **(1.1)** |
| Housing Revenue Account | 19.5 | 17.0 | (2.5) |
| **Total** | **82.3** | **78.7** | **(3.6)** |

2.12 As per Quarter 2 monitoring, it is anticipated that the actual performance indicator for debt charges as a proportion of budget, will be in line with budgeted assumptions, at 10.7%.

2.13 The 2016-17 Capital Plan assumes that £5.5m of non-earmarked capital receipts will be generated through asset disposal. Actual receipts generated currently as the first quarter stand at £0.9m. Year-end capital receipts are now projected at £4.5m; £1m less than planned.

## 3. Information required to make a decision

Revenue

3.1 Appendix A, Sections 1 & 2 attached, set out in more detail the forecast financial outturn position of the Council in 2016-17, as at Quarter 2 (month 6) in relation to the Council's general fund revenue, HRA revenue and Council capital budgets.

3.2 The forecast general fund revenue £5.1m overspend as at Quarter 2, is net of £4.8m proposed drawdown from corporate (risk) reserves to resource temporary additional staffing requirements in-year as part of the Children's Services

Development Programme; follows on from member approval as part of the Q1 Monitoring Report to Cabinet, which at the time included early estimates of likely costs requiring reserves drawdown in 2016-17, of about £2.9m.

3.3 Appendix A, Section 1, sets out in more detail reasons for the more significant forecast Directorate overspends, along with an overall sensitivity analysis of potential variations from current outturn forecast, based on recent year trends.

3.4 The Quarter 1 monitoring report to Cabinet on 23 August 2016 included the recommendation for officers to consider further proposals to bring the forecast overspend at least in line with budgets by current year end, and other actions to build up available reserves to support the medium term financial plan from 2017 onwards. (These are included at Appendix A, Section 1, paras 1.9 to 1.10).

3.5 In light of current pressures in particular with regard to learning disability, it is recommended that a further, separate report is brought to 15th December Cabinet detailing the management actions being taken to mitigate the increasing overspend in this area. This report will also set out future intelligence which will be vital in feeding into budget discussions and the post settlement announcement review in early January.

General Fund Reserves and Balances

3.6 The accelerated pace at which earmarked reserves are reducing overall is set out in paragraphs 2.4 to 2.7 above, and Appendix B. The estimated level of remaining reserves at the year end, at £53m, includes future year spend priority commitments totalling £26m, leaving remaining reserves available to support the MTFP from 2017 onwards, at about £27m.

3.7 The current year forecast net overspend position of £5.1m as at Quarter 2, would reduce this further to just £22m.

3.8 The rollover reserve, totalling an estimated £7.2m by 31st March 2017, includes £3.3m set aside for decant costs relating to Mount Pleasant Primary School. These costs are no longer due to be incurred and as such, it is proposed that Officers report back to a future Cabinet to consider how the £3.3m potential release from the rollover reserve could be used. See also Appendix A, Section 1, para 1.24.

Collection Fund

3.9 There is a forecast in-year surplus of £1.8m on Council Tax; equivalent to 1.2% against budgeted income of £149m; mainly due to income collection performance in excess of targeted.

3.10 There is a current £1.8m in year forecast deficit against business rates income of £52m; equivalent to 3.4%; due to in year reduced rates income as a result of successful appeals and a review of outstanding backdated appeals currently with the Valuation Office.

Capital

3.11 The Quarter 2 Capital forecast underspend is £3.6m; of which £1.2m relates to General Fund. Appendix C provides more detailed commentary on the highlight variances.

3.12 As part of the Council objective to support mobile working, Member authority is sought to make an amendment to the 'Corporate Facilities IT' capital programme and transfer £500k (allowable under Financial Procedure Rules 2.22 & 3.10) from the IT Revenue budget into the 'Corporate Facilities IT' Capital Programme budget. See also Appendix A, Section 2, paras 2.6 to 2.7

Treasury Management

3.13 The Council has adopted the CIPFA Code of Practice on Treasury Management. It is a requirement of the code that regular reports be submitted to Members detailing treasury management operational activity. Appendix A, Section 3, attached summarises the mid-year position for 2016-17, covering the period 1 April to 30 September.

## 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; of which about £10m falls in 2016-17. These plans already reflect an underlying 'unbalanced budget' i.e. budget gap, at £16m from 2017-18, increasing to £38m by 2019-20.

4.3 The budget strategy update report approved by Council 12 October 2016 outlined a refresh of the cost and income assumptions underpinning the Council's budget for the next 4 years to 2020-21, together with early savings proposals. Revised budget gaps presented as a result of this update were £25m in 2017-18, increasing to £29m in 2018-19, £31m in 2019-20 and £42m in 2020-21.

4.4 The cost assumptions included in the MTFP update reflected underlying budget pressures presented in Quarter 1 monitoring; in particular against demand led activity. Any increase in these pressures in year, if not addressed, will add to the budget gap assumptions set out in para 4.3 above' and the financial implications of such will require consideration in the current budget round.

4.5 The Council's MTFP Update included an efficiency plan. This was forwarded to DCLG by the 14$^{th}$ October deadline and once approved would enable Kirklees to take up the Government's offer of a multi-year (4 year) financial settlement, as a minimum funding guarantee. Councils who do not produce a plan may receive a lower grant settlement on an annual basis. At the time of writing this report, the Council has not yet received official confirmation from DCLG that whether or not the Efficiency Plan has been approved by Government

4.6 The forecast HRA revenue surplus in 2017-16, at £490k, would revert to HRA general reserves at year end, and would be available to support the HRA business plan requirements over the longer term.

4.7 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. At 2015-16 outturn the actual prudential indicator (PI) rate for 2015-16 was 10.6% and after taking account of rollover, the re-phasing of schemes and changes to grant assumptions, the PI was estimated at a lower figure of 11.86% by 2020-21.

4.8 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. As part of the forthcoming budget strategy update a further review of existing 5 year capital baseline allocations will be undertaken to assess the scope of reducing overall borrowing levels.

4.9 The underspending of the Treasury Management function has been taken into account in the Quarter 2 budget monitoring position presented in this report.

## 5. Consultees and their opinions

This report has been prepared by the Assistant Director of Financial Management, Risk, IT & Performance in consultation with the Executive Team.

Arlingclose, Treasury Management Advisors to the Council have helped inform the Quarter 2 Treasury Management position

## 6. Next Steps

Cabinet to consider Officer recommendations below.

## 7. Officer recommendations and reasons

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

General Fund Revenue

7.1 approve proposals to increase earmarked (risk) reserves drawdown by a further £1.9m, to £4.8m to resource additional children's services development costs in 2016-17 (para 2.2)

7.2 note the forecast £5.1m forecast revenue overspend position for 2016-17, net of the proposed reserves drawdown in 7.1 above (para 2.1 and Appendix A, Section 1)

7.3 note that Officers will report back to future Cabinet pending clarification of liability for site clearance costs relating to the environmental incident at a commercial site at Lockwood (para 2.3)

7.4 note the forecast outturn position on collection fund (para 3.9 to 3.10) and forecast movements in reserves and balances in -year (para 3.6 to 3.8)

7.5 note further officer proposals to bring the forecast £5.1m overspend at least in line with budgets by current year end, and other actions to build up available reserves to support the medium term financial plan from 2017 onwards (para 3.4)

7.6 instruct officers to bring a separate report to 15 December Cabinet on management actions being taken to mitigate the increasing overspend in Learning Disabilities (para 3.5)

7.7 note that Officers will report back to future Cabinet to consider how the Mount Pleasant £3.3m potential release from the rollover reserve could be used (para 3.8)

Housing Revenue Account (HRA)

7.8 note the forecast revenue outturn positon for 2016-17 (para 2.10 and Appendix A, Section 1)

7.9 note the forecast HRA reserves position at year end (Appendix B)

Capital

7.10 note the Council forecast capital outturn position for 2016-17 (para 2.11 and Appendix A, Section 2)

7.11 approve the transfer of £500k (allowable under Financial Procedure Rules 2.22 & 3.10) from the IT Revenue budget into the ‘Corporate Facilities IT’ Capital Programme budget.

