

Name of meeting: Cabinet
Date: 2 May 2017

Title of report: Early review of the 2016-17 Council General Fund revenue outturn

Purpose of report

To consider proposals that will release up to £9.5m revenue resources into Council financial resilience reserves as part of the 2016-17 final accounts process.

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)?	Yes 29 March 2017
The Decision - Is it eligible for "call in" by Scrutiny?	No
Date signed off by Strategic Director & name	Jacqui Gedman, Chief Executive 19 April 2017
Is it also signed off by the Service Director for Financial, Professional & Transactional Services?	Debbie Hogg, 19 April 2017
Is it also signed off by the Service Director for Governance & Commissioning Support?	Julie Muscroft, 19 April 2017
Cabinet member portfolio Resources	Cllr Graham Turner, Portfolio Holder for Assets, Resources & Creative Kirklees

Electoral wards affected: None
Ward councillors consulted: None

Public or private: Public

1. Summary

- 1.1 The annual budget report presented at Council on 15 February 2017 set out a number of key actions the Council is taking, given the scale of the financial challenges and operational and delivery risks facing the organisation over the medium term financial plan.
- 1.2 In 2017-18 alone, to achieve a balanced budget, the Council has a planned saving requirement of £54m. The report also noted that remaining reserves available to underwrite the Council's financial resilience (risk reserves plus general balances) were forecast to be about £16m at the start of 2017-18, compared to £36m actual equivalent reserves at the start of 2016-17.

- 1.3 One of the key actions is consideration of internal approaches to reduce in-year spend and reduce avoidable costs, and where possible protect the in-year use of reserves.
- 1.4 This report sets out a number of measures as part of the 2016-17 final accounts process that will protect the in-year use of reserves by **up to £9.5m**. These early measures include the following :
 - i) apply recent government guidance which allows the Council to 'capitalise' certain types of qualifying revenue expenditure that can be funded from 'in-year' generated capital receipts;
 - ii) where capital expenditure is due to be funded from revenue in 2016-17, substitute fund this instead with borrowing; and
 - iii) review existing earmarked reserves requirements (reserves previously set aside for specific purposes), and any that are no longer required for specific purposes, to be re-directed to financial resilience reserves.

2. Information required to take a decision

- 2.1 The Council's 2016-17 general fund capital plan is about £84m, and is funded from a number of sources. These include external capital grants, capital receipts generated from the sale of Council assets, borrowing and to a lesser extent, direct revenue funding.
- 2.2 It is proposed that approved revenue funding of capital expenditure in 2016-17 be replaced with borrowing. This will release **£1.8m** revenue resources in-year, and it is intended that these transfer to 'financial resilience' reserves at year end.
- 2.3 There will be a marginal increase in borrowing costs from 2017-18 of about £23k per annum, and it is anticipated that this can be managed within the existing Council treasury management budget of £22m in 2017-18.
- 2.4 It is also proposed to apply Government guidance which allows the capitalisation of certain types of qualifying revenue expenditure in-year, funded from the flexible use of 'in-year' generated capital receipts.
- 2.5 The guidance set out by the Department of Communities and Local Government (DCLG), applies over the 2016-19 period. The web link to the guidance is included below :

[DCLG Guidance March 2016; flexible use of capital receipts](#)

Also included at Appendix A is a specific extract from the DCLG guidance which sets out the types of qualifying revenue expenditure, for information.

- 2.6 The Council's 2016-17 general fund capital plan assumes that it will be part funded (£5.4m) from capital receipts.
- 2.7 The £5.4m in-year capital receipts generated includes general fund receipts from the sale of general fund land and buildings of about £2.7m. It also includes 'right to buy' (RTB) receipts from the sale of Council houses, of about £2.7m.

These are remaining receipts that are also available to the Council, after taking account of the Council's other obligations in relation to RTB receipts generated in-year.

