

Name of meeting: Cabinet

Date: 29th June 2018

Title of report: Council Financial Outturn & Rollover Report 2017-18; incorporating General Fund Revenue, Housing Revenue Account, Capital & Treasury Management

Purpose of the Report

To receive information on the Council's 2017-18 financial outturn position for General Fund Revenue, Housing Revenue Account (HRA) and Capital plan, including proposals for revenue and capital rollover from 2017-18 to 2018-19. This report also includes an annual review of Council Treasury Management activity.

Key decision – is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes The report includes proposals to roll forward capital underspend from 2017-18 to 2018-19 to spend against specific activities.
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 Service Director for Finance, IT & Transactional Services ? Is it also signed off by the Service Director – Legal, Governance & Commissioning ?	Rachel Spencer Henshall – 20 June 2019 Eamonn Croston – 20 June 2019 Julie Muscroft – 21 June 2019
Cabinet member portfolio - Corporate	Cllr Shabir Pandor Cllr Graham Turner

Electoral wards affected: All

Ward Councillors consulted: None

Public or private: Public

1. Summary

General Fund

- 1.1 The Council continues to face significant financial challenges and must ensure it can achieve a sustainable balanced budget over the medium term and beyond.
- 1.2 The approved budget plans for 2017-18 and the 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.
- 1.3 The Council's General Fund controllable (net) revenue budget for 2017-18 was set at **£294.7m**.
- 1.4 There was a (net) transfer from general fund to reserves during the year totalling **£8.3m**. This resulted in a revised budget of **£286.4m**.
- 1.5 The transfer to reserves included £9.1m release from the Treasury management budget following the minimum revenue provision (MRP) policy change. The remaining £0.8m balance in reserves movement reflects a net drawdown from one-off earmarked reserves to fund one-off deferred expenditure commitments and other developments.
- 1.6 Council spend was **£284.8m** in 2017-18. This resulted in an underspend of **£1.6m** or 0.6% against the revised budget. The year-end financial position is the equivalent to the actual delivery of £55.6m actual overall savings against £54.0m planned savings. This represents a significant achievement.

The revenue outturn position is summarised at Appendix 1 and in Table 1 below:

Table 1 - Overview of 2017-18 general fund revenue outturn position

	Controllable budget (net)	Use of reserves	Revised Budget	Outturn	Variance
	£000	£000	£000	£000	£000
Children & Families	67,946	2,956	70,902	82,159	11,257
Adults & Health	104,270	(1,974)	102,296	98,005	(4,291)
Economy & Infrastructure	37,772	(639)	37,133	35,658	(1,475)
Corporate Services	38,952	1,019	39,971	38,400	(1,571)
Central Budgets	45,747	(9,646)	36,101	30,607	(5,494)
Grand Total	294,687	(8,284)	286,403	284,829	(1,574)

- 1.7 The £1.6m underspend includes a number of headline overspends and offsetting underspends described in paragraphs 1.10 to 1.27 below. A summary of all key variances can also be found at Appendix 4.
- 1.8 Following council approval on 11th July 2017, there was a release of one off additional Better Care Fund monies of £8.3m into Adults in 2017-18. This follows on from the Government announcements as part of the March 2017 Budget to

allocate additional funding to Council Adult Social Care services. This released £5.7m base budget resources in year. This saving is unsustainable moving forwards with the funding allocations reducing in 2018-19 and 2019-20. See also paragraph 1.21. Without the £5.7m base budget release, the underlying outturn position would have been a £4.1m overspend.

- 1.9 Of the £55.6m net savings achieved in 2017-18, £21.9m came from Transformation activity against planned savings of £26.9m; 82% achievement, and £25.9m from Service Level Change savings against planned savings of £27.1m; 95% achievement.. There is a balancing figure of £7.8m underspend against other expenditure lines. This is summarised in Table 2 below:

Table 2 – Achievement of 2017-18 Savings by Type

Savings Type	2017-18 Planned Savings	2017-18 Savings Achieved	% Actual Savings against Planned
	£000	£000	%
Transformation	(26,860)	(21,930)	82%
Service level Change	(27,140)	(25,876)	95%
Sub Total	(54,000)	(47,806)	89%
Other*	0	(7,768)	-
Total Savings	(54,000)	(55,574)	103%

* includes £5.7m BCF base budget release (paragraph 1.5 above)

- 1.10 In Children and Families there was £5.8m spend above budget in year, reflecting continued priority investment in the emerging Children's Improvement Plan, in partnership with Leeds Council; ongoing revenue investment is also built into approved budget plans for 2018-20.
- 1.11 Within Child Protection and Family Support there has been significant progress in reducing agency costs to a much more sustainable level in line with the budget strategies agreed as part of budget report to council. The agency spend in 2017-18 was £4.4m compared to £8.3m in 2016-17.
- 1.12 In Learning, Early Support and Schools there was an additional spend of £4.4m for emerging service pressures on Special Educational Needs (SEND) activity, in excess off the £40m resources available to fund this activity through the High Needs funding block allocation within the Dedicated Schools Grant (DSG). This is a potentially growing pressure.
- 1.13 Government, through its own national formula funding review, has acknowledged that Kirklees is under-funded currently on 'high needs' children's activity. From 2018-19, increased high needs funding allocations will be phased-in over a 7 year transitional period in £1m increments, which will also need to contain any inflationary pressures over the period.
- 1.14 Originally, it was anticipated that this service pressure could be mitigated in-year through the Government DSG grant mechanism that allows funding pressures to be rolled into future years as a 'deficit', provided they can be mitigated through planned cost reductions over a reasonable time-frame. However, this approach is now considered by officers to be unrealisable, given both the scale and recurrent

nature of these pressures, and the timeline and measures to be put in place to deal with this.

- 1.15 Following a recent Kirklees wide high needs strategic review reported to Cabinet on 20th February 2018, the Council, working with key education partners across the district, is working on a comprehensive plan to deliver a more effective, whole systems approach and implementation through 2018-19. The implementation plan will also inform the Council budget strategy update later in the year.
- 1.16 As part of the early closedown review 2017-18, reported to Cabinet on 20th April 2018, £2.2m revenue resources were specifically released to the bottom line to part mitigate the impact of the in-year SEND pressures. This was achieved by the substitute funding of £2.2m in-year revenue resources identified for capital funding, with borrowing.
- 1.17 Further overspends in Learning, Early Support and Schools reflected timing issues on the delivery of key service transformation; £0.3m relating to Early Intervention and Targeted Support and £0.7m relating to Special Educational Needs. With respect to the latter, revenue investment was reinstated into this area as part of approved budget plans for 2018-20.

Adults

- 1.18 Adult social care has undertaken a significant programme of transformation aimed at both releasing cash savings and reducing the impact of demand pressures arising from legislative change (e.g. Deprivation Of Liberty Safeguarding (DOLS)), increased numbers of people requiring social care support, people experiencing increased complexity of need and the fragile state of the provider market.
- 1.19 Government has acknowledged that current national and local funding approaches to social care and health services are not sustainable. There has been significant national commentary that adult social care is in a state of crisis. There have been a number of short term national funding releases but the late nature of these and the conditions attached to them mean that it is difficult to plan on a recurrent basis.
- 1.20 Government has committed to a more fundamental funding review through the forthcoming green paper in summer 2018. However, the outcome of this and any subsequent funding changes could take a number of years to implement and is very unlikely to be addressed by the 2019 Comprehensive Spending Review. There has been national speculation that any significant change may not be fully implemented until 2022-23.
- 1.21 In 2017-18, there was a release of one-off additional Better Care Fund monies of £8.3m. This is not a recurrently sustainable position as future levels of BCF funding reduce year on year (reflecting the time limited nature of this funding source).

Economy and Infrastructure

- 1.22 The Council invested £2m more than the budget, to ensure that the roads were kept safe for residents and businesses this winter. Future year budget risks around exceptional winter weather will be managed through reserves, and it is anticipated that costs will reduce next winter as the thermal mapping approach is introduced, so the areas of greatest need can be targeted on the District's road network.

- 1.23 Delayed implementation of schools transport savings of £1.1m have been offset in-year across Economy & Infrastructure Directorate, largely through one-off savings, including temporary vacancies across the Directorate, one-off savings on the waste disposal contract, and landfill tonnage projections lower than budgeted, by 9%.