Treasury Management

7.12 note the mid-year summary of Treasury Management activity for 2016-17 (Appendix A, Section 3)

## 8. Cabinet Portfolio Holder recommendation

The portfolio holder supports the officer recommendations.

## 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 |
| SarahM Hill | Finance Manager | 01484 221000 |

## 10. Background papers and History of Decisions

Quarter 1 Corporate Revenue & Capital Monitoring Report 2016-17
Annual budget report 2016-19
Early revenue outturn review 2015-16
Annual outturn and rollover report 2015-16
Annual statement of accounts (draft) 2015-16
CIPFA’s Prudential Code for Capital Finance in Local Authorities.
CIPFA’s Code of Practice on Treasury Management in the Public Services.

## 11. Assistant Director responsible

| | | |
|---|---|---|
| Debbie Hogg | Assistant Director | 01484 221000 |

**APPENDIX A – Section 1**

**REVENUE FORECAST MONITORING AS AT QUARTER 2 (MONTH 6), 2016-17**

## 1. Key Points

**GENERAL FUND**

1.1 The Council's general fund net revenue budget for 2016-17 is **£310.8million (m)**. Approved budget plans for the current year include a planned saving requirement of £10m in 2016-17.

1.2 The forecast outturn spend is **£315.9m**, net of the proposed drawdown of risk reserves to fund additional (one-off) Children's Services Development costs (£4.8m).

1.3 This results in an overall forecast **overspend of £5.1m**; equivalent to 1.7% against net revenue budget. This is a reduction in overspend of £1.0m compared to Q1 estimates.

1.4 Headline Directorate pressures include demand led pressures regarding activity relating to vulnerable adults at £8.3m, looked after children at £6.1m, waste contract at £1.1m and schools transport at £1.0m.

1.5 Directorate pressures also include £4.8m temporary additional staffing requirements in-year as part of the Children's Services Development Programme. The current temporary arrangements are expected to run to the end of December 2016, and the Q2 headline figures assume that they are resourced from risk reserves, as per member agreement as part of the Q1 Monitoring Report to Cabinet. At the time, the reported costs and reserves drawdown was £2.9m. This has increased since, due to the engagement of temporary staff requirements.

1.6 The monitoring forecast presented at Quarter 2 does not include unexpected one off site clearance costs arising from an environmental incident at a commercial site at Lockwood. Estimated costs are still being worked up, including ongoing discussions with other interested parties to determine liability for costs. Officers will report back to a future Cabinet pending clarification of the above.

1.7 The overall forecast revenue outturn position is summarised by Directorate, at Appendix B attached, and the more significant variances against Directorate activity, also summarised at Appendix B.

1.8 More detailed narrative explanations for key highlight forecast variances and management actions are set out in the following paragraphs below:

**1.9 Children & Young People £11.4m forecast overspend (£6.6m net of proposed drawdown of £4.8m risk reserves)**

**Commentary from Director for Children & Young People**

1.9.1 Previous reports have made reference to the Development Board established by the Chief Executive in response to urgent issues identified in social care practice that have created risk to children and young people accessing service support.

1.9.2 To manage that risk, a robust action plan was developed that required additional capacity alluded to in point 1.5 earlier in this report. Owing to the ongoing turbulence within the workforce, created by the urgent need to address the inconsistency of practice within Children's Social Care, there has been a need to sustain a high percentage of agency workers.

1.9.3 Currently, the level of agency staff is 30% and this has created ongoing pressure on an already overstretched budget. The need to address this budget pressure is well understood by the service. However; this is balanced by the need to keep children safe.

1.9.4 On September 12th Ofsted announced they would be inspecting the Local Authority arrangements to safeguard children in need of help and protection under the Safeguarding Inspection Framework (SIF). The four week inspection was an intense and rigorous process resulting in a provisional judgement that was shared on October 6th 2016 with the Chief Executive, the Portfolio Holder for Learning and Skills (representing the Portfolio Holder for Children and Families), the Director for Children and Young People, and the Assistant Director for Family Support and Child Protection.

1.9.5 Ofsted have a prescribed quality assurance process that means final judgements will not be made public until the report is published on November 25th 2016, however it is likely the provisional judgements will be upheld and the implications of this are that there will be intense ongoing scrutiny from Ofsted and the Department for Education.

1.9.6 It is critical that the objectives of the action plan to improve children's services are delivered to ensure that all children and young people in Kirklees are safe. However, these objectives cannot be realised without a robust financial strategy that reduces the ongoing budgetary pressures as this is clearly not sustainable.

1.9.7 There are some immediate actions listed further below at paragraphs 1.9.8 & 1.9.9 within the body of this report to alleviate current pressures but it is proposed that a future paper will be presented to Cabinet Members that sets out clearly the medium and long term financial plan.

**Additional Commentary from Assistant Director of Family Support and Child Protection**

1.9.8 Various mitigating actions are being taken against current overspend caused by increased numbers of children in care and a reliance on agency staff, including the review of:

i) top 10 high cost placements
ii) contributions from health and education, to placements that have an education or health element.
iii) all 16 & 17 year olds in residential care to determine whether they can be moved into less expensive supported accommodation
iv) all contracts to check adherence with framework agreement.

1.9.9 The service is reducing agency spend on senior management through a recruitment campaign with the appointment of a permanent Assistant Director and Heads of Service interviews in November 2016. Agency contracts with some middle managers are being terminated where it is safe to do so and there is also an ongoing recruitment campaign for senior social workers and team managers to replace agency workers.

**1.10 Adults, Commissioning & Public Health; forecast overspend £10.7m**

**Commentary from Assistant Director of Adult Social Care & Wellbeing**

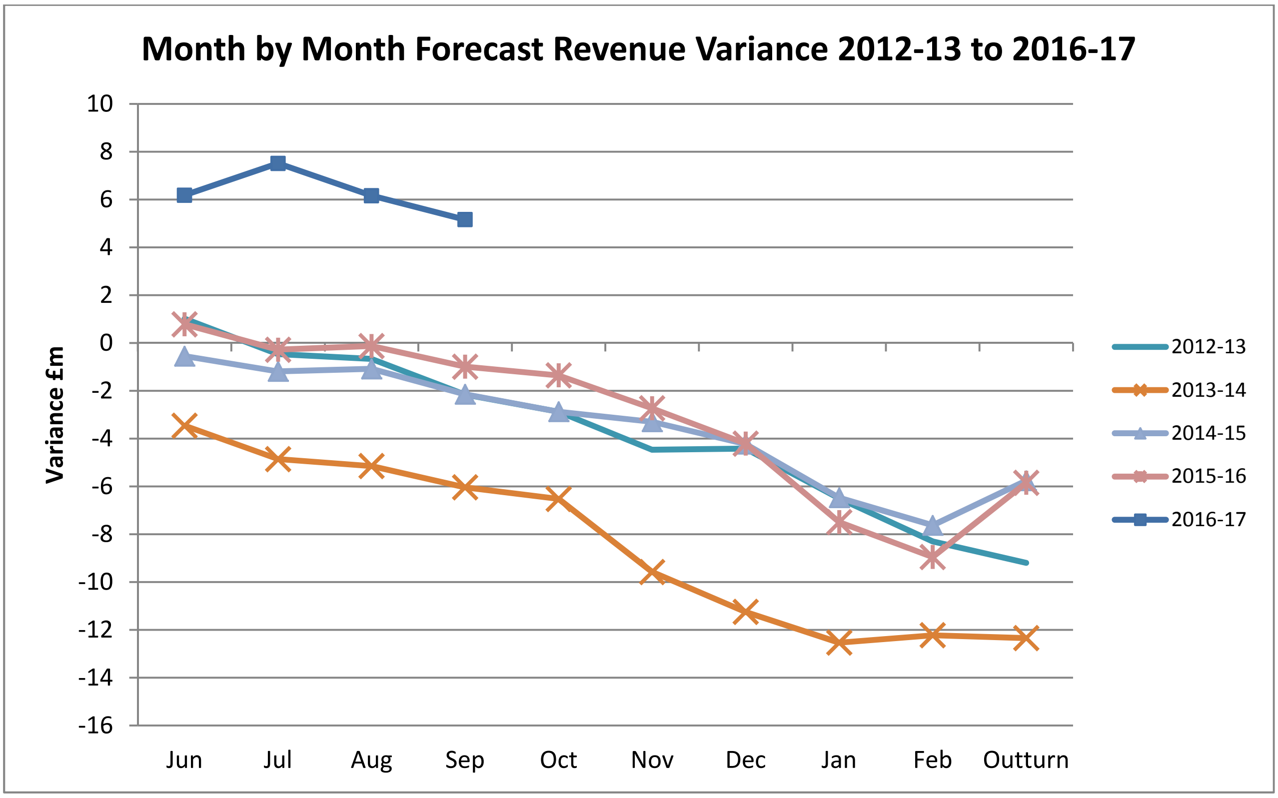
1.10.1 There are £8.0m of unfunded pressures that arise from a decreasing budget and increasing demand (both volume and complexity) as a result of demography (mainly an ageing population) and more people with a learning disability, particularly those with very complex needs. These pressures are most marked in the learning disability group which accounts for about £5.5m of the overspend. Work is underway to understand the increasing costs in more detail and to mitigate against this continued trend.

