

Name of meeting: Cabinet
Date: 7 February 2017

Title of report: Quarter 3, 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 Private report/private appendix - no |
| The Decision - Is it eligible for “call in” by Scrutiny? | Yes |
| Date signed off by Director and name | Debbie Hogg, 27 January 2017 |
| Is it signed off by Assistant Director (Finance, Risk, IT and Performance) | Yes |
| Is it signed off by the Assistant Director (Legal, Governance & Monitoring)? | Julie Muscroft, 27 January 2017 |
| 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 3 (month 9).

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 **£317.3m** in 2016-17, resulting in an overspend of **£6.5m**, equivalent to 2.1%, 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 3 (month 9):

| Description | Net Revenue Budget | Forecast Revenue Outturn | Variance |
|------------------------------------|--------------------|--------------------------|------------|
| | £m | £m | £m |
| Directorates | 264.9 | 275.8 | 10.9 |
| Central Budgets | 44.6 | 41.2 | (3.4) |
| District Committee managed budgets | 1.3 | 0.3 | (1.0) |
| General Fund Total | 310.8 | 317.3 | 6.5 |
| Reserves drawdown | - | (5.8) | (5.8) |
| Adjusted Total | 310.8 | 311.5 | 0.7 |

- 2.2 The forecast revenue outturn position summarised in Table 1 above also includes a further approved adjustment; “one-off” revenue funding (Corporate Reserves) drawdown to offset Directorate budget pressures relating to Children’s service developments (£5.8m). Net of the reserves drawdown, the adjusted Council bottom line is **£712k** overspend; equivalent to **0.2%** against budget.
- 2.3 The revenue monitoring forecast presented at Quarter 3 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 £50m as at 31 March 2017; equivalent to a 46% 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 are forecast to total about £43m. This includes a budget approved drawdown of £17.5m to support the delivery of a balanced budget in 2016-17. These are also summarised at Appendix B. Overall, 86% of the forecast movements in-year were planned, and 14% unplanned.
- 2.7 The annual budget report 2017-21 to Budget Council on 15 February 2017 includes a specific recommendation to change from current treasury management policy on general fund minimum revenue provision requirement (annual revenue provision for debt repayment) which if approved, would have a favourable impact on current year monitoring by a further £7.7m. There are also proposals for the re-categorisation of some existing reserves and to transfer the £7.7m to build up risk reserves at current year end. These proposals are not reflected at Quarter 3, pending member approval at the 15 February Council meeting. Subject to these proposals being approved, they will be incorporated into the 2016-17 revenue outturn position.

- 2.8 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 £1.9m against an annual budgeted turnover of £94.5m in 2016-17; equivalent to 2.0%. 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.
- 2.9 The Council's capital budget for 2016-17 is £82.9m, net of £20.3m assumed slippage. The forecast capital outturn position is £74.3m, resulting in a an underspend of £8.6m (10.3% variance compared to budget). This is summarised in Table 2 below.

Table 2 – Forecast Capital Outturn 2016-17

| Description | Budget | Outturn | Variance |
|-------------------------|-------------|-------------|--------------|
| | £m | £m | £m |
| Strategic Priorities | 24.6 | 12.7 | (11.9) |
| Baseline | 54.0 | 44.9 | (9.1) |
| 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 | 63.4 | 57.7 | (5.7) |
| Housing Revenue Account | 19.5 | 16.6 | (2.9) |
| Total | 82.9 | 74.3 | (8.6) |

- 2.10 As per Quarter 3 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%.
- 2.11 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 at Quarter 3 is £1.3m. Year-end capital receipts projection is maintained 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 3 (month 9) in relation to the Council's general fund revenue, HRA revenue and Council capital budgets.
- 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 had 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.
- 3.5 Subsequent to this, Quarter 2 monitoring included specific commentary by the Director of Children & Young People and Director of Adults, Commissioning and

Public Health on the reasons for current service pressures, and proposed management actions to mitigate these. This included a follow up report on Learning Disabilities current and emerging service pressures, reported to Cabinet on 15 December 2016.

- 3.6 There was also a separate report to Cabinet on 12 December reporting on the OFSTED inspection of services for children in need of help and protection, children looked after and care leavers ;rated inadequate, and Children's services development are ongoing to improve the service.
- 3.7 The financial impact of the issues reflected above continue to be reflected in Quarter 3 monitoring forecasts, and have been factored into the overall budget proposals being considered at Budget Council on 15 February 2017.

General Fund Reserves and Balances

- 3.8 The accelerated pace at which earmarked reserves are reducing overall was noted at paras 2.4 to 2.6 above, and at Appendix B. The estimated level of remaining reserves at the year end is about £50m, and the Council's 2017-21 budget proposals include a further reserves drawdown of £11.2m in 2017-18 to support the MTFP, adjusting remaining reserves downward to £39m.

