Kirklees COUNCIL

Name of meeting: Cabinet
Date: 17 April 2018
Title of report: Early Closedown review 2017-18

Purpose of the Report
To update progress on the early close down of the Council's accounts for 2017/18 and to consider proposals to capitalise an estimated £8.2m revenue expenditure, within allowable Government and accounting rules, as part of 2017-18 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)?	**Key decision - Yes**
The Decision - Is it eligible for "call in" by Scrutiny?	**Yes**
Date signed off by Strategic Director & name **Is it also signed off by the Acting Service Director for Finance, IT & Transactional Services?** **Is it also signed off by the Service Director – Legal, Governance & Commissioning?**	**Rachel Spencer Henshall 06 April 2108** **Eamonn Croston – 04 April 2018** **Julie Muscroft – 09 April 2018**
Cabinet member portfolio - Corporate	**Give name of Portfolio Holders** **Cllr Graham Turner** **Cllr Musarrat Khan**

Electoral wards affected: None
Ward Councillors consulted: None

Public or private: Public

1. Summary

1.1 The annual budget report presented at Council on 14 February 2018 set out a number of key actions the Council is taking, given the scale of the continuing financial challenges and operational and delivery risks facing the organisation over the 2018-20 period. The report also made reference to current uncertainty regarding the national funding position for local government from 2020 onwards.

1.2 The key actions set out in the report include the potential application of the Council's flexible capital receipts strategy, which as per Government guidelines, allows the Council to 'capitalise' certain types of qualifying revenue expenditure that can be funded from 'in-year' generated capital receipts.

1.3 It is proposed that up to £6m of qualifying revenue expenditure in 2017-18, that was to be funded from planned drawdown of earmarked reserves, be capitalised and funded from in-year capital receipts. This will enable the equivalent amount of earmarked reserves not now required in 2017-18, to roll forward into future years, to support future earmarked reserves requirements; in particular around transformation activity and workforce restructure reserves requirements over the 2018-20 period.

1.4 This report also sets out proposals where capital expenditure is due to be funded from revenue in 2017-18, totalling approximately £2.2m, to substitute fund this instead with borrowing. This will release equivalent revenue resources to the general fund 'bottom line' in 2017-18.

2. Information required to take a decision

2.1 To support Council transformation 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 2017-18 is £3.5m and was to be funded from planned drawdown from earmarked reserves.

2.2 A further £2.5m in-year spend relating to a range of other Council Transformation activity was also to be met from planned drawdown from earmarked reserves in-year.

2.3 It is proposed to apply the Council's flexible capital receipts strategy in relation to the above spend. The strategy is based on current 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. The estimated revenue costs set out at paragraphs 2.1 and 2.2 above, totalling £6m, meet DCLG qualifying revenue expenditure.

The Council's capital flexible receipts strategy, which was approved at Budget Council on 14 February 2018, is included at Appendix A for information.

2.3 It is anticipated that in-year capital receipts available in 2017-18 will at least total £6m, and applying these to fund eligible revenue expenditure will enable earmarked reserves set aside to support transformation activity, to be maintained at their current levels at year end (£10m in total).It is intended that these particular earmarked reserves will then roll forward into future years, and will be available to meet anticipated earmarked transformation spend commitments over the 2018-20 period.

2.4 The Council's 2017-18 capital plan is approximately £115m (General Fund £95m and Housing Revenue Account £20m), 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.

2.5 Re-directing in-year capital receipts totalling £6m to support eligible revenue expenditure, which would otherwise have been used to fund the capital plan, will result in an increase in future borrowing costs; approximately £60k in 2018-19. This can be managed within the existing Council treasury management budget, due to forecast slippage against the current year capital plan funded from borrowing, of about £14m.

2.6 Appendix B attached sets out total direct revenue funding to support capital spend in 2017-18 of £2.2m. Quarter 3 financial monitoring report to Cabinet on 14 February 2018 included approved direct revenue funding of £840k as at Quarter 3. Since Quarter 3, a further £1.395m direct revenue funding has been identified; which includes revenue funding approvals delegated to service directors under Financial procedure Rules 3.10 - 3.12 of £160k, plus a further £1.235m above Service Director thresholds, requiring Cabinet approval.

2.7 It is proposed that Cabinet approve the direct revenue funding proposals above Service Director thresholds, set out at Appendix B.

2.8 Subject to Cabinet approval, it is then proposed that the totality of £2.235m approved direct revenue funding in 2017-18 be replaced with borrowing. This will release equivalent revenue resources in-year. There will be an increase in future borrowing costs; about £22k in 2018-19. Again, this can be managed within the existing Council treasury management budget.

3. Implications for the Council

3.1 The proposals set out in this report are measures intended to support organisational flexibility and financial resilience, and in this context support the overall delivery of the following Council objectives and Priorities within available resources:

- Early Intervention and Prevention (EIP)
- Economic Resilience (ER)
- Improving Outcomes for Children
- Reducing demand of services

Financial, Legal & Other Implications

3.2 The annual budget report 2018-20 to full Council on 14 February 2018 commented on the continuing financial challenges facing the Council to 2020 and beyond.