Corporate Services

- 1.24 Early delivery of future year savings across a range of Corporate Service activity in readiness for 2018-19, has contributed to about £1m underspend, plus higher than expected housing subsidy income at £0.7m. Some corporate service activity has been reviewed and additional organisational capacity incorporated into 2018-20 base budget plans, capital rollover proposals and ongoing earmarked transformation reserves.

Central Budgets

- 1.25 There are offsetting underspends in central budgets totalling £5.5m. This includes the substitute funding of in-year revenue resources identified for capital funding with borrowing, releasing £2.2m saving to the bottom line (see para. 1.16 also) and additional Business Rates un-ringfenced grants of £2.0m; mainly late government adjustments relating to small business rates threshold changes in 2017-18. Other central budgets underspends include the Council required contribution to the Apprenticeship Levy £0.5m less than budgeted, council wide senior management review savings, and an anticipated £0.4m dividend from Yorkshire Purchasing Organisation (YPO).

New Grants

- 1.26 New grant monies for start-up funding to establish restorative practice teams were only recently confirmed by the Department for Education on 16 January 2018. This additional funding is up to a maximum of £181k in 2017-18 and £542k in 2018-19, based on approved expenditure. Costs and matched funding will be recognised over the period of the funding allocation, as appropriate. Longer term service requirements once the funding ceases will be considered as part of next year's budget round.
- 1.27 New grant monies for Homelessness (Homelessness Reduction Act: new burdens funding) were recently announced by the Ministry of Housing, Communities and Local Government. This additional funding amounts to £92k in 2017-18, £85k in 2018-19 and £105k in 2019-20. The 2017-18 funding was ring-fenced to service to support the changes needed to meet the requirements of the Homelessness Reduction Act with future years funding also being ring-fenced to contribute to a range of service measures.

General Fund Reserves

- 1.28 As per Table 3 below, general fund reserves are reduced through 2017-18 by £1.3m, from £90.1m at the start of the year, to £88.8m as at 31 March 2018. The reduction consists of £11.2m set aside as part of annual budget approval at budget Council in February 2017 to help deliver an overall balanced budget in 2017-18, less the £8.3m transfer to earmarked reserves referred to in paragraph 1.4 above and the year-end transfer of £1.6m underspend.

Table 3 – General Fund Reserves

	As at 1 st April 2017	Reserves Supporting 2017-18 MTFP	Planned Drawdown/ Contribution in Year	Year end transfer to General Reserves	As at 31 st March 2018
	£000	£000	£000	£000	£000
Statutory (school) Reserves	(11,852)	-	2,025	-	(9,827)
Earmarked Reserves:					
Financial Resilience Reserves	(28,046)	-	(9,100)	-	(37,146)
Other Earmarked Reserves	(39,494)	7,700	(1,209)	-	(33,003)
Sub Total Earmarked Reserves	(67,540)	7,700	(10,309)	-	(70,149)
General Balances	(10,718)	3,485	-	(1,574)	(8,807)
Grand Total	(90,110)	11,185	(8,284)	(1,574)	(88,783)

- 1.29 In line with the Council's reserves strategy set out in the Budget Report to Council 14th Feb 2018, £9.1m MRP (minimum revenue provision) overprovision has been ring-fenced and transferred to Financial Resilience reserves in 2017-18.
- 1.30 As indicated in the Early Closedown Review to Cabinet 17th March 2018, the Council's flexible capital receipts strategy has been applied in relation to £3.5m voluntary severance costs and £2.5m other transformation related spend in 2017-18. These costs meet the criteria for qualifying expenditure of *funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation*, set out at paragraph 3i) of the Flexible Capital Receipts strategy which can be found at Appendix 9. 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 £6.0m total spend would otherwise have been drawn down from earmarked reserves and so the application of the strategy has enabled a carry forward of Transformation and Workforce Restructure Reserves at their current levels (£10m combined) into 2018-19.
- 1.31 It is anticipated that the £10m combined would be sufficient to meet earmarked reserves commitments at least over the 2018-20 period including additional IT resource capability, systems readiness for General Data Protection Regulations (GDPR), and investment in options appraisals for alternative service delivery models to support the Council's housing strategy, including specialist accommodation needs.
- 1.32 There is a balance of £88.8m general fund reserves at year end; of which £33.0m relates to earmarked reserves commitments including the £10m Transformation and Workforce Restructure reserves. A further £9.8m relates to statutory schools reserves (which cannot be re-directed for non-school uses), leaving £37.1m of available 'financial resilience' reserves to mitigate against future budget and other unfunded risks; equivalent to 12.6% of the current year £294.7m (net) controllable revenue budget.

- 1.33 General balances is £8.8m at year end. Within this figure is an assumed £5m minimum balances requirement. A more detailed list of reserves balances and movements in year can be found at Appendix 2.

Revenue Rollover

- 1.34 Sound financial management through the year, strengthening of financial resilience reserves, and flexible use of capital receipts to 'protect' existing transformational reserves for future years, effectively gives sufficient flexibility for members to consider targeted investment of revenue rollover into 2018-19. Within the overall £1,574k general fund underspend, ward based budgets within the Office of Chief Executive service area underspent by £62k in 2017-18. This underspend relates to timing issues between approvals to spend at an individual ward level, and when actual spend is incurred. It is proposed that the £62k underspend be rolled forward in full into 2018-19. Cabinet are asked to consider any further revenue rollover proposals for the remaining £1,512k general fund underspend.

Collection Fund

- 1.35 The Collection Fund accounts separately for council tax and business rates income and payments. Planned payments are set in advance of each financial year as part of the formal budget approval process, based on estimated income. Actual income collected during the year can vary from estimated, resulting in surpluses or deficits on the collection fund which are smoothed out over time through adjusted annual repayments to or from the Council's general fund. Table 4 below summarises the financial performance of the Collection Fund in 2017-18, including surpluses/deficits rolled forwards from previous years.

Table 4 – Collection Fund Summary Financial Performance

	Council Tax £'000	Business Rates £'000
(Surplus)/Deficit as at 1st April 2017	(3,000)	1,300
Re-payments to/(from) General fund in 17-18	2,000	(1,900)
In Year financial performance	(1,300)	600
(Surplus)/Deficit at 31st March 2018	(2,300)	-

- 1.36 In year income performance on council tax reflects a surplus of £1.3m; equivalent to 0.8% against planned income of £159.6m, and is mainly due to council tax income collection performance in excess of targeted.
- 1.37 In year income performance on business rates reflects a deficit of £0.6m; equivalent to 1.3% against planned income of £47.6m, in the main due to an adjustment of the provision for outstanding rates appeals, offset in part by a lower than anticipated bad debt provision requirement.

Housing Revenue Account

- 1.38 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 revenue outturn was a small surplus of £89k against an annual turnover of £92.9m in 2017-18; equivalent to just 0.1%. This includes the delivery of £2.6m efficiency savings in year against the £39m KNH fee, post building services transfer.
- 1.39 HRA reserves at 31 March 2018, net of set aside for business risks and a minimum working balance, is £60.4m. A summary of the HRA outturn and reserves position can be found at Appendix 3. Key variances are listed as part of Appendix 4.

Capital

- 1.40 The Council's revised capital budget for 2017-18 reflects headroom of £120.8m. The budgeted funding commitment against headroom is £98.8m. The funding commitment reflects the fact that the nature of capital programmes and funding means that with some schemes, there is greater potential for slippage in-year; for example timing of external funding being secured, or the size and complexity of specific schemes meaning longer lead in times than originally profiled for in capital budget plans.
- 1.41 The revised capital budget reflects proposals set out in the 2016-17 financial outturn and rollover report for the allocation of 2016-17 capital rollover to current 2017-18 approved budgets and the re-profiling of the existing approved plan over the 2017-22 period. Included in the revised capital budget is the capitalisation of £6.0m of qualifying revenue expenditure to be funded from in year capital receipts as detailed in paragraph 1.30 above.
- 1.42 The 2017-18 capital spend totalled £61.8m, equivalent to 63% delivery against planned commitments. Of the total spend, £10.8m relates to strategic priorities, the balance of £51.0m relates to baseline capital spend.