1.10.2 There has been a 19% increase in learning disability numbers (170 people) since the end of 2014-15. This structural demand pressure has been compounded by review of continuing care cases resulting in increased cost for the Council, additional costs pressures brought about by the Transforming Care Partnership which means the transfer of existing health supported clients from a hospital setting into the community, and pressures from annual reductions in Independent Living Funding to support an existing client base. Annual funding reductions had assumed a reduction in client numbers supported over time, greater than actual current trends. Admissions into Long term care (65+) are reducing slightly however costs are increasing due to the high cost needs of individuals and the deaths and discharge rates assumed are less than forecast.

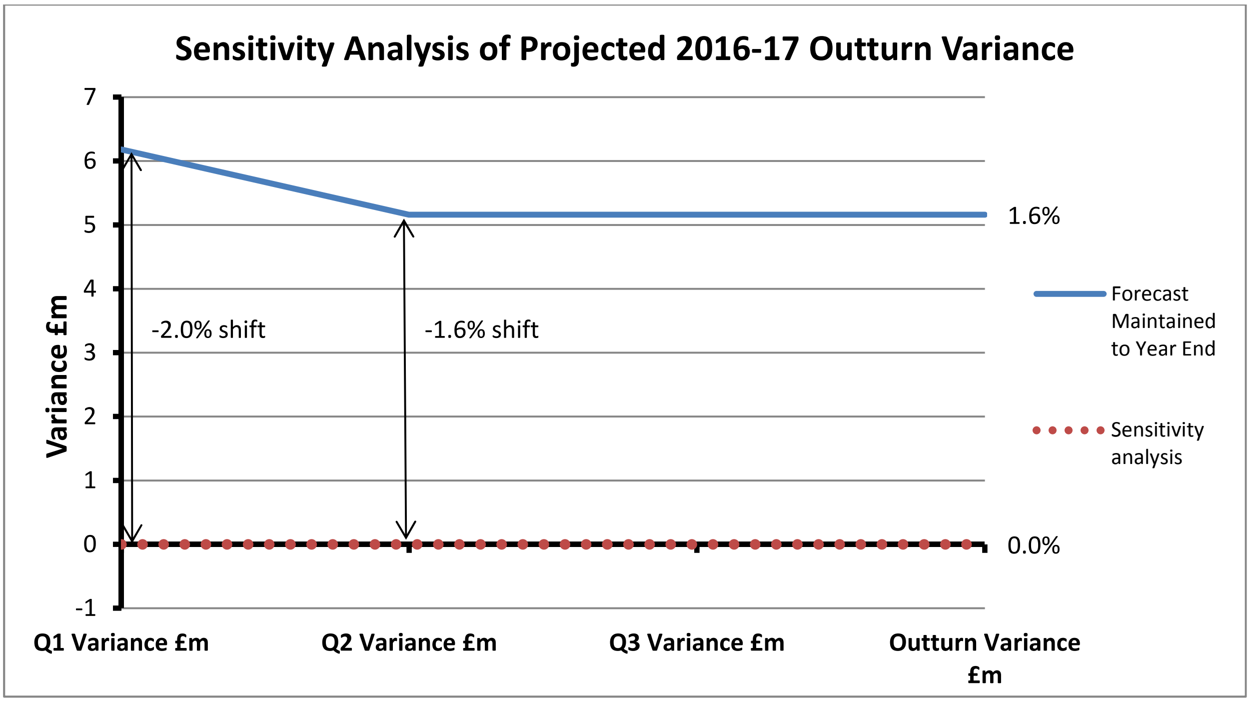
1.10.3 Given the significance of this emerging position, a separate report on this subject matter will be considered by Cabinet on 15th December.

**SENSITIVITY ANALYSIS**

1.11 The outturn underspend has ranged between £5.0m to £15.2m over the last 8 years and has consistently been more favourable (i.e. greater underspend) than Quarter 2 forecasts. This trend is largely attributable to early quarter forecasts being relatively prudent with regards to future spend and risks. See chart below showing month by month forecasts from 2012-13 including 2016-17 forecasts to date.




1.12 Sensitivity analysis at Quarter 2 supports the assumptions detailed in the Quarter 1 report to Cabinet that the final outturn position could be close to nil by year end. The last two financial years, 2014-15 and 2015-16, show a consistent outturn position of £5.8m underspend; reflecting a reduction of approximately 1.6% from Q2 projections. If this trend is applied to the current Quarter 2 forecast overspend of £5.1m, a -1.6% shift brings net spend more or less in line with budget (see chart below).




1.13 The above analysis is based on most recent year monitoring trends; however unanticipated factors or the impact of known risks can also affect the financial position. In line with established monitoring practices, any material factors which come to light will be reported at the earliest opportunity into subsequent quarterly monitoring.

1.14 Monitoring projections are also impacted on by management actions in-year to ensure managed activity is contained within budgeted resources. In light of the accelerated drawdown of available reserves (see also paras 1.19 to 1.23 below and Section 1 Appendix A), a key action recommended in Quarter 1 monitoring was for urgent consideration of management actions and options in-year (see also para 1.8 to 1.10 above) to ensure spend is maintained at least in line with budgeted resources.

**COLLECTION FUND**

1.15 The Collection Fund forecasts here are based on Council shares of Collection Fund income due. There is a forecast in-year surplus of £1.8m on Council tax; equivalent to 1.2% against budget income of £149m; mainly due to council tax income collection performance in excess of targeted.

1.16 There is a current £1.8m in year forecast deficit against business rates income of £52m; equivalent to 3.4%. This is due to in year reduced rates income as a result of successful appeals and a review of outstanding backdated appeals currently with the Valuation Office. In addition there is an emerging risk in relation to appeals for Doctor's Surgeries and Virgin Media which if successful could result in a one off cost to Kirklees of £1.5m for backdated payments plus reduced rates income of £280k per annum going forward. These backdated payments have been built into the provision for appeals in the 2015-16 accounts; of which, Kirklees share amounts to £4.3m.

## HOUSING REVENUE ACCOUNT (HRA)

1.17 The HRA forecast as at Quarter 2 is a surplus of £490k; equivalent to -0.5% against annual budgeted turnover (income) of £94.5m.

1.18 The HRA is a statutory ring-fenced account, and this means that this forecast surplus would automatically transfer to HRA general reserves at year end.

1.19 Appendix B attached summarises the HRA reserves position, which reflects a carry forward of £42.8m as at April 2016, and amounts set aside against this for specific purposes in future years, totalling £10m (£8.5m business risks, £1.5m working balance). This leaves remaining general reserves of about £32.8m, (excluding any surplus from 2016/17), which will be used to support HRA business plan resourcing requirements over the medium term.