- 2.8 It is proposed that the **£5.4m** 'in-year' capital receipts identified in para 2.7 above be 'flexibly' applied to fund qualifying revenue expenditure in line with updated DCLG guidance.
- 2.9 To support Council service re-design/downsizing requirements, there are a number of planned staff reductions over the medium term financial plan. These are ongoing, and are intended to generate sustainable long term savings. A number of these planned staff reductions are being met through voluntary severance, and the estimated cost of voluntary severance Council wide in 2016-17 is £5.8m. These costs are currently being met from earmarked reserves.
- 2.10 The above costs meet DCLG qualifying revenue expenditure, and it is proposed that the £5.4m available in-year capital receipts be used to help fund these costs, releasing an equivalent amount from earmarked reserves.
- 2.11 The rolled forward £4.1m capital receipts from 2015-16 will be used to fund the 2016-17 capital plan. The balance of £1.4m capital funding requirement in 2016-17 will be met from borrowing.
- 2.12 This will result in a marginal increase in borrowing costs from 2017-18 of about £18k per annum, and it is anticipated that this can be managed within the existing Council treasury management budget.
- 2.13 DCLG guidelines state that the flexible use of capital receipts must be approved by full Council, but that it can be 'retrospectively' applied provided the Council's flexible use of capital receipts strategy is presented to Council at the earliest opportunity. It is intended to present the Council's flexible capital receipts strategy, incorporating the 2016-17 retrospective approval, and into the annual medium term update report to be presented to Council later in the year.
- 2.14 The Council's s151 Officer (Service Director, Financial, IT & Transactional Services) has delegated authority under Council Financial Procedure rules to review the requirement for earmarked reserves as well as report any new Reserves requirements to Cabinet.
- 2.15 The annual budget report to full Council in February 2017 includes the action to review earmarked reserves requirements as part of the 2016-17 final accounts process. It is anticipated that as a result of this review, between **£2m and £2.5m** could be freed up from existing earmarked reserves, and it is proposed that these be re-directed to strengthen the Council's financial resilience reserves .
- 2.16 The review of earmarked reserves requirement is currently ongoing and the outcome of the review will be reported in more detail as part of the financial outturn and rollover report 2016-17 to Cabinet on 30 May 2017, and full Council on 7 July 2017.

3. Implications for the Council

- 3.1 The proposals set out in this report are measures intended to strengthen the Council's overall financial resilience from the start of 2017-18, and in this context support the overall delivery of the following Council objectives and Priorities within available resources:
- i) Early Intervention and Prevention (EIP)
 - ii) Economic Resilience (ER)
 - iii) Improving Outcomes for Children
 - iv) Reducing demand of services
- 3.2 The annual budget report 2017-21 to full Council on 15 February 2017 commented on the unprecedented financial challenges facing the Council as funding continues to reduce while the cost of providing statutory services increases.
- 3.3 The approved budget plans over the 2017-21 period include the delivery of general fund revenue savings totalling £104m over a 4 year period. This includes a planned savings requirement of £54m in 2017-18 to deliver a balanced (net) revenue budget of £294m.
- 3.4 The annual budget report also included commentary on the Council's general fund reserves position. This included reserves earmarked during 2016-17 to support improvements in Children's Services, and other planned reserves movements in-year.
- 3.5 The report also noted the set aside of earmarked reserves to help the Council deliver its savings requirement in 2017-18 and future years, as well as the use of some reserves to support the Council's budget plans in 2017-18.
- 3.6 Taking account of the above, the report noted that remaining reserves available to underwrite the Council's financial resilience (risk reserves plus general balances) were forecast to be about £16m at the start of 2017-18, compared to £36m actual equivalent reserves at the start of 2016-17.
- 3.7 The proposals set out in the report represent early measures that will strengthen the Council's financial resilience reserves at the start of 2017-18 by upto £9.5m , from current forecasts.

4. Consultees and their opinions

The Council's external auditor has been informed of the flexible capital receipts proposals set out in this report and noted these actions as part of the Council's ongoing financial management arrangements.

5. Next steps

Subject to member approval, the recommendations in this report will be incorporated into the 2016-17 final accounts process, and subsequently reported on as part of the 2016-17 Financial Outturn report to Cabinet on 30 May 2017 and full Council on 7 July.

6. Officer recommendations and reasons

Cabinet are asked to support the following officer recommendations:

- i) the replacement of £1.8m revenue funded capital expenditure in 2016-17 with borrowing and associated proposals (para 2.2);
- ii) to apply DCLG flexible use of 'in-year' capital receipts and associated proposals (paras (2.8 - 2.11);
- iii) to note the year-end review of earmarked reserves requirements; the outcome of which will be reported as part of the financial outturn and rollover report to Cabinet on 30 May 2017 and and full Council on 7 July (para 2.15);
- iv) to note that the Council's flexible receipts strategy, incorporating retrospective 2016-17 approval, will be incorporated into the annual medium term update report to be presented to Council later in the year (para 2.13)

7. Cabinet portfolio holder recommendation

The Cabinet portfolio holder supports the recommendations in this report.

8. Contact officer

Eamonn Croston, Strategic Council Finance Manager
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9. Background Papers and History of Decisions

Appendix A – extract of DCLG guidance

DCLG statutory guidance on the flexible use of capital receipts (updated), March 2016;

[DCLG Guidance March 2016; flexible use of capital receipts](#)

Quarter 3 financial monitoring report to Cabinet [7 February 2017](#);

Annual Budget Report to full Council [15 February 2017](#)

10. Service Director responsible

Debbie Hogg, Service Director - Financial, IT & Transactional Services
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APPENDIX A – Extract of DCLG Guidance

(4) QUALIFYING EXPENDITURE

Types of qualifying expenditure

4.1 Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

4.2 Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Examples of qualifying expenditure

4.3 There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children's social care, trading standards) to generate savings or to transform service delivery.