Table 5 –Capital Outturn 2017-18

By Category	Revised Budget £000	Outturn £000	Variance £000
Strategic Priorities	34,360	10,260	(24,100)
Baseline	57,903	32,325	(25,578)
Risks & Pressures	2,500	0	(2,500)
One Off Projects	5,970	5,970	0
General Fund	100,733	48,555	(52,178)
Strategic Priorities	4,153	503	(3,650)
Baseline	15,869	12,745	(3,124)
Housing Revenue Account	20,022	13,248	(6,774)
Overall Total	120,755	61,803	(58,952)
Slippage	(21,936)	-	21,936
Total Funding Requirement	98,819	61,803	(37,016)

- 1.43 The outturn underspend reflects in part, the timing in delivery of a number of strategic priority capital schemes, including £8.8m relating to HD-One development planned for John Smith's stadium, now due on site in Summer 2018. As well, the

revolving credit facility to Kirklees College of £6m is not required in 2017-18 together with slippage in New Pupil places across three school sites at £4.9m, and Social Housing development across three HRA sites at £3.4m.

- 1.44 Elsewhere, the risks and pressures contingency at £2.5m was not needed and just over £3m deferred capital spend relates to timing issues on the securing of external grant funding. Appendix 6 lists the variances in more detail.

Capital Rollover Proposals

- 1.45 The balance of capital spend committed but not spent, plus headroom, has been reviewed and incorporated as appropriate into capital rollover proposals.
- 1.46 The proposal is to roll forward £53.5m of the £59.0m underspend; £47.8m general fund and £5.7m HRA. This largely reflects deferred spend against existing schemes rolled forward into future years.
- 1.47 The remaining £5.5m underspend is identified as not required and is recommended to be removed from the Capital Plan; in the main this is made up of £2.5m from Risks & Pressures, £1.75m from European Grant Funding Opportunities (Strategic Priorities) and £1.1m from HRA. This equates to ongoing revenue savings of £277k per annum for the General Fund.
- 1.48 The capital plan approved at Budget Council on 14th February 2018 for the period 2018-23 totalled £389m. This has now been updated to take account of the capital rollover proposals mentioned in paragraph 1.46 above totalling £53.5m. Further revisions comprise a net increase in capital grants within baseline plans of £1.2m and the addition of three further schemes; Strategic Network of Electric Vehicle Rapid Charging Points £0.5m, Digital by Design £2.9m and GDPR related IT systems upgrades £0.3m. After these amendments, the revised capital plan including rollover currently reflects headroom of £447.4m. The budgeted funding commitment against headroom is £357.1m. See Appendix 8c.
- 1.49 The current Digital by Design programme is based on the maximised resources available from IT, and focussing those resources on the perceived priority areas by considering a combination of Largest Saving Opportunities, MTFP delivery and Member/Executive priority projects. The £2.9m investment will be used to fund an expanded programme enabling 19 digital streams to run from July 2018 to June 2019 and allow for emergent requirements including additional iterations and opportunities from July during 2019.
- 1.50 The additional £0.3m for IT upgrades will cover expenditure related to GDPR compliance including upgrades of systems to introduce automating lifecycles of GDPR sensitivities.
- 1.51 Following a recent corporate strategic review of the plan, opportunity has been taken to update the phasing of several strategic priorities i.e. new pupil places in primary/secondary schools, the delivery of an autistic spectrum disorder school, the loan facility to develop a hotel as part of the HD One scheme, the Property Investment Fund and the Spenborough Pool Replacement. Also, budgets for Learning and Early Support Basic Need, North Kirklees Day Care, Corporate Landlord and Strategic Assets within Baseline has been re-profiled into the second

year of the plan. The draft capital plan 2018-23 is shown at Appendix 8 and summarised in Table 6 below:

Table 6 – Draft Capital Plan 2018-23

	2018 -19	2019-20	2020-21	2021-22	2022-23	Total
By Category	£m	£m	£m	£m	£m	£m
General Fund						
Strategic Priorities	31.2	52.3	40.3	10.9	1.5	136.2
Baseline	59.6	33.7	27.7	22.6	22.3	165.9
Risks & Pressures	1.0	1.0	1.0	1.0	1.0	5.0
General Fund	91.8	87.0	69.0	34.5	24.8	307.1
Strategic Priorities	13.5	10.9	11.3	17.3	11.5	64.5
Baseline	18.5	14.2	14.2	14.3	14.6	75.8
Housing Revenue Account	32.0	25.1	25.5	31.6	26.1	140.3
Overall Total	123.8	112.1	94.5	66.1	50.9	447.4
Slippage	(22.2)	(25.0)	(19.6)	(13.8)	(9.7)	(90.3)
Total Funding Requirement	101.6	87.1	74.9	52.3	41.2	357.1

1.52 The Council's current approved 5 year capital investment plan includes significant investment in strategic priorities; in particular around town centre vibrancy and economic regeneration, and affordable housing.

1.53 The draft capital plan for 2018-23 reflects some reprofiling of existing plans, including rollover, into later years. Officers will continue to review capital budgets in year, and any further reprofiling movements between years will be reported to Cabinet as part of the quarterly financial monitoring arrangements through 2018-19.

1.54 This approach acknowledges the growing complexities and challenges over the next 5 years in delivering to this scale of ambition, and the intention is that a further update of the capital plan will be presented as part of the forthcoming budget strategy update report to Cabinet and Council early Autumn 2018, alongside other emerging capital investment proposals.

Prudential Indicators

1.55 Appendix 7 provides a schedule of the prudential indicators applicable to affordability and prudence which have been reported as part of capital monitoring in 2017-18. Indicators applicable to treasury management are reported in the Review of Treasury Management activity for 2017-18 which can be found at Appendix 10.

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

2. Information required to take a decision

2.1 The Appendices accompanying this report provide a more detailed breakdown of the outturn financial monitoring position, as follows:

- i) Appendix 1 sets out by service area, the general fund revenue outturn position in 2017-18;
- ii) Appendix 2 summarises the general fund reserves movements in-year;
- iii) Appendix 3 summarises the HRA financial position including movements in HRA reserves in-year;
- iv) Appendix 4 highlights the more significant general fund and HRA variances across service areas;
- v) Appendix 5 summarises the bids for targeted investment of revenue rollover into 2018-19
- vi) Appendix 6a) sets out in more detail the capital outturn summary for 2017-18, Appendix 6b) highlights the reasons for the more significant capital variances across strategic priority and baseline capital schemes, Appendix 6c) shows the breakdown of capital budget changes since Quarter 3 monitoring,
- vii) Appendix 7 provides a schedule of the prudential indicators for 2017-18, applicable to affordability and prudence.
- viii) Appendix 8 shows the draft capital plan 2018-23, taking into account rollover, grant changes and additions. A funding summary and summary of changes is also included.
- ix) Appendix 9 details the flexible capital receipts strategy approved at Council, 15th February 2018.
- x) Appendix 10 is the Annual Report on Treasury Management activity to Corporate Governance and Audit Committee, 11th May 2018.

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

- i) total rollover proposals cannot exceed the overall net underspend position of the Council, and
- ii) rollover proposals by Directorate should not exceed the net underspend position by Directorate

2.3 The Council has complied with its prudential indicators for 2017-18, which were approved as part of the Treasury Management Strategy. Details accompany the Treasury Management report at Appendix 10. Indicators relating to affordability and prudence can be found at Appendix 7.

3. Implications for the Council

- 3.1 The report provides information on the Council's overall financial performance against annual Council revenue and capital budgets, incorporating as well an overall updated capital plan for 2018-23. These budgets 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

Financial, Legal & Other Implications

- 3.2 Budget plans for 2018-20 include further target savings proposals of £16m in 2018-19 and £13m in 2019-20. The Council will continue to work closely with its Transformation Business Partner to ensure robust financial governance, programme management, monitoring and review across a range of key Transformation and Service level change activity across the Council. This will include deferred savings rolled forward from 2017-18.
- 3.3 Timing issues with the delivery of some transformational savings deferred to 2018-19 in part reflects the scope and complexity of rolling out of redesigned services in particular around early intervention and targeted support and service integration. It should be recognised that the extent of corporate service reductions in existing budget plans is impacting on the pace of current and future delivery of some key transformation programmes, and will require further targeted investment going forward.
- 3.4 Council reserves have been managed effectively in-year; in part to strengthen the Council's financial resilience over the medium term, in-part enabling continued organisational flexibility for targeted one-off investment to support service change and transformation across the organisation. The effective management of reserves in year means the Council is in a relatively strong position to support its ambitious forward plans within sustainable and reduced resources over the medium term.
- 3.5 Council reserves in more recent years were starting to deplete more rapidly. To put into context (excluding school balances), Council usable reserves in 2015 were £111.5m, and by April 2017 they had reduced to £78.3m. The approved budget plans for 2018-20 included a number of proposals to strengthen the Council's financial resilience reserves in particular, over the medium term. As at 1 April 2018, this reserve is £37.1m; an increase of £9.1m in-year. The purpose of this reserve is in part to mitigate against budget and other unfunded risks, including those identified in the corporate risk register, and as well give the organisation a degree of planning flexibility over the medium term, recognising current uncertainty and unpredictability on the national funding landscape for local government post 2020.
- 3.6 In conjunction with the above, other earmarked reserves have been relatively protected in year, and this will enable continued organisational flexibility for targeted one off investment to support service change and transformation across the organisation. Overall usable reserves (excluding ring-fenced schools balances) have increased by £0.7m in year to £79.0m.