## NEW COUNCIL DEVELOPMENT RESERVE

1.20 This reserve is currently £4m as at April 2016. As at Quarter 2, current commitments (2016-19) against this total an estimated £1.1m and include mainly;

- £0.7m Programme Management Resources within New Council Programme Management Office; recruitment of 9 posts for allocation to specific New Council programmes or projects – e.g. aspects of ‘Early Intervention and Prevention’ and ‘Economic Resilience.

- £0.3m Information Governance; £0.2m to create an Information Governance & Management Team (3 Information Governance Officers, 2 Business Support Officers) to support the development of Information Governance requirements of the Council, plus £0.1m consultancy fees for key projects.

## GENERAL FUND RESERVES AND BALANCES

1.21 Appendix B attached summarises the current and estimated available reserves position. Available reserves (i.e. excluding statutory schools related reserves which the Council cannot use for other purposes) are estimated at £53m by year end; compared with £93m available reserves as at April 2016; overall reduction of 43% over the year. The estimated reserves movements in 2016-17 at £40m equates to a current average weekly drawdown of approximately £800k, which is unsustainable.

1.22 Estimated in-year reserves movements includes the proposed £4.8m risk reserve drawdown in-year, £17.5m approved drawdown to support the 2016-17 MTFP, and other estimated reserves drawdowns totalling over £18m in-year, previously set aside and earmarked for a number of one-off spend commitments including revenue rollover, severance costs, and grant reserves drawn down to support Stronger Families Programme (grant), European Regional Development Funded schemes.

1.23 Remaining reserves forecast at current year end at £53m includes the balance of New Council Transformation Reserve at over £3m, remaining workforce restructure reserve at £7m Private Finance Initiative (PFI) prepayment reserve (schools) at £3m, approved rollover commitments at £7m and minimum balances provision at £5m. These add up to about £26m, and are all assumed priority spend commitments against the £51m remaining reserves.

1.24 The £7m rollover commitments noted in 1.23 above, include £3.3m set aside for decant costs relating to Mount Pleasant Primary School. Due to the decant now being contained on the existing site, these costs will not be incurred. It is proposed that Officers report back to a future Cabinet to consider how the £3.3m potential release from the rollover reserve could be used.

1.25 Adjusting for the above priority spend commitments, actual level of available Reserves to support MTFP requirements from April 2017 is forecast to be about £27m; equivalent to just 9% of current net revenue budget. Council Reserves at this point could be considered to be at critical levels. This forecast also assumes that while the current Quarter 2 forecast is a £5.1m overspend, that by year end the Council's bottom line net spend position will be brought back in line within overall budget, otherwise, any year end overspend would then be a further draw on available reserves.

**SECTION 2 – FORECAST CAPITAL OUTTURN 2016-17 AS AT QUARTER 2, (MONTH 6)**

## 2. Key Points

2.1 The Council's capital budget for 2016-17 is £102.6m at the end of quarter 2. Adjustments to the budget since it was approved at Council on 29th June 16 are detailed below, in accordance with Financial Procedure Rules 3.14:

(a) Revenue Contribution to Capital Outlay (RCCO) – (+£290k)

- Children & Young People Service - £200k for modular provision at Longley school
- Parks and Open Spaces - £40k for Greenhead Play Area and £18k for East Bierley pond restoration
- District Committees - £4k for various schemes
- Highways - £28k from District Committees for Weatherhill Road Footway Development

(b) Additional Funding – (+£342k)

- Housing private Sector - £273k additional section 106 monies
- Parks and Open Spaces - £11k contribution from Friends of Meltham skate park
- Highways - £325k Pothole Action Fund grant from the Department of Transport and £267k reduction to the West Yorkshire Transport Fund budget in Strategic Priorities.

2.2 The budget of £102.6m is before a budgetary assumption for slippage in-year, totalling £20.3m or 19.7%. Adjusted for slippage, the capital budget is funded to a level of £82.3m, also referred to as the budgeted funding requirement. There is a headline forecast outturn **underspend of £3.6m** (4.4% variance compared to the budgeted funding requirement).

2.3 There is a General Fund forecast underspend of just £1.2m, as at Quarter 2, and it is anticipated that, in line with previous year slippage trends, it will at least be in line with funding requirement by current year end.

2.4 The Housing Revenue Account (HRA) forecast underspend is £2.5m.

2.5 Appendix C attached shows a more detailed breakdown of the forecast, and commentary on highlight variances.

2.6 The IT programme currently has a budget for 2016-17 of £980k and its objective is to "support the IT ongoing refresh and update of core technology to support the IT enabled change programme for the Council". Additional investment is required to enable the Council to further benefit from available technologies in matching the needs of individuals (and how they work) to the right services and equipment to support them, thereby promoting more flexible working and greater productivity.

2.7 As part of the Council objective to support mobile working, this report therefore seeks Member authority to amend the ‘Corporate Facilities IT’ Capital Programme and transfer £500k (allowable under Financial Procedure Rules 2.22 & 3.10) from the IT Revenue budget into the ‘Corporate Facilities IT’ Capital Programme budget, to be reflected in the next quarterly monitoring.

2.8 The new Prudential Code for Capital Finance in local authorities began on 1 April 2004 and introduced a greater freedom for the Council’s capital expenditure. Part of the requirements of the Code is for reporting procedures to be implemented to monitor the progress and status of capital expenditure plans. The monitoring information is shown in Appendix D.

2.5 It should be noted that the Assistant Director Strategic Investment Group have conducted a review during the summer 2016 of all capital baseline allocations. The review has challenged existing allocations and whether they represent the minimum capital investment levels needed to support each programme area. The conclusions of the Group will feed into the forthcoming budget round.

**APPENDIX A – Section 3**

## HALF YEARLY MONITORING REPORT ON TREASURY MANAGEMENT ACTIVITIES 2016-17

## 1. Key Points

### SUMMARY

1.1 The report gives assurance that the Council's treasury management function is being managed on a prudent and pro-active basis. External investments averaged £44.8 million during the period at an average rate of 0.46%. Balances were invested in line with the approved strategy, where possible, in instant access accounts or short-term deposits. External borrowing has fallen to £414.7 million but is expected to rise by up to £30 million short term borrowing by the end of the year. The treasury management revenue budget is expected to underspend by £1.8 million in 2016/17. Performance is in line with the treasury management prudential indicators set for the year, but there was one material risk and compliance issue to report, when a Barclays' system failure prevented the Council from transmitting funds to other counterparty deposit accounts back in April.

### TREASURY MANAGEMENT STRATEGY

1.2 The treasury management strategy for 2016/17 was approved by Council on 17 February 2016. The over-riding policy continues to be one of ensuring the security of the Council's balances. The Council aims 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 is 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. Diversification amongst counterparties is key. It was forecast that the Council could have an external borrowing requirement of up to £30 million.

### ECONOMIC CONTEXT AND INTEREST RATES

1.3 After a period of relative strong growth and stability, the outlook for the UK economy changed significantly on 23 June 2016 following the Brexit vote. The repercussions of the plunge in sentiment on economic growth were judged to be severe by the Bank of England, prompting substantial monetary policy easing, including a cut in Bank Rate in August to 0.25%, further quantitative easing and cheap funding for banks to maintain the supply of credit to the economy. After the vote, interest rates plunged to new record lows – a 50 year maturity loan from the PWLB can now be obtained at around 2.1% compared to 3.0% in April.

1.4 The effect of Brexit is expected to dampen economic growth through the second half of 2016 and in 2017. Inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. Equity markets, however, appear to have shrugged off the result of the referendum despite an initial sharp drop. The Council's treasury management advisors forecast that the Base Rate is not likely to rise within the next three years and that there is a 40% chance of a cut down to zero percent.

**INVESTMENT PERFORMANCE**

1.5 The Council invested an average balance of £44.8 million externally during the period (£60.9 million in the first six months of 2015/16), generating £0.104 million in investment income. The reduction is largely due to the Government flattening the payment profiles of Revenue Support Grant.