Collection Fund

- 3.9 There is a forecast in-year surplus of £2.0m on Council Tax; equivalent to 1.3% against budgeted income of £149m; mainly due to income collection performance in excess of targeted.
- 3.10 There is a current £1.9m in year forecast deficit against business rates income of £52m; equivalent to 3.6%; 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 3 Capital forecast underspend is £8.6m; of which £5.7m relates to General Fund. Appendix C provides more detailed commentary on the highlight variances.
- 3.12 Member approval is sought to approve a revised Highways Baseline capital plan budget of £16.5m which reflects a net increase in grant of £91k (£40k grant in 2A Integrated Public Transport; 51k Defra Air Quality grant in 2B Network Management) and a re-profile of £367k City Cycle Ambition Grant (CCAG2) from 2016-17's Walking & Cycling programme into 2017-18. See also Appendix A, Section 2, para 2.6.

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 year budget plans include a planned saving requirement of £10m in 2016-17. The scale of the financial challenges facing the council over the next four years is set out clearly in the annual budget report 2017-21; an overall budget gap

of £65m in 2017-18 before savings, increasing to £104m by 2020-21. To address this, the budget report includes planned savings of £54m (£16m existing savings and £38m new savings) just in 2017-18. This still leaves an underlying budget gap of £11m in 2017-18, to be funded from drawdown of available reserves to deliver a balanced budget in 2017-18.

- 4.3 In-year monitoring continues to highlight the current rate at which existing council reserves are reducing in-year, and that this rate of reduction is not sustainable going forward; in particular given the extent of the financial challenge and associated risk facing the council over the medium term. To help mitigate this trend the annual budget report 2017-21 includes proposals that, if approved, would increase the council risk reserve by a further £7.7m at year end compared to Quarter 3 forecasts, in light of the above.
- 4.4 The forecast HRA revenue surplus in 2016-17, at £1.9m, would revert to HRA general reserves at year end, and would be available to support the HRA business plan requirements over the longer term.
- 4.5 The proportion of overall revenue budget taken up with interest and debt repayment was estimated to be 10.7% in 2016-17, and Quarter 3 monitoring forecasts this to be on target.
- 4.6 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. The annual budget report 2017-21 factor in capital proposals that reflect a review of existing 5 year capital baseline allocations that reduce overall borrowing levels over the 5 year plan, with associated treasury management revenue savings.

5. Consultees and their opinions

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

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 note the forecast £6.5m forecast revenue overspend position for 2016-17, and the approved drawdown of reserves at £5.8m to an adjusted overall £712k overspend (paras 2.1 to 2.2 and Appendix A, Section 1)
- 7.3 note that Officers will report back to a future Cabinet meeting 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 remaining reserves at year end (para 3.8 and Appendix B)

- 7.5 note that the current forecast monitoring and reserves assumptions reflected at Quarter 3 monitoring do not reflect a number of budget proposals contained in the annual budget report 2017-21 that would impact on the 2016-17 position, but if approved by members, will be incorporated as part of the revenue outturn position (para 2.7 above).
- 7.5 note that a number of key issues highlighted in this report (& previous quarterly monitoring reports) regarding service developments and pressures in Children's and Adults services have been factored into the 2017-21 budget proposals (paras 3.3 to 3.7)

Housing Revenue Account (HRA)

- 7.8 note the forecast £1.9m surplus outturn position for 2016-17 (para 2.8 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 2.9 and Appendix A, Section 2)
- 7.11 approve a net increase in grant £91k (£40k grant in 2A Integrated Public Transport; £51k Defra Air Quality grant in 2B Network Management) and a re-profile of £367k City Cycle Ambition Grant (CCAG2) from 2016-17 Walking & Cycling programme into 2017-18.

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 |

10. Background papers and History of Decisions

Quarters 1 & 2 Corporate Revenue & Capital Monitoring Report 2016-17
 Annual budget report 2016-19
 Revenue and capital outturn & rollover report 2015-16
 Annual budget report 2017-21
 CIPFA's Prudential Code for Capital Finance in Local Authorities.