- 3.7 It is intended that the forthcoming annual budget strategy update report to Cabinet and Council in early autumn will incorporate a more detailed review, quantification and sensitivity analysis on a range of emerging budget and other risks to help inform the Council's financial planning framework and overall reserves requirement as part of the re-freshed MTFP.

4. Consultees and their opinions

This report has been prepared by the Acting Service Director, Finance, IT and Transactional Services, in consultation with the Executive Team.

5. Next Steps

Subject to member approval, capital rollover proposals and the update of the 5 year capital plan will be incorporated into in-year financial monitoring in 2018-19, and reported quarterly to Cabinet from Quarter 1 onwards.

6. Cabinet portfolio holders recommendations

To agree the £62k roll forward of ward based budgets as set out in paragraph 1.34 earlier. To recommend to Cabinet that the remaining £1,512k general fund underspend be rolled forward into 2018-19 for place based public realm works, and that officers will take a further report in due course, setting out options for the allocation of this rollover for Cabinet consideration.

7. Officer recommendations and reasons

To confirm the Council's financial position as of 31 March 2018 and as part of the (Acting) Service Director- Finance , IT and Transactional Services' duty under the Local Government Act 2003 to report on the robustness of the budget. Having read this report and the accompanying Appendices, Cabinet are asked to:

General fund

- 7.1 note the revenue outturn position for 2017-18
- 7.2 note the year end position on corporate reserves including available financial resilience reserves
- 7.3 note the regular monitoring and review of corporate reserves in 2018-19 to be reported to Cabinet as part of the Quarterly financial monitoring cycle
- 7.4 approve the revenue rollover recommendation set out in the report, including the proposal for officers to take a further report to Cabinet in due-course, setting options for the allocation of the £1.512m rollover for place based public realm works.

HRA

- 7.5 note the HRA revenue outturn and reserves position 2017-18

Capital

- 7.6 note the Council capital outturn position for 2017-18
- 7.7 approve the £53.5m capital rollover from 2017-18 to 2018-19

- 7.8 Approve the revised capital plan for the period 2018-23 after taking into account rollover, the re-phasing of schemes and changes to grant assumptions.
- 7.9 Officers continue to review 2018-19 in year budget profiles with a view to transfer budget into future years to ensure a more realistic in year monitoring profile.

Treasury Management

- 7.10 Note the review of Treasury Management activity for 2017-18
- 7.11 Approve officer proposals to review the two Lender Option Borrowing Option (LOBO) loan re-financing options in conjunction with the Council's external Treasury Management advisors, and to authorise the (Acting) Service Director-Finance , IT and Transactional Services to proceed and to enter into all appropriate documentation if considered beneficial to the Council;
- 7.12 Agree an amendment to the existing borrowing strategy to incorporate SALIX Finance as an interest free loan funding source; and
- 7.13 Note officer intention to bring forward more detailed proposals regarding potential investment opportunities, including investment in the Local Authority Property Fund, as part of the overall Treasury Management strategy update later in the year, for member consideration.

8. Contact Officer

Eamonn Croston, Acting Service Director for Finance, IT and Transactional Services

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James Anderson, Senior Finance Manager

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Sarah Hill, Finance Manager

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9. Background papers and History of Decisions

Annual budget report 2017-21

Annual budget report 2018-20

Early review of Closedown report 2017-18

CIPFA's Code of Practice on Treasury Management in the Public Services.

CIPFA's Prudential Code for Capital Finance in Local Authorities.

Public Works Loan Board Website.

Local Authorities Property Fund & Factsheet

10. Service Director responsible

Eamonn Croston, Acting Service Director for Finance, IT and Transactional Services

eamonn.croston@kirklees.gov.uk

Strategic Director portfolio responsibilities	Controllable Budget (Net)	Planned use of reserves	Revised Budget	Outturn	Variance
	£'000	£'000	£'000	£'000	£'000
Child Protection & Family Support	48,540	862	49,402	55,004	5,602
Learning , Early Support & Schools	18,637	1,882	20,519	25,951	5,432
Quality, Assurance, Standards & Safeguarding	769	212	981	1,204	223
Sub Total (Children & families)	67,946	2,956	70,902	82,159	11,257
Adults Social Care Operations	47,213	(1,478)	45,735	39,779	(5,956)
Policy, Intelligence & Public Health	1,229	(541)	688	343	(345)
Quality, Assurance, Standards & Safeguarding	1,435	-	1,435	1,461	26
Service Integration	54,393	45	54,438	56,422	1,984
Sub Total (Adults & health)	104,270	(1,974)	102,296	98,005	(4,291)
Economy, Regeneration & Culture	8,420	(47)	8,373	6,819	(1,554)
Commercial, Regulatory & Operational Services	29,352	(592)	28,760	28,839	79
Sub Total (Economy & Infrastructure)	37,772	(639)	37,133	35,658	(1,475)
Finance & Transactional Services	23,146	(165)	22,981	22,282	(699)
Governance & Commissioning	1,944	60	2,004	2,125	121
Office of the Chief Executive	13,862	1,124	14,986	13,993	(993)
Sub-Total (Corporate Services)	38,952	1,019	39,971	38,400	(1,571)
Central Budgets	45,747	(9,646)	36,101	30,607	(5,494)
General Fund Total	294,687	(8,284)	286,403	284,829	(1,574)

GENERAL FUND EARMARKED RESERVES

	As at 1st April 2017	Reserves supporting 2017-18 MTFP	Planned drawdown/ contribution in- year	Year end transfer to reserves (underspend)	Earmarked Reserves Review	Reserves Position as at 31st March 2018
	£'000	£'000	£'000	£'000	£'000	£'000
Statutory (School Reserves)	(11,852)	-	2,025	-	-	(9,827)
Earmarked						
Financial Resilience Reserves	(28,046)	-	(9,100)	-	-	(37,146)
Earmarked (Other)						
Workforce Restructure	(5,091)	-	-	-	-	(5,091)
Transformation	(4,944)	-	-	-	-	(4,944)
Rollover	(4,006)	-	1,759	-	322	(1,925)
Joint Adults/Health	(7,703)	7,700	3	-	-	-
Revenue Grants (various)	(8,215)	-	(2,722)	-	322	(10,615)
Troubled Families Grant	(1,902)	-	(22)	-	-	(1,924)
Prepayment Reserve (PFI)	(3,314)	-	259	-	-	(3,055)
Insurance	(1,900)	-	-	-	-	(1,900)
Other	(2,419)	-	(486)	-	-	(2,905)
Ward based activity	-	-	-	-	(644)	(644)
Total (Other)	(39,494)	7,700	(1,208)	-	-	(33,002)
General Balances	(10,718)	3,485	-	(1,574)	-	(8,807)
Grand Total	(90,110)	11,185	(8,284)	(1,574)	0	(88,783)

HOUSING REVENUE ACCOUNT 2017-18 – OUTTURN

	Revised Budget	Outturn	Variance
	£'000	£'000	£'000
Repairs & Maintenance	22,384	22,384	0
Housing Management	35,104	35,552	448
Other Expenditure	27,471	26,607	(864)
Total Expenditure	84,959	84,543	(416)
Rent & Other Income	(93,351)	(92,887)	463
Revenue Contribution to Capital Funding	5,394	0	(5,394)
Planned transfer to HRA Reserves	2,998	8,256	5,258
Total	0	(89)	(89)