1.6 Balances were invested in instant access accounts or short term deposits. Appendix E shows where investments were held at the start of April, the end of June and September by counterparty, by sector and by country.

1.7 The Council's average investment rate for the period was 0.46%. This is higher than the average for 2015/16 of 0.45%. The Base Rate cut of 0.25% at the beginning of August is gradually being factored into investment rates offered and by the end of September, all rates are expected to be around 0.25% lower.

**BORROWING PERFORMANCE**

1.8 In terms of borrowing, long-term loans at the end September totalled £405.3 million (£408.4 million 31 March 2016) and short-term loans £9.4 million (£16.0 million 31 March 2016). There has been no new external borrowing so far this year. The external borrowing requirement for the year is still expected to be around £30 million. Any borrowing undertaken is likely to be fairly short-term, mainly to take advantage of very low borrowing rates.

1.9 In June 2016, the Council received deed polls from Barclays Bank stating that it would not exercise its options to increase interest rates on £30 million of LOBO loans held by the Council. This effectively makes the loans fixed rate maturity loans. The interest rates on these loans range from 3.81% to 4.10%. This effectively brings the total of LOBO loans down to 76.6 million which represents 18.5% of total external borrowing.

1.10 Fixed rate loans account for around 81.5% 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 F 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.

1.11 The Council has occasionally borrowed small amounts from the Money Market for periods between one and two months at an average rate of 0.32%.

**REVENUE BUDGET MONITORING**

1.12 The treasury management budget for 2016/17 currently stands at £32.8 million. The latest budget monitoring shows an under-spend of £1.8 million. The under-spend is due to savings on principal and interest arising from capital slippage and interest rates remaining lower for longer than expected.

**PRUDENTIAL INDICATORS**

1.13 The Council is able to undertake borrowing without central government approval under a code of practice called the Prudential Code. Under this Code, certain indicators have to be set at the beginning of the financial year as part of the treasury management strategy. The purpose of the indicators is to contain the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. Other prudential indicators are reported as part of the monitoring of capital. Appendix G provides a schedule of the indicators set for treasury management and the latest position.

**RISK AND COMPLIANCE ISSUES**

1.14 On two 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. In addition at the end of April, a Barclays' software problem prevented the Council from transmitting funds to other counterparty deposit accounts. This caused the Council to have £11 million in excess of its own investment limit with Barclays over the weekend. The Council was compensated by Barclays for any loss of interest and the problem has not re-occurred.

1.15 In line with the investment strategy, the Council has not placed any direct investments with companies as defined by the Carbon Underground 200.

| Directorate | Net Controllable Budget £000s | Forecast Outturn £000s | Variance £000s | % | Variance from Qtr 1 £000s |
|---|---|---|---|---|---|
| **Children & Young People** | 60,772 | 72,195 | 11,423 | **18.8%** | **2,855** |
| **Adults Commissioning & Public Health** | 84,793 | 95,499 | 10,706 | **12.6%** | **974** |
| **Place** | 35,935 | 35,451 | (484) | **-1.3%** | **(709)** |
| **Resources** | 38,802 | 37,682 | (1,120) | **-2.9%** | **(224)** |
| **Communities, Transformation & Change** | 6,083 | 5,618 | (465) | **-7.6%** | **(445)** |
| **Economic Resilience** | 14,080 | 11,168 | (2,912) | **-20.7%** | **(421)** |
| **Early Intervention & Prevention** | 24,560 | 21,659 | (2,901) | **-11.8%** | **(161)** |
| **Sub-total** | **265,025** | **279,272** | **14,247** | **5.4%** | **1,869** |
| **Reserves Drawdown** | | **(4,800)** | **(4,800)** | | **(1,884)** |
| **Sub-total** | **265,025** | **274,472** | **9,447** | **3.6%** | **(15)** |
| **Central Budgets** | 44,471 | 41,048 | (3,423) | **-7.7%** | **(1,018)** |
| **Sub-total** | **309,496** | **315,520** | **6,024** | **1.9%** | **(1,033)** |
| **District Committee managed budgets** | 1,340 | 463 | (877) | **-65.4%** | **0** |
| **General Fund Total** | **310,836** | **315,983** | **5,147** | **1.7%** | **(1,033)** |
| **Memo Item (HRA)** | **(19,719)** | **(20,209)** | **(490)** | **2.5%** | **(547)** |

| **Collection Fund forecast (Council Share)** | **Council Tax** | **Business Rates** | **Total** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **(Surplus)/Deficit at 1st April 2016** | **(4.6)** | **5.0** | 0.4 |
| Re-payments to/(from) General Fund | 3.9 | (4.2) | (0.3) |
| In year (Surplus)/Deficit | (1.8) | 1.8 | 0.0 |
| **(Surplus)/Deficit at 31st March 2017** | **(2.5)** | **2.6** | **0.1** |

## General Fund Reserves Summary

| General Fund Reserves/Balances available to support MTFP | Balance at 31st March 2016 | Forecast Movement in Reserves | Estimated Balance at 31st March 2017 |
|---|---|---|---|
| | £m | £m | £m |
| **Earmarked** | | | |
| Approved Draw down to Support MTFP | | 1.3 | |
| Journey to New Council | | 0.5 | |
| Revenue Grants | | 5.0 | |
| Stronger Families | | 1.7 | |
| Workforce Restructure | | 4.2 | |
| Rollover | | 3.3 | |
| Business Rates | | 2.4 | |
| Other | | 1.0 | |
| sub-total | -57.4 | 19.4 | 38.0 |
| | | | |
| **Risk Based** | | | |
| draw down to support childrens service developments | | 4.8 | |
| sub-total | -10.0 | 4.8 | 5.2 |
| | | | |
| **General Balances** | | | |
| Approved Draw down to Support MTFP | | 16.2 | |
| sub-total | -25.9 | 16.2 | 9.7 |
| Grand Total | -93.3 | 40.4 | 52.9 |
| Assumed set aside for specific spend commitments rolled forward into 2017-18 | | | |
| minimum balances required to support Council cashflow | | | 5.0 |
| Workforce Restructure (Severance costs) | | | 6.8 |
| New Council Transformation | | | 3.5 |
| PFI Prepayment Reserve | | | 3.1 |
| Revenue Rollover | | | 7.2 |
| Remaining Reserves Available to Support MTFP 2017-21 | | | 27.3 |

## HRA Reserves Summary

| Statement of Reserves | Balance at 31 March 2016 | Approved Movement in Reserves (inc. future years commitments) | New Requested Movement | Uncommitted Balance |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| **HRA Balances** | | | | |
| Opening Balance 1 April | **42,804** | | | **42,804** |
| Forecast in Year Suplus/Deficit | | 0 | | **0** |
| To Support the 16/17 Capital Investment Programme | | 0 | | **0** |
| Set aside to support Council priorities | | 0 | | **0** |
| Set aside for Council Priorities | | 0 | | **0** |
| Set aside for business risks | | -8,500 | | **-8,500** |
| Working balance | | -1,500 | | **-1,500** |
| | **42,804** | **-10,000** | **0** | **32,804** |
| **HRA Major Repairs Reserve** | | | | |
| Opening Balance 1 April | **0** | | | **0** |
| Contribution from HRA (depreciation charge) | | 15,900 | | **15,900** |
| Capital Debt Repayment | | -6,259 | | **-6,259** |
| Capital Investment Requirement | | -9,641 | | **-9,641** |
| | **0** | **0** | **0** | **0** |