11. Assistant Director responsible

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

REVENUE FORECAST MONITORING AS AT QUARTER 3 (MONTH 9), 2016-17

1. Key Points

GENERAL FUND

- 1.1 The Council's general fund net revenue budget for 2016-17 is **£310.8million**. Approved budget plans for the current year include a planned saving requirement of £10m in 2016-17.
- 1.2 The forecast outturn spend is **£317.3m**, which results in an overall forecast **overspend of £6.5m**; equivalent to 2.1% against net revenue budget. This is a reduction in overspend of £3.4m compared to Quarter 2 projection.
- 1.3 In addition to quarterly Cabinet reporting, internal monthly monitoring is also reported to the Council's leadership team and Cabinet. The annual budget report 2017-21 to be presented to budget Council on 15 February 2017 makes reference to the most current monitoring information available (i.e. month 8) to help inform key budget proposals, at the time the budget report was drafted. The monitoring trends captured as part of Quarter 3 monitoring were largely captured as well as part of month 8 internal monitoring.
- 1.4 The Quarter 3 forecast £6.5m overspend has then been adjusted downwards to reflect the approved drawdown of risk reserves to fund additional agency costs in Childrens Services totalling £5.8m (see also para 1.7 below).
- 1.5 The overall Council position, net of approved reserves drawdown, is an adjusted overspend of **£712k**; equivalent to 0.2% of net revenue budget.
- 1.6 Key overspends include demand led pressures relating to vulnerable adults at £6.5m, demand led pressures relating to looked after children at £6.0m, waste contract at £0.7m, and schools transport at £1.0m.
- 1.7 Directorate pressures also includes £5.8m additional agency costs, which mainly reflects a temporary increase in agency staffing in-year to support the Children's Services Development Programme. The current temporary arrangements are expected to run to the end of March 2017. Quarter 3 monitoring adjusts the outturn position to reflect previous Cabinet approval (Quarter 2 monitoring report) to drawdown 'one-off funding' from the Council's risk reserve. The reported reserves drawdown at Quarter 2 was £4.8m. This has increased by £1m by Quarter 3, due to the extension of temporary staff requirements to March 2017.
- 1.8 Elsewhere, there are a number of cost offsets including £6.1m net underspend on Cross-Directorate theme activity. This includes £3.0m on Early Intervention and Prevention; mainly reflects early implementation of savings required in 2017-18, and £3.1m on Economic Resilience; mainly reflects timing issue on full implementation of re-designed service model.

1.9 The Central Budget underspend at £3.3m includes treasury management at £1.7m; reduced in-year borrowing requirement due to slippage in the capital plan, and £1.1m inflation contingency not required. At this stage the Quarter 3 monitoring does not reflect the in-year financial impact of the proposed change in treasury management policy to the council's minimum revenue provision requirement (annual revenue resources set aside to pay for the council's debt). The financial impact would be to increase the treasury management underspend by a further £7.7m in-year, from current forecast. This is part of a wider suite of proposals for budget Council consideration on 15 February as part of the annual budget report 2017-21), including subsequent year end transfer of the £7.7m to the council's risk reserve (see also para 1.18.3 further below).

1.10 The monitoring forecast presented at Quarter 3 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.

1.11 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. The most significant Directorate service pressures are highlighted in the following sections below.

DIRECTORATE PRESSURES

1.12 Children & Young People £12.2m forecast overspend ; equivalent to 20.1% of net revenue budget (£6.9m adjusted overspend net of approved drawdown of £5.8m risk reserves; equivalent to 11.4% of net revenue budget)

1.12.1 The Quarter 2 monitoring report to Cabinet on 15th November 2016 included commentary from the Director of Children and Young People's Services, highlighting urgent issues identified in social care practice that have created risk to children and young people accessing service support. It also noted Council actions to manage the risk, including a robust action plan and additional capacity; the associated costs to be funded from reserves, as noted earlier at para 1.2.

1.12.2 The quarter 2 monitoring report also made clear that it was critical that the objectives of the action plan to improve children's services were delivered to ensure that all children and young people in Kirklees are safe.

1.12.3 There was a subsequent report to Cabinet on 12 December 2016 reporting on the outcome of the OFSTED inspection of services for children in need of help and protection, children looked after and care leavers; rated inadequate.

1.12.4 The Council's annual budget report (2017-21) to Cabinet on 31 January 2017 and full budget Council on 15 February 2017, sets out a financial strategy that reduces ongoing budgetary pressures on the service. This includes service base budget cost adjustments totalling £11.1m in 2017-18, and as well, a range of service

budget savings proposals over the medium term financial plan, informed by management actions previously set out as part of Quarter 2 monitoring.

1.13 Adults, Commissioning and Public Health; forecast overspend £8.5m; equivalent to 10.0% of net revenue budget

1.13.1 The Quarter 2 monitoring report also included commentary from the Director of Adults, Commissioning and Public Health, highlighting demand led pressures within service as a result of 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 were most marked in the learning disability group, and as at Quarter 3, accounts for £4.7m of the forecast overspend. Other demand led pressures include Physical Disabilities at £1.0m and Mental Health at £0.9m.