HRA RESERVES

	Balance as at 31 March 2017	Planned Transfers to Reserves	Other Approved Movements within Reserves	Balance at 31 March 2018
	£'000	£'000	£'000	£'000
Set aside for business risks	(4,000)	-	-	(4,000)
Forecast in Year Surplus/Deficit	-	(89)	-	(89)
Set aside to meet Investment needs (as per HRA Business Plan)	(46,513)		(5,756)	(49,271)
Workforce Restructure	-		(2,500)	(2,500)
Working balance	(1,500)		-	(1,500)
Planned transfer from HRA		(8,256)	8,256	-
Total	(52,013)	(8,345)	-	(60,358)

Key Highlights – Child Protection & Family Support

Appendix 4

Activity Level	Progress Against Planned Savings	T/SLC/O*	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Fostering Service(including Recruitment)	Increase of fostering placements	T	6,306	6,840	534	Pressure on volume led External Fostering placements.
External Residential Placements	Super foster carers / review high cost placements	T	5,989	7,728	1,739	Pressure on volume led External Residential placements.
Fostering Service(including Recruitment)	Increase of fostering placements Internal	T	3,965	4,330	265	Pressure on volume led Internal Fostering placements.
Various	Further service pressures	SLC	18,124	21,590	3,466	Overspending on Agency ; £5.2m, offset in part by substantive vacancies at £2.4m. Overspending on external legal charges of £456k. Underspending on adoption allowances and leaving care supported accommodation.
Various	Skill mix (reduction in non-qualified staff)	SLC	262	0	(262)	Additional savings achieved relating to posts transferred over to Early Help.
* T=Transformation planned savings SLC=Service Level change planned savings O=other significant (unplanned) variances Key Highlights = specific service variances of £250k or more						

Key Highlights – Learning & Early Support & Schools

Appendix 4 (continued)

Activity Level	Progress Against Planned Savings	T/SLC/O	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Early Intervention & Targeted Support	Service redesign	T	5,943	6,281	338	Delayed implementation of Service redesign.
Early Years Special Educational Needs Support	Service redesign	T	(7)	657	664	Delayed implementation of Service redesign.
External School Placements	Pressure on high needs budget	T	-	2,718	2,718	Service pressure on out of area placement costs.
Further Education High Needs	Pressure on high needs budget	T	-	1,639	1,639	Service pressure on high needs students in a further education setting in the Kirklees area.

Key Highlights – Adults Social Care Operation

Activity Level	Progress Against Planned Savings	T/SLC/O	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Self-Directed Support	Reduction in direct payments / independent sector home care	T	5,458	2,932	(2,526)	Relates to Older People Client group; timing of new contractual arrangements for Ind. Sector Homecare resulting in lower spend in-year
Independent Sector Residential & Nursing	Reduction of Older People placements / adults future pressures (demographics)	T	15,681	17,616	1,934	Unit costs for Older People placements exceeding budgeted levels.
Self-Directed Support	Reduction in direct payments / independent sector home care	SLC	5,020	4,778	(242)	Spend on Physical Disabilities direct payments below budgeted level.
Activity Level	Other Significant Variances		Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Independent Sector Residential & Nursing	Reduction in high cost physical disability placements	SLC	3,293	2850	(443)	Additional savings achieved through reviews in 17/18
Other	Funding allocation	O	(1,756)	(7,420)	(5,664)	Supplementary external funding announcement (Spring budget 2017) - additional Better Care Funding allocation.
Other Demand Led	Bad Debt Provision	SLC	233	845	612	mainly one-off provision adjustment for historic continuing health care funding contributions currently under review

Key Highlights – Policy, Intelligence & Public Health

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Public Health	Vacancies	SLC	1,732	1,376	(355)	Mainly due to employee vacancies

Key Highlights – Service Integration

Appendix 4 (continued)

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Supporting People	Service redesign	T	2,837	4,657	1,820	Overspend due to timing delays/slippage in the delivery of required savings. Will reach required budget level for the start of 2018/19.
Children with a Disability	Service redesign	T	1	528	527	Part year saving not achieved in 2017/18. Balance of saving expected in 2018/19.
Self-Directed Support	Reduction in direct payments/ independent sector home care	T	13,560	13,885	326	Relates to Learning Disabilities/Mental Health client groups. Variance mainly on Direct Payments.
Community Plus	Community Plus	SLC	1,124	(158)	(1,281)	Delay in implementation of Community Plus model
Activity Level	Other Significant Variances		Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Children with a Disability	Direct Payments & Agency Home Care	SLC	2,290	2,629	400	A combination of volume and cost pressures (Agency Home Care).

Key Highlights – Commercial, Regulatory & Operational Services

Appendix 4 (continued)

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Corporate Landlord	New ways of working	T	10,799	10,093	(432)	Early realisation of savings linked to programme of building closures.
Schools Transport	Combined Authority working	SLC	2,857	3,918	1,060	Volume of passengers significantly more than budget for Taxi routes. Price increase in Bus Passes from September 2017. Year on year 11% reduction in Transport costs (£310k) & 15% increase in Income.
Seasonal Weather	New methods of working	SLC	1,170	3,124	1,955	Delayed implementation of planned savings plus additional seasonal weather pressures. Overall £174k favourable.
Activity Level	Other Significant Variances		Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Waste Services		SLC	17,630	16,433	(1,197)	One-off underspend on contract resulting in part from no October shutdown and Waste policy framework changes bedding in. Tonnage projected to be 9% lower than budget.
West Yorkshire Driver Training		SLC	(620)	(971)	(350)	Increased volume of courses which include a new Motorways driver training course. Not sustainable in 2018/19.

Key Highlights – Economy, Regeneration & Culture

Appendix 4 (continued)

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Strategic Regen	Service redesign	SLC	2,233	1,194	(1,039)	Mainly reflects planned vacancies pending completion of service review

Key Highlights – Finance & Transactional Services

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Welfare & Exchequer		SLC	8,274	7,866	(408)	Includes additional housing subsidy income in-year (£786k) above budgeted, against £115m annual subsidy payment ; partly offset by bad debt provision adjustment of £320k

Key Highlights – Office of the Chief Executive

Activity Level	Progress Against Planned Savings	T/SLC	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Access, Strategy & Delivery	Re shape service	T	4,178	3,274	(454)	Early realisation of savings in Library and Information Centres

Key Highlights – Central Budgets

Appendix 4 (continued)

Activity Level	Other Significant Variances	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Central Budgets		24,218	18,967	(5,251)	Mainly relates to conversion of direct revenue funded capital to borrowing, releasing £2.2m back into central budgets, and additional one-off unbudgeted Business Rates Grant Income allocation in 17-18 only, relating to business rates relief threshold compensation, at £1.4m. Also includes Council apprenticeship levy payments less than budgeted provision at £200k and additional Yorkshire Purchasing Organisation dividend at 183k.

Key Highlights – Housing Revenue Account

Appendix 4 (continued)

Activity Level	Other significant Variances	Annual Budget £'000	Outturn £'000	Variance £'000	Comments
Housing Management		35,104	35,552	448	Strategic priorities to support Capital Initiatives, PFI Insurance refund, Sheltered Heating, Communal Lighting, SLA's
Other Expenditure		27,471	26,607	(864)	Depreciation £136k less than budget. Bad Debt provision £711k projected underspend.
Rent & Other Income		(93,351)	(92,887)	463	Higher than anticipated Right To Buy Disposals £132k less than budget. Contributions from Rechargeable repairs less than budget £184k. Charges to leaseholders for repairs & service charges £125k less than budget.
Revenue funding to capital expenditure		5,394	0	(5,394)	Delayed delivery of capital plan. Resources to be re-aligned to updated Capital Plan for 2018/2023.
Planned Transfer to Reserves		2,998	8,256	5,258	Adjustment to reserves following the delayed delivery of the capital plan.