## *HIGHLIGHT VARIANCES*

| Directorate | Activity | Highlight Variances £000 | Additional comments on highlight variances (before BCF/ reserves applied) |
|---|---|---|---|
| **Children & Young People** | Safeguarding & family support; demand led activity | +6,115 | +£6,115k Volumes, (Underlying overspend £3.5m 15-16) |
| | Safeguarding & family support | +3,840 | Additional agency staffing costs due to Interim Service Management arrangements; current arrangements presumed to end December 2016 |
| | Safeguarding Assurance | +790 | Due to Medium Term Financial Plan savings not achieved +£253k and Agency costs +£571k less misc. savings (£34k) |
| | Learning & Skills | (339) | Income re SLA's on partnership services (£280k), surplus on Schools Mgmt Information system (£61k) Savings on employee budgets /Vacant posts (£69k), pressure on Day care budget re income shortfall +£71k. |
| | Disabled Children's Service | +159 | Pressure on direct payments +£315k & +£138k commissioned short break activities, offset by drawdown from KICES pooled reserves (£304k) |
| | Child Sexual Exploitation Team | +380 | Additional costs arising from Child Sexual Exploitation unfunded to be met from reserves |
| | Safeguarding & family support; Legal Costs | +375 | Pressure on legal disbursements |
| | Sub-total | +11,320 | |
| **Commissioning, Public Health & Adults** | Placement equivalent demand | +8,318 | Older people +£0.7m, Physical disabilities +£1.2m, Learning disabilities +£5.5m and Mental health +£0.9m, (Underlying overspend £1.7m 15-16) Expenditure of £0.3m has been resourced from the Better Care Fund to mitigate this. In addition there has been £2m Better Care Funding already allocated to placement equivalents from 16/17 monies for supporting social care. |
| | (Older People) In-house residential | +624 | Net employee overspends |
| | Best Partnering | +953 | Assumes that arrangements to make the savings will not commence this financial year |
| | Re-ablement | +216 | Medium Term financial Plan Savings not made |
| | Commissioning | (503) | Contracted Services including extra care housing (£189k),savings in other contracted services (£333k) & commissioning infrastructure costs funded through the Better care fund (£34k), reduced KICES contribution (£243k), & Deprivation of Liberty Safeguarding - External Assessors to meet demand +£296k |

| Directorate | Activity | Highlight Variances £000 | Additional comments on highlight variances (before BCF/ reserves applied) |
|---|---|---|---|
| | Public Health | +1,385 | Savings on Substance Misuse, Smoking and Sexual Health (£465k), Health Child programme (£181k), Weight Management Resources +£50k, staff savings (£260k) and other PH savings (£38k) to offset grant reduction of £2,278k. |
| | Sub-total | +10,993 | |
| **Place** | Waste Services | +1,500 | Waste disposal +£1,085k. Delayed implementation of Medium term financial Plan savings +£683k. New savings not included in MTFP (£167k), In year savings (£101k) Improved trade waste performance. |
| | Driver Training | (450) | Referral numbers assumed to continue as per 15/16 levels |
| | Policy, Strategy & Commissioning | (472) | The Economic Resilience board are still considering which area this activity will support |
| | Parking | +200 | Income levels on planning + £410k, partially offset by expenditure (£210k) |
| | Planning | (100) | Income (£242k), less operational costs +£142k |
| | Markets | +170 | Income shortfall +£250k offset by savings across various cost headings (£80k) |
| | Schools Transport | +965 | Volume pressures Home to School Transport |
| | Schools Facilities Management | (1,382) | Catering surplus due to increased efficiency on labour and food costs of supplying Universal Free School Meals |
| | Corporate Landlord | (786) | Capacity created to fund transformational type works e.g. asset transfers |
| | Sub-total | (355) | |
| **Resources** | Customer & Exchequer services | (748) | Mainly due to the assumption that benefit subsidy will continue to underspend as in previous years (£162k) but to a lesser degree, Library & Information Centres savings in advance (£293k) Welfare Complimentary Benefits employee savings (£291k) |
| | Support for Council as Democratic Org | (265) | Civic Office, and Councillor allowances. |
| | Looking Local | +248 | Review around long term viability and new transfer imminent business model being undertaken. |
| | Corporate & Democratic Core | (202) | Anticipated savings on subscriptions/external audit fees. |
| | Sub-total | (967) | |
| **CTC** | N/A | - | No key variances at Month 6 |
| | Sub-total | - | |
| **Cross-Directorate Themes** | Economic Resilience | (2,912) | Mainly (£3,458k) underspend on add backs partially offset by slippage in delivery of achieving 16-17 Medium Term Financial Plan savings in the Community Safety Hub model |

| Directorate | Activity | Highlight Variances £000 | Additional comments on highlight variances (before BCF/ reserves applied) |
|---|---|---|---|
| | | | |
| | Early Intervention & Prevention | (2,900) | EITS (£1,526k), (£750k) Community grants budget savings in advance & +£2,942k Supporting People MTFP savings not yet achieved, Carers projects not fully achieved (£50k), (£355k) Kirklees Direct & Customer Service Centres Vacant posts pending service review and (£90k) reduction in Healthwatch contract payments less Add back of (£2.6m) not committed. |
| | Sub-total | (5,812) | |
| **Central Budgets** | Treasury Management | (1,800) | Reduced borrowing costs, slippage in 15-16 Capital plan |
| | Inflation | (1,100) | Contingency and energy inflation not required |
| | Contingencies | (445) | Carbon Reduction Commitment budget not required for this year. |
| | Sub-total | (3,345) | |
| **Ringfenced Corporate Budgets** | District Committee managed budgets | (877) | Similar levels of underspend to last financial year. |
| **Grand Total (highlight variance)** | | +10,957 | |

***HRA HIGHLIGHT VARIANCES***

| Directorate | Activity | Variance £000 | Additional comments on variances |
|---|---|---|---|
| **HRA** | Repairs & Maintenance | 275 | Responsive theme +£475k, chargeable repairs (£200k), offset by minor variances in unplanned works. |
| | Housing Management | (76) | Council Services bought in (£136k), Increase in charges for Sheltered housing cleaning +£29k and Concierge +£14k, Policy & Management (£86k) |
| | Other Expenditure | (953) | Mainly due to delayed implementation of Universal credit. |
| | Income | +264 | Mainly dwellings rent Income +£262k, Rechargeable repair +£200k, District heating Income +62k, less Increased income due to other Service Charges (£120k),Increased level of charges for major repairs (£100k),Other rents (£29k) |
| | Sub-total | (490) | |

**APPENDIX C**

## FORECAST CAPITAL PLAN MONITORING 2016-17, AS AT QUARTER 2

| Capital Plan | Revised Budget | Actual to Date | Outturn | Variance | % | Change in Variance |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | | £'000 |
| **Strategic Priorities Total** | **24,579** | **3,324** | **15,125** | **(9,454)** | **-38%** | **(1,415)** |
| **Baseline** | | | | | | |
| Childrens & Young People | 10,573 | 2,384 | 8,834 | (1,739) | -16% | 286 |
| Adults | 500 | -2 | 500 | (0) | nil | 0 |
| Place | 37,984 | 15,246 | 33,930 | (4,054) | -11% | (971) |
| Communities, Transformation & Change | 1,405 | -9 | 211 | (1,194) | -85% | 8 |
| Resources | 1,133 | 233 | 1,133 | 0 | nil | 0 |
| Leeds City Region Revolving Fund | 1,874 | 1,324 | 1,874 | 0 | nil | 0 |
| **Baseline Total** | **53,469** | **19,644** | **46,482** | **(6,987)** | **-13%** | **(677)** |
| **One-Off Initiatives** | 101 | 19 | 101 | 0 | nil | 0 |
| **Risks & Pressures** | 5,000 | 0 | 0 | (5,000) | -100% | 0 |
| **General Fund Total** | **83,149** | **22,986** | **61,708** | **(21,441)** | **-26%** | **(2,092)** |
| **Notional slippage** | **(20,264)** | **-** | **-** | **-** | **-** | **-** |
| **General Fund Total after Slippage** | **62,885** | **22,986** | **61,708** | **(1,177)** | **-2%** | **(2,092)** |
| **Housing Revenue Account (HRA)** | **19,478** | **7,527** | **17,015** | **(2,463)** | **-13%** | **9** |
| **Total Funding Requirement** | **82,363** | **30,513** | **78,723** | **(3,640)** | **-4%** | **(2,083)** |