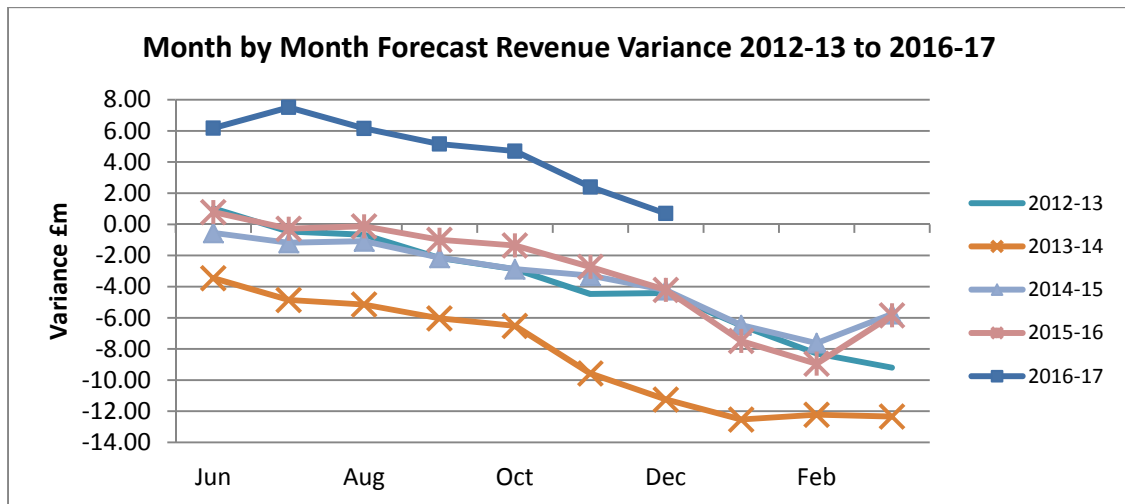
1.13.2 The Director's commentary also noted that the above was compounded by a review of continuing care cases resulting in increased cost for the Council. As well, annual funding reductions had assumed a reduction in client numbers supported over time, greater than actual current trends. Admissions 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.

1.13.3 A separate report specifically with regard to Learning Disabilities current service pressures was subsequently considered by Cabinet on 15th December 2016. This report included both current and emerging future year pressures, and a range of management actions to help mitigate at least some of these pressures.

1.13.4 The annual budget report 2017-21 also includes proposals to reduce both ongoing, and forecast growth pressures on Adult demand led activity over the medium term. These total £9.6m. Similar to Childrens Services, the report also acknowledges a range of service budget savings proposals over the medium term financial plan, informed by management actions previously set out as part of Quarter 2 monitoring.

1.14 SENSITIVITY ANALYSIS

1.14.1 The outturn underspend has ranged between £5.0m to £15.2m over the last 8 years and has consistently been more favourable than Quarter 2 forecasts. This trend is at least in part 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.



1.14.2 Monitoring projections are also impacted on by management actions in-year to ensure managed activity is contained within budgeted resources.

1.14.3 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 monthly internal reporting to year end.

1.15 COLLECTION FUND

1.15.1 The Collection Fund forecasts here are based on Council shares of Collection Fund income due. There is a forecast in-year surplus of £2.0m on Council tax; equivalent to 1.3% against budget income of £149m; mainly due to council tax income collection performance in excess of targeted.

1.15.2 There is a current £1.9m in year forecast deficit against business rates income of £52m; equivalent to 3.6%. 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.

1.16 HOUSING REVENUE ACCOUNT (HRA)

1.16.1 The HRA forecast as at Quarter 3 is a surplus of £1.9m; equivalent to 2% against annual budgeted turnover (income) of £94.5m.

1.16.2 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.

1.16.3 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 £4m for business risks, and £1.5m working balance. This leaves forecast remaining general reserves of £39.2m, (including the forecast HRA surplus from 2016-17), which will be used to support HRA business plan resourcing requirements over the medium term.

1.17 NEW COUNCIL TRANSFORMATION RESERVE

1.17.1 This reserve is currently £4m as at April 2016. As at Quarter 2, current commitments include;

- £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.
- Transformation Business Partner – following a recent procurement exercise, Deloitte will be working in partnership with the Council to provide necessary external capacity, expertise and support to the organisation over the next 24 months in the delivery of new Council, given as well the scale of the financial challenges facing the Council over the next 2 years and beyond.

1.18 GENERAL FUND RESERVES AND BALANCES

1.18.1 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 £50.4m by current year end; compared with £93m available reserves as at April 2016; overall reduction of 46% over the year. The estimated reserves movements in 2016-17 at £42.9m equates to a current average weekly drawdown of approximately £820k, which is unsustainable. Planned movements in-year (i.e. based on prior approved drawdowns as at April 2016) account for 86% of total forecast movements; about £37m. Unplanned movements account for 14%, or £6m of forecast movements in-year (relates to in-year risk reserves drawdown approval).

1.18.2 Estimated in-year reserves movements includes the approved £5.8m risk reserve drawdown in-year, £17.5m approved drawdown to support the 2016-17 MTFP, and other estimated reserves drawdowns totalling over £19m 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.

- 1.18.3 As noted earlier at para 1.9, the annual budget report 2017-21 includes a number of budget proposals, including potential transfer of a further £7.7m to risk reserves at current year end. The budget proposals on reserves also include re-categorisation of existing reserves set aside. At this stage, as these are subject to full Council approval on 15 february, the Quarter 3 monitoring report does not reflect these. Subject to member approval, these proposals would be incorporated into the Council's revenue outturn position.
- 1.18.4 The annual budget report 2017-21 also includes recommendations for drawdown of reserves totalling £11.2m to support the Council's overall Medium Term Financial Plan funding requirement in 2017-18, subject to member approval.