Appendix 5

Revenue Rollover Bids

Activity	Bid Description	Bid Amount £000
Office of Chief Exec - Ward Based Activity Budget	Deferred expenditure commitments from 2017-18	62
Place Based Public Realm Works	Place Based Public Realm works - Officers will take a further report in due course, setting out options for the allocation of this rollover for Cabinet consideration	1,512
TOTAL		1,574

Capital Plan 2017/18 Outturn Summary

Appendix 6 a)

	Adjusted Budget	Outturn	Variance	Variance
	£'000	£'000	£'000	%
General Fund				
Strategic Priorities				
Learning & Early Support	12,016	7,168	(4,848)	(40)
Economy Regeneration & Culture	22,344	3,092	(19,252)	(86)
Strategic Priorities Total	34,360	10,260	(24,100)	(70)
Baseline				
Learning & Early Support	10,310	6,067	(4,243)	(41)
Adults Social Care Operation	1,190	190	(1,000)	(84)
Economy Regeneration & Culture	15,351	5,327	(10,024)	(65)
Commercial Regulatory & Operational	26,971	18,485	(8,486)	(31)
Office of the Chief Executive	482	289	(193)	(40)
Finance & Transactional Service	3,599	1,967	(1,632)	(45)
Baseline Total	57,903	32,325	(25,578)	(44)
Risks & Pressures	2,500	0	(2,500)	(100)
One-Off Projects	5,970	5,970	0	0
GENERAL FUND TOTAL	100,733	48,555	(52,178)	(52)
Housing Revenue Account				
Strategic Priorities	4,153	503	(3,650)	(88)
Baseline	15,869	12,745	(3,124)	(20)
HOUSING REVENUE ACCOUNT TOTAL	20,022	13,248	(6,774)	(34)
OVERALL COUNCIL TOTAL	120,755	61,803	(58,952)	(49)
Financing Slippage - Borrowing	(14,161)		14,161	
Financing Slippage - Grants	(7,775)		7,775	
TOTAL FUNDING REQUIREMENT	98,819	61,803	(37,016)	(37)

Key Highlights – Strategic Priorities

Appendix 6 b)

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
HD-One (KSDL)	8,750	(8,750)	The HD One Development planned for the John Smith's Stadium site is not due on site until summer 2018. The Council is providing a secured loan facility to Kirklees Stadium Development Ltd (KSDL) which would allow KSDL to take a majority equity stake in the complex. The full amount is therefore to roll forward into 2018-19.
Kirklees College Loan	6,000	(6,000)	The loan facility was repaid in full. No further utilisation of the revolving credit facility occurred during the year. The option for Kirklees College to take up the loan facility is open until 31.12.2018, so the full amount is to be rolled forward into the next financial year.
European Grant Funding Opportunities	1,750	(1,750)	This budget was created to provide match funding for opportunities to access funding from European Structural Funds. Given the outcome of the June 2016 referendum there was a high level of uncertainty around the availability and timing of any funding available. Therefore no expenditure was incurred and this scheme will no longer continue into next year, with the total amount being removed from the plan.
Learning & Support (New Pupil Places)	12,016	(4,848)	<p>The build for the New North primary school (-£1m) will not start until 2018/19 due to complex site issues and Beaumont Academy (-£3m) has been updated for a more realistic spend profile for this financial year. The expansion of Birkby Junior School has also been delayed due to circumstances beyond the context of the build.</p> <p>Any underspend in funding on Strategic Priorities is to be rolled into 2018/19 to enable the rolling programme on schools to be delivered as part of the Schools Investment Needs Strategy.</p>
Strategic Priorities Total	28,516	(21,348)	

Key Highlights – Baseline

Appendix 6 b)

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Learning & Early Support			
Basic Need	1,742	(1,447)	Schools Organisation & Planning worked with Head teachers in identifying no cost solutions to basic need capacity issues in 2017/18. The remaining funding will be required to rollover to support Basic Need pressures in 2018/19.
Capital Maintenance	4,930	(1,001)	The majority of funds are contractually committed as part of the 2017/18 Capital Maintenance programme, so funding will need to be rolled over into the next financial year.
One-Off Initiatives	2,391	(1,782)	Mainly due to underspend on Section 106 contributions (-£941k). Majority of funds remain unallocated either whilst discussions occur to identify schools to benefit or funds held pending emergence of new Investment Needs Strategy.
Learning & Early Support Total	9,063	(4,230)	

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Adult Social Care Operation Total	1,190	(1,000)	<p>Underspend on North Kirklees in-house Learning Disability Day Opportunities building provision (-£750k). Limited progress has been made on reaching an agreed way forward, so full amount is to be rolled into 2018.</p> <p>Care Act IT/IS System Enhancement budget (-£250k) is now committed and will be spent next financial year.</p>

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Economy, Regeneration & Culture			
Housing Private Sector	5,539	(2,840)	Includes Section 106 budget (-£969k) not currently projected to spend but looking into possible schemes that could be funded from this pot. The budget for Large Housing Sites Scheme (-£763k) to be applied to the development of the Ashbrow Housing site is to commence next financial year. Also the capital allowances underspend (-£228k) has been allocated to structural works on Cemetery Lodge as agreed by SLT.
Economic Resilience	3,412	(3,085)	Underspends on both West Yorkshire Transport Fund Land Acquisition Fund (-£850k) and Dewsbury Rail Station Gateway (-£450k) which have had Cabinet approval. The Dewsbury Town Hall Initiative (-£643k) project has been extended. The balance of the variance (-£815k) is uncommitted at this stage, but a bid has been made to roll this into the next financial year since plans are to be developed linked to the Town Centre Action Plans strategy.
KAL Self-Financed	1,825	(1,539)	Amendment to the Batley scheme start date required the capital to be re-phased/profiled to 2018/19 therefore committed underspend (-£1.3m) to roll forward. Also remaining capital (-£225k) also required to be rolled over to support future development and refurbishment schemes.
Asset Utilisation/ Rationalisation	4,575	(2,560)	Mainly slippage on schemes, of which £1.7m is contractually committed and bids have been made for the remaining £831k budget to roll forward into 2018/19.
Economy & Regeneration Total	15,351	(10,024)	

Key Highlights – Baseline

Appendix 6 b)

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Commercial Regulatory & Operational			
Highways :			
Asset Management	12,088	(934)	A substantial structures scheme (-£479k) funded through Challenge Fund grant was still on site at the financial year end and the Scar Lane, Golcar resurfacing project was deferred. The weather not only delayed the Structures programme but also Street lighting replacement (-£172k). Schemes for planned road surfacing which have five year subsequent protection from excavation, were delayed when utility companies proposed maintenance works on site in response to our notices served.
Integrated Transport	7,027	(3,907)	Grant funded programmes such as Bus Hot Spots and Challenge Fund grant drainage are two year programmes with the funding identified late in year 1 (17/18) so delivery will be in year 2 (18/19). Other schemes such as Dewsbury Railway Station and Huddersfield Ring Road have been incorporated into larger schemes with 18/19 funding so again expenditure is deferred.
Total Highways	19,115	(4,841)	
Corporate Landlord Asset Investment	4,843	(2,692)	All the schemes have been committed in the 2017-18 financial year, however some of the projects have been delayed or programmed out of year for a variety of reasons e.g. complexity and technical issues such as structural matters, programming matters such as providing continuity of service delivery or urgent late additions to the plan and determination of the asset utilisation strategy impacting on investment decisions.
Transport	2,614	(817)	The majority of the underspend (-£671k) is related to vehicles that have been ordered but have long lead time for delivery. The remaining rollover (-£146k) is to be carried forward as part of the annual fleet replacement programme, with vehicles currently out to tender.
Commercial Regulatory & Op Total	26,572	(8,350)	

Key Highlights – Baseline

Appendix 6 b)

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Finance & Transactional Services			
Leeds City Region Revolving Fund	2,550	(1,300)	At year end, £918k had been drawn down against the Kirklees contribution towards the Leeds City Region Revolving Fund loan. This is an ongoing revolving fund, so the full underspend is to be rolled forward into the next financial year.
Finance & Transactional Services Total	2,550	(1,300)	

Key Highlights – Risks & Pressures

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
Risks & Pressures	2,500	(2,500)	No commitment against these resources for the financial year. Full budget has been offered up as part of the recent uncommitted rollover exercise.