## Comments on Highlight Variances, as at Quarter 2, 2016-17

| Strategic Priorities Capital Plan | Highlight Variance | Comments on Highlight Variances |
|---|---|---|
| | £'000 | |
| New Pupil Places in Primary Schools | (7,450) | Slippage to the start on site date at Beaumont Academy has meant that only enabling works will go ahead this financial year. The New North primary school will not start on site until 2017/18, which has led to an increase in the variance by £1.3m since quarter 1. Any underspend in funding on Strategic Priorities will be required to rollover to 2017-18 to enable the rolling programme on schools to be delivered as part of the Schools Investment Needs Strategy. |
| Huddersfield Leisure Centre | (710) | Final retention payment less than previously estimated figure. Final fee payments to be processed, also anticipated being less than previously estimated figure. |
| Spenborough Sports Facility | (814) | Delays to programme, expenditure on fees only in 2016/17 |
| **Strategic Priorities Total** | **(8,974)** | |

**APPENDIX C**

| Baseline Capital Plan | Highlight Variance | Comments on Highlight Variances |
|---|---|---|
| | **£'000** | |
| **Children & Young People** | | |
| One-off Initiatives | (1,548) | Mainly includes Section 106. Some contributions not received from developers. Majority of funds remain unallocated either whilst discussions occur to identify schools to benefit or funds held pending emergence of new Investment Need Strategy. |
| **Children & YP Total** | **(1,548)** | |
| | | |
| **Place** | | |
| Housing (Private) | (1,371) | Includes Section 106 budget of £889k not currently projected to spend but looking into possible schemes that could be funded from this pot and Demolition of property at Wakefield Road, Moldgreen of £205k which is not projected to spend this year due to needing to CPO one of the properties. |
| Economic Delivery | (1,757) | Currently not projecting £1.6m of baseline budget for 2016-17 because there are no schemes in the pipeline at present. The Funding Circle loan scheme is to be discontinued. |
| **Place Total** | **(3,128)** | |
| | | |
| **Communities, Transformation & Change** | | |
| KAL Self-Funded | (867) | KAL are currently in the early stages of developing a range of potential capital projects, with the likelihood that the more significant schemes will emerge within 2017/18. |
| **CTC Total** | **(867)** | |
| | | |
| **Baseline Total** | **(5,543)** | |
| | | |
| **Risks & Pressures Total** | **(5,000)** | Cabinet Approval given on 20.9.16 to fund the loan advance to Kirklees Stadium Development Ltd from the Risks & Pressures line. The commitment against these resources is anticipated to fall into future years. |

| HRA Capital Plan | Highlight Variance | Comments on Highlight Variances |
|---|---|---|
| | **£'000** | |
| Strategic Priorities | (1,800) | Capital Spend not due to commence until 2017-18 on Ashbrow Extra Care New Build (-£1m) and KNH/Building Service Pilot New Build (-£0.8m). |
| Baseline | (663) | Underspend expected on budgets managed via district committees (-£663k), and Maintaining Decency windows programme (-£363k) due to change in specification from replacement to refurbishment of windows, this will deliver better value for money but has a longer lead in time due to procurement issues. This is offset by an overspend on Maintaining Decency Roofing programme (£363k) due to expected volume of roofing works higher than budget to deliver commitments on leasehold blocks. |
| **HRA Total** | **(2,463)** | |

**APPENDIX D**

## Prudential Indicators

*The approved indicators for 2016/17 below assumed a certain level of slippage and the revised estimate includes further slippage on borrowing from that identified at Quarter 2.*

1. **Prudential indicators for affordability** (mandatory indicators highlighted)

Capital Expenditure and External Debt

The table below draws together the main elements of Capital Plan expenditure, highlighting borrowing and other financing arrangements. It contains the following prudential indicators:

1) Capital expenditure – sets out the latest actual spend and the estimated spend in the plan period, split between General Fund and HRA.
2) Capital Financing Requirement (CFR) – this is the Council's underlying need to borrow to fund capital investment.
3) External debt – sets out the latest actual debt for the Council. The difference between external borrowing and the CFR in each year reflects the amount of internal balances that are being "borrowed" to finance capital indebtedness.

| | 2015/16 Actual £000s | 2016/17 Approved Indicator £000s | 2016/17 Revised Estimate £000s |
|---|---|---|---|
| Capital Expenditure | | | |
| General Fund | 50,796 | 62,581 | 58,729 |
| General Fund - PFI | 1,539 | 0 | 1,392 |
| HRA | 22,655 | 19,478 | 17,015 |
| HRA - PFI | 151 | 173 | 173 |
| Total | 75,141 | 82,232 | 77,309 |
| Financed by - | | | |
| Borrowing | 11,264 | 24,928 | 24,928 |
| PFI | 1,690 | 173 | 1,565 |
| Other Resources | 62,187 | 57,131 | 50,816 |
| Total | 75,141 | 82,232 | 77,309 |
| CFR as at 31 March | | | |
| General Fund excl PFI | 411,332 | 413,930 | 414,021 |
| General Fund PFI | 58,058 | 55,473 | 55,473 |
| HRA excl PFI | 192,440 | 186,181 | 186,181 |
| HRA PFI | 58,910 | 56,824 | 56,824 |
| Total | 720,740 | 712,408 | 712,499 |
| External debt as at 31 March | | | |
| Borrowing | 424,418 | 451,216 | 452,282 |
| Other LT Liabilities | 121,360 | 116,718 | 116,718 |
| Total | 545,778 | 567,934 | 569,000 |

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.

| | | 2016/17<br>£m |
|---|---|---|
| Authorised limit for external debt | | |
| Borrowing | | 554.6 |
| Other Long Term Liabilities | | 121.4 |
| | Total | 676.0 |
| | | |
| Operational boundary for external debt | | |
| Borrowing | | 505.2 |
| Other Long Term Liabilities | | 121.4 |
| | Total | 626.6 |
| | | |
| Estimated maxima for external debt | | |
| Borrowing | | 452.3 |
| Other Long Term Liabilities | | 121.4 |
| | Total | 573.7 |

The Council is expected to comfortably remain within its Authorised Limit.

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 estimated HRA CFR excluding PFI liabilities as at 31 March 2016 is £186.2 million which is well within the limit.

Estimates of ratio of financing costs to net revenue stream

This prudential indicator measures the impact of borrowing costs on the General Fund and the HRA. It expresses financing costs as a percentage of the "net revenue stream" (taxation and non-specific grant income for General Fund and gross income for HRA).

| | 2015/16<br>Actual | 2016/17<br>Approved Indicator | <br>Revised Estimate |
|---|---|---|---|
| General Fund | 12.65% | 12.70% | 12.74% |
| General Fund (excl. PFI) | 10.61% | 10.70% | 10.74% |
| HRA | 30.89% | 30.22% | 30.28% |
| HRA (excl. PFI) | 28.51% | 27.93% | 27.99% |

The lower percentages for General Fund reflect lower financing costs mainly due to a slower anticipated rise in interest rates and capital slippage.

## 2. Prudential indicators for prudence

Net Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total CFR. The Council comfortably complied with this requirement in 2015/16 and no difficulties are envisaged for current or future years.

## 3. Prudential indicator for treasury management

Treasury Management

The prudential indicator in respect of treasury management is that the local authority has adopted the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. The aim is to ensure that treasury management is led by a clear integrated forward treasury management strategy, and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios. The Council adopted the Code in February 2002.