**SECTION 2 – FORECAST CAPITAL OUTTURN 2016-17 AS AT QUARTER 3,
(MONTH 9)**

2. Key Points

- 2.1 The Council's capital budget for 2016-17 is £103.2m at the end of quarter 3. Adjustments to the quarter 2 budget of £102.6m since it was approved at Cabinet on 15th November 16 are detailed below, in accordance with Financial Procedure Rules 3.14:
- (a) Revenue Contribution to Capital Outlay (RCCO) – (+£558k)
- Information Technology - £500k additional investment to support mobile working as approved in the Corporate Monitoring Report to Cabinet on 15th November 2016
 - Strategic Asset Utilisation - £28k for Dewsbury Town Hall toilets
 - Highways - £19k from District Committees for Wessenden Head Footpath
 - District Committees - £11k for Hostingley Lane zebra crossing in Dewsbury and Salford footpaths safety and environmental works.
- (b) Virements between programmes – net nil impact on overall budget
- A capital virement of £55k has been approved from Public Access Buildings (Corporate Landlord) to Strategic Asset Utilisation for Dewsbury Town Hall Internal refurbishment.
- 2.2 The budget of £103.2m 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 £82.9m, also referred to as the budgeted funding requirement. There is a headline forecast outturn **underspend of £8.6m** (10.3% variance compared to the budgeted funding requirement).
- 2.3 There is a General Fund forecast underspend of just £5.7m, as at Quarter 3, 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 £2.9m (14.9%) against an annual budget of £19.5m. The Housing Revenue Capital Plan variance is split £1.9m for Strategic Priorities against a budget of £3m and £1m variance against a budget of £16.5m for Baseline capital plans.
- 2.5 Appendix C attached shows a more detailed breakdown of the forecast, and commentary on highlight variances.
- 2.6 The Highways Baseline capital plan currently has a budget allocation of £16.7m which is reported within the above Baseline adjusted budget. A number of amendments are required to the budget allocation, as detailed below which will result in a revised Highways Baseline budget of £16.5m for future monitoring purposes:

- a) Cabinet should note a net increase in grant of £91k. This includes revised grant income (net increase £40k) from monies administered by the West Yorkshire Combined Authority to reduce congestion through a bus hot spots programme. A £51k DEFRA grant has been confirmed within the 2B Network Management programme to fund a trial project to investigate improving air quality through improved traffic signal operation.
- b) Cabinet approval is sought to re-profile £367k of City Cycle Ambition Grant (CCAG2) from 2016-17 into 2017-18. The grant funds a transformational package of work e.g. cycle infrastructure, provision of fully segregated cycle links to District Centres, connections to key employment and regeneration sites and upgrades of canal towpaths.

2.7 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.

| Directorate | Net Controllable Budget £000s | Forecast Outturn £000s | Variance £000s | % | Variance from Qtr 2 £000s |
|---|--|------------------------------|-------------------|-------------|------------------------------------|
| Children & Young People | 60,716 | 72,893 | 12,177 | 20.1% | 754 |
| Adults Commissioning & Public Health Place | 84,992 | 93,465 | 8,473 | 10.0% | (2,233) |
| Resources | 35,971 | 34,633 | (1,338) | -3.7% | (854) |
| Communities, Transformation & Change | 38,416 | 36,476 | (1,940) | -5.0% | (820) |
| Economic Resilience | 5,903 | 5,640 | (263) | -4.5% | 202 |
| Early Intervention & Prevention | 14,405 | 11,265 | (3,140) | -21.8% | (228) |
| Sub-total | 24,461 | 21,427 | (3,034) | -12.4% | (133) |
| Sub-total | 264,864 | 275,799 | 10,935 | 4.1% | (3,312) |
| Central Budgets | 44,662 | 41,212 | (3,450) | (0) | (27) |
| Sub-total | 309,526 | 317,011 | 7,485 | 2.4% | (3,339) |
| District Committee managed budgets | 1,310 | 337 | (973) | -74.3% | (96) |
| General Fund Total | 310,836 | 317,348 | 6,512 | 2.1% | (3,435) |
| Reserves Drawdown | | (5,800) | (5,800) | | (1,000) |
| Sub-total | 310,836 | 311,548 | 712 | 0.2% | (4,435) |
| Memo Item (HRA) | 0 | (1,860) | (1,860) | | (1,370) |

| Collection Fund forecast (Council Share) | Council Tax £m | Business Rates £m | Total £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 | (1.3) | 1.1 | (0.2) |
| (Surplus)/Deficit at 31st March 2017 | (2.0) | 1.9 | (0.1) |