Key Highlights – Housing Revenue Account

Appendix 6 b)

Activity Level	Annual Budget £'000	Variance for the year £'000	Comments
HRA Strategic Priorities			
New Build Phase 4 – Environmentally Friendly Housing	2,036	(2,036)	Council agreed a budget motion to use HRA funding to deliver new environmentally friendly social housing. Work has been ongoing to progress such a scheme but has to date not been finalised or a way forward agreed
New Build Pilot	800	(800)	This scheme at Golcar is anticipated to be delivered in 2018/19
Ashbrow Extra Care	500	(500)	This scheme will largely be delivered in the next financial year
HRA Strategic Priorities Total	3,336	(3,336)	
HRA Baseline			
Estate & Environmental Schemes (District Committees)	1,470	(1,256)	A decision was taken not to deliver this programme in its current form. This neighbourhood led budget to was been under review during 2017/18
Maintaining Decency - Rewires/Kitchens /Bathrooms	6,771	(589)	Procurement issue linked to leaseholders on Communal Doors (£440k) and Rewires (£150k). Leaseholder works to be progressed in 2019/20
High Cost Voids	1,759	(570)	This is a responsive budget linked to void levels - void levels have been lower than usual and high cost work on voids has been lower than previous years.
HRA Baseline Total	10,000	(2,415)	

BREAKDOWN OF CAPITAL BUDGET CHANGES (SINCE QUARTER 3 MONITORING)

APPENDIX 6 c)

	£'000	£'000
QUARTER 3 CAPITAL BUDGET		111,773
Revenue Contributions to Capital**		1,395
Increase in Grants/Contributions		
Strategic Priorities:		
Highways – West Yorkshire Transport	406	
Baseline:		
Housing Private Sector	18	
Ward Based Activity (Insurance contribution)	79	
Economic Delivery (Waterfront Qtr & Dewsbury THI)	173	
Highways (Section 278 monies)	482	
Corporate Landlord Asset Investment - Parks & Open Spaces (£106 monies and contributions)	459	
Total Additions/Reductions		1,617
Revised Budget Prior to Capitalisation Directive		114,785
Capitalisation of staff voluntary severance and transformation costs (funded by “in-year” generated capital receipts)		5,970
REVISED OUTTURN BUDGET		120,755

***Borrowing subsequently used to fund capital instead of Revenue
Contributions, as per member approval; Early Closedown Review Report (17.4.18)*

PRUDENTIAL INDICATORS ACTUALS 2017/18**APPENDIX 7****Capital Expenditure, Capital Financing Requirement and External Debt**

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

	2016/17	2017/18	
	Actual <u>£000s</u>	Estimate* <u>£000s</u>	Actual <u>£000s</u>
Capital Expenditure			
General Fund	53,056	66,985	48,555
HRA	16,210	20,695	13,248
Sub-total (excl. PFI)	69,266	87,680	61,803
General Fund - PFI	1,392	1,849	1,849
HRA – PFI	174	266	266
Total	70,832	89,795	63,918
Financed by -			
Borrowing	17,092	29,453	15,465
PFI	1,566	2,115	2,115
Other	52,174	58,227	46,338
Total	70,832	89,795	63,918
CFR as at 31 March			
General Fund excl PFI	412,844	437,878	420,331
General Fund PFI	55,474	52,269	52,271
HRA excl PFI	186,181	182,843	182,843
HRA PFI	56,824	54,896	54,897
Total CFR	711,323	727,886	710,342
External debt as at 31 March			
Borrowing (excl interest accrued)	438,208	508,190	413,167
Other LT Liabilities	116,553	111,307	111,289
Total debt	554,761	619,497	524,456

*The PI estimates include an allowance for anticipated slippage of capital expenditure during the year.

The difference between the CFR and total debt reflects the amount of internal balances that are being “borrowed” to finance capital indebtedness.

Limits to Borrowing Activity

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

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

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

	2016/17	2017/18	
	Actual (max)	Limits/ Boundary	Actual (max)
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<u>Authorised limit for external debt</u>			
Borrowing	438.2	558.4	438.2
Other Long Term Liabilities	121.4	116.6	116.6
Total	559.6	675.0	554.8
<u>Operational boundary for external debt</u>			
Borrowing	438.2	508.2	438.2
Other Long Term Liabilities	121.4	116.6	116.6
Total	559.6	624.8	554.8

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

There is also a limit on HRA indebtedness set by the Department for Communities and Local Government under the recent HRA self-financing reform. The limit is set at £247.6 million for the HRA CFR, excluding PFI liabilities. The actual HRA CFR excluding PFI liabilities as at 31 March 2016 is £182.8 million which is well within the limit.

Affordability Prudential Indicators

Ratio of financing costs to net revenue stream

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

	2016/17	2017/18	
	Actual	Estimate	Actual
<u>Ratio of financing costs to net revenue stream</u>			
General Fund	10.00%	10.36%	7.31%
General Fund excl PFI	7.91%	8.05%	4.88%
HRA	32.07%	31.50%	31.32%
HRA excl PFI	30.07%	29.48%	29.28%

The actual for General Fund for 2017/18 was less than estimated largely due to the Council's decision to change its policy for the repayment of debt (MRP) from a 4% reducing balance basis to an annuity basis on supported borrowing from 2007/08 onwards, thus resulting in a much lower charge for 2017/18. The PIs have marginally decreased for HRA due to a reduction in depreciation charged to Council dwellings and slightly better income levels in year.

Summary Capital Plan & Funding Summary

Appendix 8 a)

<i>2018/19 – 2022/23 Capital Plan Expenditure Summary</i>	<i>2018/19 £'000</i>	<i>2019/20 £'000</i>	<i>2020/21 £'000</i>	<i>2021/22 £'000</i>	<i>2022/23 £'000</i>	<i>Total £'000</i>
General Fund:						
Strategic Priorities	31,201	52,270	40,316	10,895	1,526	136,208
Baseline	59,686	33,694	27,655	22,581	22,331	165,947
Risks & Pressures	1,000	1,000	1,000	1,000	1,000	5,000
General Fund Capital Plan	91,887	86,964	68,971	34,476	24,857	307,155
Housing Revenue Account:						
Strategic Priorities	13,459	10,961	11,281	17,258	11,504	64,463
Baseline	18,478	14,167	14,249	14,338	14,605	75,837
HRA Plan	31,937	25,128	25,530	31,596	26,109	140,300
TOTAL EXPENDITURE	123,824	112,092	94,501	66,072	50,966	447,455
Assumed Slippage	-22,269	-25,007	-19,565	-13,789	-9,728	-90,358
TOTAL FUNDING REQUIREMENT	101,555	87,085	74,936	52,283	41,238	357,097

<i>Funding Summary</i>	<i>2018/19 £'000</i>	<i>2019/20 £'000</i>	<i>2020/21 £'000</i>	<i>2021/22 £'000</i>	<i>2022/23 £'000</i>	<i>Total £'000</i>
Direct / Earmarked Contributions to Schemes						
<i>Capital Grants / Contributions applied</i>						
-In Year	24,863	16,865	15,602	14,114	13,864	85,308
-Funding brought forward (previous yr)	23,040	9,850	5,192	4,760	4,760	47,602
-Funding carried to next year	-9,850	-5,192	-4,760	-4,760	-4,760	-29,322
<i>Earmarked Capital Receipts</i>	10,791	1,590	2,679	4,968	3,241	23,269
<i>Revenue Contributions (HRA)</i>	18,580	10,380	10,925	13,194	6,513	59,592
<i>Reserves (HRA)</i>	9,400	11,917	11,493	13,579	16,500	62,889
Pooled Resources						
<i>Non Earmarked Capital Receipts</i>	6,000	8,000	8,000	8,000	8,000	38,000
<i>Commercial Loan Repayments</i>	0	4,000	8,000	8,500	2,848	23,348
<i>Corporate Prudential Borrowing</i>	41,000	54,682	37,370	3,717	0	136,769
Assumed Slippage :						
<i>Borrowing Slippage</i>	-14,822	-21,029	-16,523	-11,015	-7,004	-70,393
<i>Grants Slippage</i>	-7,447	-3,978	-3,042	-2,774	-2,724	-19,965
TOTAL FUNDING REQUIREMENT	101,555	87,085	74,936	52,283	41,238	357,097

Strategic Priorities Capital Plan including Rollover

Appendix 8 b)