**APPENDIX E**

| | | Kirklees Council Investments 2016-17 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Counterparty** | | **Credit Rating Sept 2016*** | **1 April 2016 (opening) £m** | **Interest Rate** | **Type of Investment** | **30 June 2016 £m** | **Interest Rate** | **Type of Investment** | **30 September 2016 £m** | **Interest Rate** | **Type of Investment** |
| **Specified Investments** | | | | | | | | | | | |
| Bank of Scotland | Bank | F1/A+ | | | | | | | 6.0 | 0.40% | Instant Access |
| Handelsbanken | Bank | F1+/AA | 2.9 | 0.45% | Instant Access | 2.4 | 0.45% | Instant Access | | | |
| Std Life (Ignis) | MMF** | AAAmmf | 7.5 | 0.49% | MMF-Instant Acc | 7.5 | 0.53% | MMF-Instant Acc | 7.5 | 0.37% | MMF-Instant Acc |
| Aviva | MMF** | Aaa-mf | 7.3 | 0.48% | MMF-Instant Acc | 6.2 | 0.44% | MMF-Instant Acc | 8.6 | 0.31% | MMF-Instant Acc |
| Aviva - Govt | MMF** | Aaa-mf | | | | 6.3 | 0.37% | MMF-Instant Acc | 1.5 | 0.17% | MMF-Instant Acc |
| Deutsche | MMF** | AAAmmf | 6.7 | 0.46% | MMF-Instant Acc | 8.1 | 0.46% | MMF-Instant Acc | 6.2 | 0.32% | MMF-Instant Acc |
| Goldman Sachs | MMF** | AAAmmf | 6.0 | 0.44% | MMF-Instant Acc | 8.1 | 0.46% | MMF-Instant Acc | 7.7 | 0.30% | MMF-Instant Acc |
| Santander UK | Bank | F1/A | 5.0 | 0.65% | 31 day notice | 5.0 | 0.65% | 31 day notice | 3.0 | 0.40% | 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 | 2.9 | 0.10%+0.40% | Instant Access |
| | | | **38.3** | | | **46.5** | | | **43.4** | | |
| **Sector analysis** | | | | | | | | | | | |
| Bank | | | 10.8 | 28% | | 10.3 | 22% | | 11.9 | 27% | |
| Building Society | | | | | | | | | | | |
| MMF** | | | 27.5 | 72% | | 36.2 | 78% | | 31.5 | 73% | |
| Local Authorities/Cent Govt | | | | | | | | | | | |
| | | | **38.3** | 100% | | **46.5** | 100% | | **43.4** | 100% | |
| **Country analysis** | | | | | | | | | | | |
| UK | | | 7.9 | 21% | | 7.9 | 17% | | 11.9 | 27% | |
| Sweden | | | 2.9 | 7% | | 2.4 | 5% | | | | |
| MMF** | | | 27.5 | 72% | | 36.2 | 78% | | 31.5 | 73% | |
| | | | **38.7** | 100% | | **46.5** | 100% | | **43.4** | 100% | |

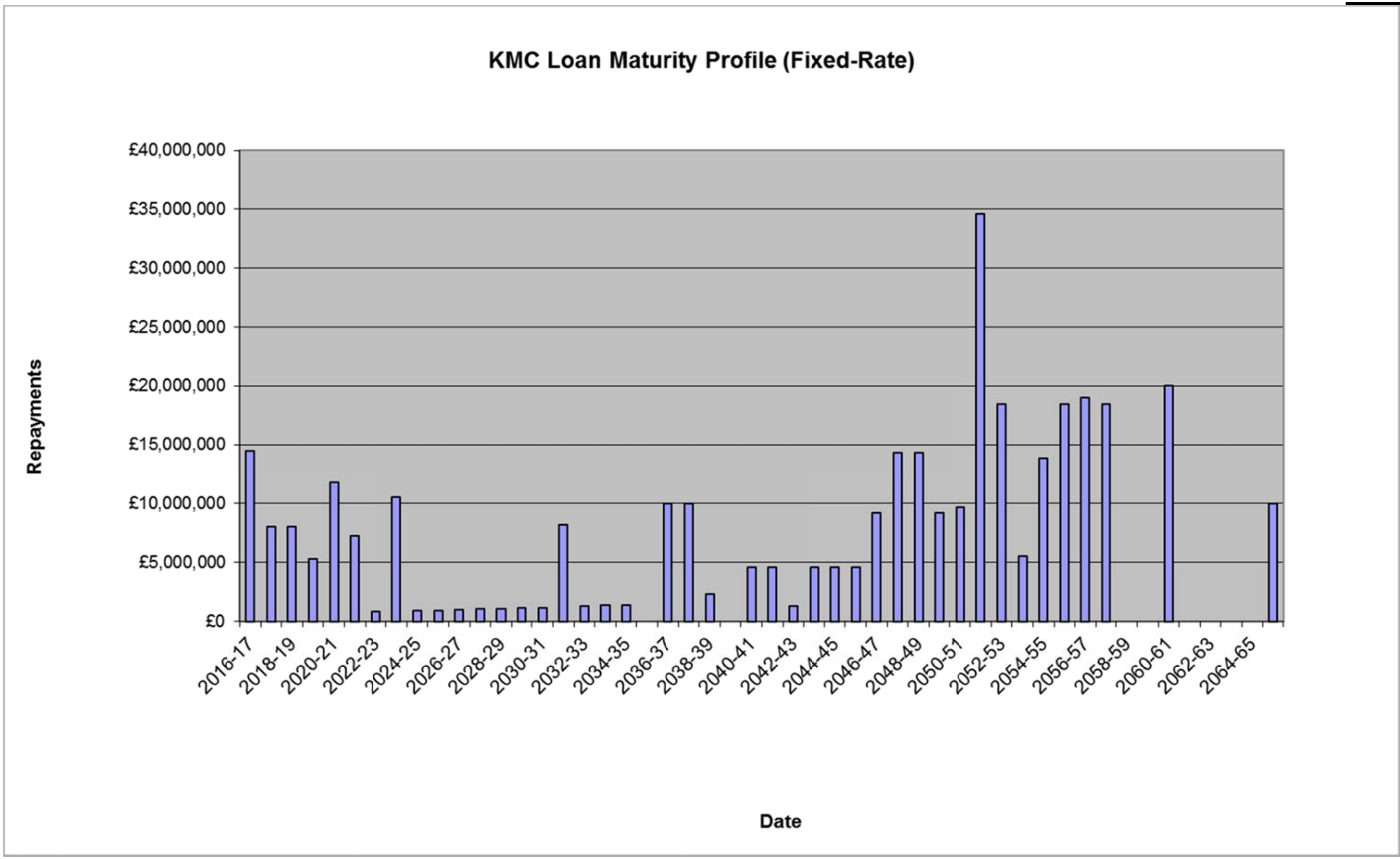
*Fitch short/long term ratings, except Aviva MMF (Moody rating). See next page for key. The use of Fitch ratings is illustrative – the Council assesses counterparty suitability using all 3 credit rating agencies, where applicable, and other information on credit quality.
**MMF – Money Market Fund. These 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.
***Barclays falls into non-specified investment category due to lower rating with S&P.

**<u>APPENDIX E (cont)</u>**

## 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 |

**APPENDIX F**


KMC Loan Maturity Profile (Fixed-Rate)
Repayments
£40,000,000
£35,000,000
£30,000,000
£25,000,000
£20,000,000
£15,000,000
£10,000,000
£5,000,000
£0
2016-17
2018-19
2020-21
2022-23
2024-25
2026-27
2028-29
2030-31
2032-33
2034-35
2036-37
2038-39
2040-41
2042-43
2044-45
2046-47
2048-49
2050-51
2052-53
2054-55
2056-57
2058-59
2060-61
2062-63
2064-65
Date

**APPENDIX G**

## 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 2016 - 17 | Estd Actual 2016 - 17 |
|---|---|---|
| Interest at fixed rates as a percentage of net interest payments | 60% - 100% | 87% |
| Interest at variable rates as a percentage of net interest payments | 0% - 40% | 13% |

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 2016 - 17 | Estd Actual 2016 - 17 |
|---|---|---|
| Under 12 months | 0% - 20% | 2% - 4% |
| 12 months to 2 years | 0% - 20% | 2% - 3% |
| 2 years to 5 years | 0% - 60% | 5% - 7% |
| 5 years to 10 years | 0% - 80% | 4% - 6% |
| More than 10 years | 20% - 100% | 80% - 84% |

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

Total principal sums invested for periods longer than 364 days

The Council will not invest sums for periods longer than 364 days.