| Kirklees General Fund Reserves Summary | Balance at 31st March 2016 | Forecast Movement in Reserves | Estimated Balance at 31st March 2017 |
|---|-----------------------------------|--------------------------------------|---|
| | £m | £m | £m |
| Earmarked | | | |
| Approved Drawdown to Support MTFP | | 1.3 | |
| Journey to New Council | | 0.5 | |
| Revenue Grants | | 5.2 | |
| Stronger Families | | 1.6 | |
| Workforce Restructure | | 3.1 | |
| Rollover | | 4.2 | |
| Business Rates | | 2.4 | |
| Other | | 2.6 | |
| sub-total | (57.4) | 20.9 | (36.5) |
| Risk Based | | | |
| drawdown to support Children's Service developments | | 5.8 | |
| sub-total | (10.0) | 5.8 | (4.2) |
| General Balances | | | |
| Approved Drawdown to Support MTFP | | 16.2 | |
| sub-total | (25.9) | 16.2 | (9.7) |
| Grand Total | (93.3) | 42.9 | (50.4) |

Note - the forthcoming annual budget report 2017-21, subject to Council approval on 15 February, includes a number of specific proposals with regard to both re-categorisation of existing reserves, and proposed additions to reserves, to not reflected at this stage in the above forecasts.

| HRA Reserve Summary | Balance at 31 March 2016 | Approved Movement in Reserves (inc. future years commitments) | Estimated Balance at 31 March 2017 |
|---|--------------------------|---|------------------------------------|
| | £m | £m | £m |
| HRA Balances | | | |
| Opening Balance 1 April | (42.8) | | (42.8) |
| Forecast in Year Surplus/Deficit | | (1.9) | (1.9) |
| Set aside for business risks | | 4.0 | 4.0 |
| Working balance | | 1.5 | 1.5 |
| Total | (42.8) | 3.6 | (39.2) |
| HRA Major Repairs Reserve | | | |
| Opening Balance 1 April | - | | - |
| Contribution from HRA (depreciation charge) | | (15.9) | (15.9) |
| Capital Debt Repayment | | 6.3 | 6.3 |
| Capital Investment Requirement | | 9.6 | 9.6 |
| Total | nil | nil | nil |

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 | +6,053 | +£6,053k Volumes, (Underlying overspend £3.5m 15-16) |
| | Safeguarding & family support | +4,685 | Net cost of additional agency staffing costs due to Interim Service Management arrangements; current arrangements presumed to end March 2017. |
| | Safeguarding Assurance | +1,001 | Due to Medium Term Financial Plan savings not achieved +£195k and Agency costs +£736k less misc. savings +£57k |
| | Learning & Skills | (308) | Income re SLA's on partnership services (£280k), surplus on Schools Mgmt Information system (£35k) Savings on employee budgets /Vacant posts (£267k), pressure on Day care budget re income shortfall +£134k and post 16 Transport £140k. |
| | Disabled Children's Service | +88 | Mainly pressure on direct payments +£285k & +£84k commissioned short break activities, offset by drawdown from KICES pooled reserves (£304k) |
| | Child Sexual Exploitation Team | +408 | Additional costs arising from Child Sexual Exploitation unfunded to be met from reserves |
| | Safeguarding & | +425 | Pressure on legal disbursements |

| Directorate | Activity | Highlight Variances £000 | Additional comments on highlight variances (before BCF/ reserves applied) |
|--|-------------------------------------|--------------------------|---|
| | family support; Legal Costs | | |
| | Sub-total | +12,352 | |
| Commissioning, Public Health & Adults | Placement equivalent demand | +6,540 | Physical disabilities +£1.0m, Learning disabilities +£4.7m and Mental health +£0.9m, (Underlying overspend £1.7m 15-16. 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 | +559 | Net employee overspends |
| | Best Partnering | +953 | Assumes that arrangements to make the savings will not commence this financial year |
| | Re-ablement | +202 | Medium Term financial Plan Savings not made |
| | Commissioning | (594) | Mainly Contracted Services including extra care housing (£161k), 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 +£305k |
| | Public Health | +914 | Mainly savings on Substance Misuse, Smoking and Sexual Health (£588k), Healthy Child programme (£181k), Weight Management Resources +£50k, Health Checks (£139k), staff savings (£446k) and other PH savings (£60k) to offset grant reduction of £2,278k. |
| | Sub-total | +8,574 | |
| Place | Waste Services | +1,044 | Waste disposal +£662k. Delayed implementation of Medium term financial Plan savings +£776k. New savings not included in MTFP (£72k), In year savings (£322k) Improved trade waste performance. |
| | Driver Training | (200) | 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 | +75 | Income levels on parking + £101k, partially offset by expenditure (£25k) |
| | Planning | (105) | Income (£235k), less operational costs +£130k |
| | Markets | +200 | Income shortfall +£300k offset by savings across various cost headings (£100k) |
| | Schools Transport | +972 | Volume pressures Home to School Transport |
| | Schools Facilities Management | (1,151) | In the main, relates to Catering surplus due to increased efficiency on labour and food costs of supplying Universal Free School Meals |
| | Corporate Landlord | (1,052) | Capacity created to fund transformational type works e.g. asset transfers, reduced number of buildings and lower facilities management spend |
| | | Sub-total | (689) |