3.3 The approved budget plans for the [2017/18 year and following 2 years, to 2020 included the delivery of General Fund revenue savings totalling £83m over a 3 year period. This included a planned savings requirement of £54m in 2017-18 and further planned savings of £29m over the 2018-20 period.

3.4 The annual budget report also approved the Council's reserves strategy. The strategy noted the potential scale of unbudgeted risks set out in the annual budget report at the same time as declining Council reserves over more recent years, and the Council's refreshed approach to budget risk and general fund revenue reserves; directed at strengthening organisational flexibility and financial resilience over the medium to longer term. The proposals set out in this report are intended to support the above objectives.

4. Consultees and their opinions

4.1 The proposals set out in this report have been discussed at Executive Team.

5. Next steps

5.1 Subject to member approval, the recommendations in this report will be incorporated into the 2017-18 final accounts process, and subsequently reported on as part of the 2017-18 Financial Outturn report to Cabinet in June 2018 and full Council in July 2018.

6. Officer recommendations and reasons

6.1 Cabinet are asked to support the following officer recommendations:

i) to apply the Council's flexible capital receipts strategy to eligible revenue expenditure and associated proposals, as set out in this report ;

ii) to approve the direct revenue funding of capital proposals as set out at Appendix B, in accordance with Financial Procedure Rules 3.10 – 3.12; and

iii) subject to ii) above, to approve the replacement of £2.2m revenue funded capital expenditure in 2017-18 with borrowing and associated proposals

7. Cabinet portfolio holder recommendation

The Cabinet portfolio holder supports the recommendations in this report.

8. Contact Officer

Eamonn Croston, Acting Service Director - Financial, IT & Transactional Service

9. Background Papers and History of Decisions

Appendix A – Council flexible capital receipts strategy extract from annual budget report 2018-20

Quarter 3 financial monitoring report to Cabinet 20 February 2018;

Annual Budget Report to full Council 14 February 2018

10. Service Director responsible

Eamonn Croston, Acting Service Director - Financial, IT & Transactional Service

KIRKLEES COUNCIL _- FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

- Government guidance allows the capitalisation of certain types of qualifying revenue expenditure in-year, funded from the flexible use of 'in-year' generated capital receipts. It covers in-year capital receipts generated in-year, from 2016-17 to 2021-22 inclusive.

- In-year generated capital receipts includes general fund receipts from the sale of general fund land and buildings. It also includes 'right to buy' (RTB) receipts from the sale of Council houses. 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.

- It is proposed that consideration be given to applying 'in-year' capital receipts generated, to fund the following qualifying capitalised revenue expenditure, in line with original DCLG guidance issued in March 2016, as follows :

- *funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;*

- *driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;*

- The time period relating to the above qualifying expenditure covers 2017-18 and the following 4 years. The original DCLG guidance covered the 2016-19 period, but this was subsequently extended by a further 3 years, to 2021-22, following the Autumn Statement announcement on November17th, 2017.

- The extent to which capital receipts will actually be applied in-year will take into account the following factors :
    - the amount of capital receipts actually generated in-year;
    - the amount of qualifying capitalisable revenue expenditure in-year;
    - the affordability of borrowing to fund the capital plan in-year, where current funding assumptions include use of in-year capital receipts to part fund the Councils annual general fund capital plan

- The proposals set out in 3. above are 'in principle', and allow officers the 'flexibility' to consider a range of funding options in-year that meet the intended objectives set out in the Council's budget strategy update.

Appendix B

Revenue Contributions to Capital Since Quarter 3

Direct Revenue Funding of Approved Capital Plan	Service Director Responsible	£'000
Direct Revenue Funding as at Quarter 1&2:	Various	118
Direct Revenue Funding as at Quarter 3 Financial monitoring report to Cabinet 20 February 2018 :	Various	722
Sub-total		**840**
Service Directors Delegated Authority :		
Highways Baseline Plan - District Committees monies for Speed Indicator Devices	Approved at District Committee Meetings	40
Learning & Early Support Baseline – Woodley College various works including DDA	Learning & Early Support	51
Learning & Early Support Baseline – Children's IT Social Care System	Learning & Early Support	69
Sub-total		**160**
Above Service Directors Delegated Authority limit :		
Corporate Landlord Asset Investment – Fire Safety Works	CROS*	250
Corporate Landlord Asset Investment – Old Post Office, 81 Northgate, Almondbury	CROS	25
Strategic Assets – Dewsbury Town Hall	CROS	200
Strategic Assets – Headlands Depot Scheme	CROS	360
Strategic Assets – George Street Depot Scheme	CROS	160
Strategic Assets – Dewsbury Town Hall EIP Hub	CROS	40
Highways – Upperhead Row Car Parking Improvements	CROS	200
Sub-total		**1,235**
TOTAL Direct Revenue Funding		**2,235**

**Commercial, Regulatory & Operational Services*