| Directorate | Activity | Highlight Variances £000 | Additional comments on highlight variances (before BCF/ reserves applied) |
|---|---------------------------------------|--------------------------|--|
| Resources | Customer & Exchequer services | (961) | Mainly due to Library & Information Centres savings in advance (£823k), Welfare & Complimentary Benefits employee savings (£250k) & Income collection Welfare & Exchequer +112k |
| | Support for Council as Democratic Org | (279) | 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. |
| | Information Technology | (534) | Transformation monies have been released to mitigate other Council pressures. |
| | Sub-total | (1,728) | |
| CTC | N/A | - | No key variances at Month 9 |
| | Sub-total | - | |
| Cross-Directorate Themes | Economic Resilience | (3,140) | Mainly (£3,458k) underspend on add backs partially offset by slippage in delivery of achieving 16-17 Medium Term Financial Plan savings in the Integrated Community Safety Hub model |
| | Early Intervention & Prevention | (3,034) | Mainly EITS (£2,036k), Community grants budget savings in advance (£750k) & Supporting People. |
| | Sub-total | (6,174) | |
| Central Budgets | Treasury Management | (1,771) | 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 | (3,316) | |
| Ringfenced Corporate Budgets | District Committee managed budgets | (973) | Similar levels of underspend to last financial year. |
| Grand Total (highlight variance) | | +8,046 | |

HRA HIGHLIGHT VARIANCES

| Directorate | Activity | Variance £000 | Additional comments on variances |
|-------------|-----------------------|---------------|---|
| HRA | Repairs & Maintenance | (635) | Responsive theme +£498k, chargeable repairs (£250k), offset by minor variances in unplanned works (£181k) and empty homes discretionary items (£70k). Year end internal trading surplus |

APPENDIX B

| | | | |
|--|--------------------|---------|--|
| | | | transfer to HRA (£632k) |
| | Housing Management | (85) | Mainly due to : Council Services bought in (£121k). KNH Fee variation required +£135k for possessions online and Estate Pro IT costs. Increase in charges for Sheltered housing cleaning +£32k offset by reduction in Communal Lighting forecast (£95k) and Sheltered Heating forecast (£23k). PFI (£119k) in line with reductions in the unitary charges , offset by an increase on Temp Accommodation due to add costs for empty props + £60k. |
| | Other Expenditure | +£4780 | Mainly due to reduced bad debt provision - delayed implementation of Universal credit (£956k). Planned contribution to reserves +£4,411. |
| | Income | (190) | Mainly: dwellings rent Income (£200k), Rechargeable repair +£250k, District heating Income +£62k, less, increased income due to other Service Charges (£170k), Leaseholders - Increased level of charges for major repairs (£100k) & Other rents (£28k). |
| | RCCO | (5,735) | Offset by other expenditure – depreciation, and planned contribution to reserves. |
| | Sub-total | (1,860) | |

FORECAST CAPITAL PLAN MONITORING 2016-17, AS AT QUARTER 3

| Capital Plan | Revised Budget | Actual to Date | Outturn | Variance | % | Change in Variance |
|--|-----------------|----------------|---------------|-----------------|--------------|--------------------|
| | £'000 | £'000 | £'000 | £'000 | | £'000 |
| Strategic Priorities | 24,579 | 6,174 | 12,716 | (11,863) | -48% | (2,409) |
| Baseline | | | | | | |
| Children & Young People | 10,573 | 3,857 | 7,912 | (2,661) | -25% | (922) |
| Adults | 500 | 20 | 500 | (0) | nil | 0 |
| Place | 38,022 | 20,872 | 32,896 | (5,126) | -13% | (1,072) |
| Communities, Transformation & Change | 1,415 | 40 | 207 | (1,208) | -85% | (14) |
| Resources | 1,633 | 329 | 1,533 | (100) | -6% | (100) |
| Leeds City Region | 1,874 | 1,324 | 1,874 | 0 | nil | 0 |
| Baseline Total | 54,017 | 26,442 | 44,922 | (9,095) | -17% | (2,108) |
| One-Off Initiatives | 101 | 19 | 101 | 0 | nil | 0 |
| Risks & Pressures | 5,000 | 0 | 0 | (5,000) | -100% | 0 |
| General Fund Total | 83,697 | 32,635 | 57,739 | (25,958) | -31% | (4,517) |
| Notional Slippage | (20,264) | - | - | - | - | - |
| General Fund Total after Slippage | 63,433 | 32,635 | 57,739 | (5,694) | -9% | (4,517) |
| Housing Revenue Account (HRA) | 19,478 | 10,784 | 16,611 | (2,867) | -15% | (404) |
| Total Funding Requirement | 82,911 | 43,419 | 74,350 | (8,561) | -10% | (4,921) |

Comments on Highlight Variances, as at Quarter 3, 2016-17

| Strategic Priorities Capital Plan | Highlight Variance | Comments on Highlight Variances |
|-------------------------------------|--------------------|--|
| | £'000 | |
| New Pupil Places in Primary Schools | (7,200) | 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. 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. |
| Kirklees College Loan | (1,000) | Maximum drawdown against the loan is expected to be £2.1m by the end of the financial year. To date £650k has been drawn down. |
| Huddersfield Leisure Centre | (680) | 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 | (644) | Delays to programme, expenditure fees only in 2016-17. Projection includes PRP fees, and estimated expenditure to end of March on Stage 2 project development & appraisal. |
| Local Growth Fund | (645) | No further projected spend expected this financial year. |
| Strategic Priorities Total | (10,169) | |

APPENDIX C

| Baseline Capital Plan | Highlight Variance | Comments on Highlight Variances |
|---|---------------------------|--|
| | £'000 | |
| Children & Young People | | |
| One-off Initiatives | (1,548) | Attributable to 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. |
| Basic Need | (651) | The 2016-17 Basic Need Programme, was approved at the 8th March 2016 Cabinet. Any underspend in funding will be required to rollover to 2017-18 to enable the rolling programme to be delivered and borrowing on DCYP Strategic Priorities to be reduced. |
| Children & YP Total | (2,199) | |
| Place | | |
| Housing (Private) | (1,342) | Includes Section 106 budget not currently projected to spend (£969k) but looking into possible schemes that could be funded from this pot. Demolition of property at Wakefield Road, Moldgreen is not projected to spend this year (£176k) due to needing to CPO one of the properties and capital allowances budget not planned to spend this year but to be used for Large Housing Sites Scheme. |
| Highways | (1,760) | The underspend is due to the Unadopted Roads scheme that will not go ahead and anticipated underspends on Street Lighting and Safer Roads & City Cycling Ambition grant schemes. |
| Economic Delivery | (1,674) | Currently not projecting £1.5m 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 (£110k). |
| Place Total | (4,776) | |
| 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 | (7,842) | |
| 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. |

APPENDIX C

| HRA Capital Plan | Highlight Variance | Comments on Highlight Variances |
|----------------------|--------------------|--|
| | £'000 | |
| Strategic Priorities | (1,865) | 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 | (1,002) | 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 | (2,867) | |

Prudential Indicators

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 | 2016/17 | |
|-------------------------------------|---------|--------------------|------------------|
| | Actual | Approved Indicator | Revised Estimate |
| | £000s | £000s | £000s |
| <u>Capital Expenditure</u> | | | |
| General Fund | 50,796 | 63,433 | 57,739 |
| General Fund - PFI | 1,539 | 0 | 1,392 |
| HRA | 22,655 | 19,478 | 16,611 |
| HRA - PFI | 151 | 173 | 173 |
| Total | 75,141 | 83,084 | 75,915 |
| <u>Financed by -</u> | | | |
| Borrowing | 11,264 | 24,928 | 24,268 |
| PFI | 1,690 | 173 | 1,565 |
| Other Resources | 62,187 | 57,983 | 50,082 |
| Total | 75,141 | 83,084 | 75,915 |
| <u>CFR as at 31 March</u> | | | |
| General Fund excl PFI | 411,332 | 413,930 | 421,112 |
| 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 | 719,590 |
| <u>External debt as at 31 March</u> | | | |
| Borrowing | 424,418 | 451,216 | 446,038 |
| Other LT Liabilities | 121,360 | 116,718 | 116,560 |
| Total | 545,778 | 567,934 | 562,598 |

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 £m |
|---|---------------|
| <u>Authorised limit for external debt</u> | |
| Borrowing | 554.6 |
| Other Long Term Liabilities | 121.4 |
| Total | 676.0 |
| <u>Operational boundary for external debt</u> | |
| Borrowing | 505.2 |
| Other Long Term Liabilities | 121.4 |
| Total | 626.6 |
| <u>Estimated maxima for external debt</u> | |
| Borrowing | 446.0 |
| Other Long Term Liabilities | 121.4 |
| Total | 567.4 |

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 | 2016/17 | |
|--------------------------|---------|--------------------|------------------|
| | Actual | Approved Indicator | Revised Estimate |
| General Fund | 12.65% | 12.70% | 12.75% |
| General Fund (excl. PFI) | 10.61% | 10.70% | 10.75% |
| HRA | 30.89% | 30.22% | 30.11% |
| HRA (excl. PFI) | 28.51% | 27.93% | 27.82% |

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.