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Learning & Early Support							
New Pupil Places in Primary/Secondary Schools	G/B S106	10,975	9,848	972	545	544	22,884
Delivery of an Autistic Spectrum Disorder (ASD) School to mitigate expenditure on out of area ASD placements	B	150	1,000	1,500	350	0	3,000
Learning & Early Support Total		11,125	10,848	2,472	895	544	25,884
Adults Social Care Operation							
Pump Prime & Commissioning Specialist Accommodation		750	1,250	0	0	0	2,000
Commissioning Option Appraisals to facilitate outcomes of Specialist Accommodation Strategy		250	500	0	0	0	750
Adults Social Care Operation Service Total		1,000	1,750	0	0	0	2,750
Economy Regeneration & Culture							
Aspirational Regeneration of Major Town Centres - Feasibility	B	500	0	0	0	0	500
Regeneration of Strategic Town Centres - Dewsbury	B	915	7,000	7,085	0	0	15,000
Regeneration of Strategic Town Centres - Huddersfield	B	1,050	12,172	10,759	6,500	0	30,481
Sports Facility (Spenborough area)	B	500	1,500	8,000	3,500	232	13,732
Sports Facility (Spenborough area) - KAL Contribution	B*	0	0	0	0	750	750
Huddersfield Leisure Centre	B	34	0	0	0	0	34
Dewsbury Learning Quarter	B	376	2,000	0	0	0	2,376
Local Growth Fund	B	550	0	0	0	0	550
Highways	B	151	0	0	0	0	151
HD-One (KSDL)	B	1,000	8,000	4,000	0	0	13,000
Property Investment Fund	B	8,000	9,000	8,000	0	0	25,000
Kirklees College Loan	B	6,000	0	0	0	0	6,000
Economy Regeneration & Culture Total		19,076	39,672	37,844	10,000	982	107,574
Strategic Priorities Total		31,201	52,270	40,316	10,895	1,526	136,208

Baseline Capital Plan including Rollover (Continued)

Appendix 8 b)

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Learning & Early Support							
Basic Need	G	836	2,152	500	500	500	4,488
Capital Maintenance	G	4,799	3,600	3,400	3,200	3,000	17,999
Devolved Formula Capital	G	939	900	850	800	750	4,239
One-Off Initiatives:							
SEND Provision	G	352	352	352	0	0	1,056
SEN future needs review – option appraisal commissioning	B	150	500	0	0	0	650
Early Years Provision	G	198	0	0	0	0	198
IT Infrastructure for Children's System	R	447	0	0	0	0	447
Healthy Pupils	G	358	0	0	0	0	358
Section 106 funded schemes	S106	2,157	0	0	0	0	2,157
Completed Schemes	G	106	0	0	0	0	106
Learning & Early Support Total		10,342	7,504	5,102	4,500	4,250	31,698
Adults Social Care Operation Total	G	300	700	0	0	0	1,000
Economy Regeneration & Culture							
Housing Private Sector							
Disabled Facilities Grants	G	3,452	2,721	2,721	2,721	2,721	14,336
Discretionary Assistance	R	163	100	100	100	100	563
Minor Adaptations	R	450	290	290	290	290	1,610
Other	G	2,001	0	432	0	0	2,433
Housing Private Sector Total		6,066	3,111	3,543	3,111	3,111	18,942
Economic Resilience	B/G	4,223	900	900	900	900	7,823
KAL - Self Funded	B*	3,456	500	617	617	617	5,807
Strategic Asset Utilisation /Rationalisation	B	2,560	300	0	0	0	2,860
Leeds City Region Revolving Fund	B	1,632	0	0	0	0	1,632
Economy Regeneration & Culture Total		17,937	4,811	5,060	4,628	4,628	37,064
Commercial Regulatory & Operational Services							
Highways							
Maintenance :							
Principal Roads	G	2,605	2,600	2,600	2,600	2,600	13,005
Roads Connecting Communities	G	2,074	1,369	1,164	856	856	6,319
Local Community Roads	B/G	2,872	2,247	2,247	2,247	2,247	11,860
Structures	G	1,678	1,200	1,200	1,200	1,200	6,478

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
(Highways continued)							
Street Lighting Replacement Strategy	B*	3,172	3,000	3,000	1,000	1,000	11,172
Unadopted Roads	B	130	50	50	50	50	330
Integrated Transport :							
Integrated Public Transport	B/G	806	300	0	0	0	1,106
Network Management	B/G	442	100	100	100	100	842
Cycling & Walking	B/G	135	20	20	20	20	215
Safer Roads	B/G	1,545	650	650	650	650	4,145
Town Centre Car Parking	B	596	100	100	100	100	996
Flood Management and Drainage Improvements	B/G	1,451	680	680	680	680	4,171
Developer Funded Schemes	S106	1,452	0	0	0	0	1,452
Highways Total		18,958	12,316	11,811	9,503	9,503	62,091
Corporate Landlord Asset Investment	B	5,665	4,250	2,300	1,300	1,300	14,815
Transport	B	2,317	1,250	1,250	1,250	1,250	7,317
Environment & Strategic Waste	B	148	100	100	100	100	548
School Catering	B/ B*	488	400	400	400	400	2,088
Electric Vehicle Charge Points	G	547	0	0	0	0	547
Commercial Reg & Operational Total		28,123	18,316	15,861	12,553	12,553	87,406
Office of the Chief Executive							
Ward Based Activity	B	192	0	0	0	0	192
Office of the Chief Executive Total		192	0	0	0	0	192
Finance & Transactional Services							
Information Technology	B*/ R	2,792	2,363	1,632	900	900	8,587
Finance & Transactional Services Total		2,792	2,363	1,632	900	900	8,587
TOTAL BASELINE		59,686	33,694	27,655	22,581	22,331	165,947

FUNDING KEY:

B = Borrowing

B* = Service funded Borrowing - Work is ongoing to remove this category and have one system of prudential borrowing.

G = Grant

R = Capital receipts

Housing Revenue Account Capital Plan including Rollover

Appendix 8 b)

	Funding	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Strategic Priorities							
Housing Growth	H / R	4,320	4,000	4,000	4,000	4,000	20,320
New Build Phase 1 - Ashbrow Extra Care	H / R	990	3,961	1,650	0	0	6,601
New Build Phase 2 - Soothill Extra Care	H / R	0	0	3,631	3,703	0	7,334
New Build Phase 3	H / R	0	0	0	7,555	0	7,555
New Build Phase 4 - Environmentally Friendly Housing	H / R	4,111	0	0	0	0	4,111
Garage/Green Space Development Phase 1	H / R	2,038	0	0	0	0	2,038
Remodelling / High Rise	H / R	2,000	2,000	2,000	2,000	2,000	10,000
Strategic Priorities	H / R	0	0	0	0	5,504	5,504
IT System (Universal Housing Replacement)	H	0	1,000	0	0	0	1,000
Sub-Total		13,459	10,961	11,281	17,258	11,504	64,463
Baseline							
Neighbourhood Investment (previously Whole Home)	H	10,889	9,005	9,004	9,009	9,190	47,097
Estate Improvements (Neighbourhood Investment)	H	1,988	731	746	760	775	5,000
Compliance	H	2,200	1,000	1,000	1,000	1,000	6,200
Fuel poverty	H / G	662	638	650	663	676	3,289
Adaptations	H	2,739	2,793	2,849	2,906	2,964	14,251
Sub-Total		18,478	14,167	14,249	14,338	14,605	75,837
TOTAL HRA PLAN		31,937	25,128	25,530	31,596	26,109	140,300

FUNDING KEY:

H = HRA revenue contribution/major repairs reserve

R = Capital receipts

G = Grant

Summary of Capital Plan Changes

Appendix 8 c)

	GENERAL FUND		HRA	
	£'000	£'000	£'000	£'000
CAPITAL BUDGET PLAN (Council 14.02.18)		254,360		134,608
ROLLOVER:				
2017/18 Outturn	52,178		6,774	
Removal	-4,400		-1,082	
Total Rollover into New Plan		47,778		5,692
BASELINE PLANS - ADDITIONS/REDUCTIONS				
Grant Changes:				
Learning & Early Support, Capital Maintenance 2018.19 Grant to be received above budget assumption	198			
Learning & Early Support, Capital Maintenance Grant increase in 4 year budget assumptions (2019.20-2022.23)	800			
Learning & Early Support, Additional Section 106 monies	525			
Learning & Early Support, Healthy Pupils Grant	358			
Learning & Early Support, net change in grant (-£23k for DFC, +£33k for Studio School)	14			
Housing Private Sector, Additional Disabled Facilities Grant	115			
Housing Private Sector, Dewsbury Housing & Enterprise Growth Zone	4			
Highways, Net Reduction in Grant assumptions (approved Cabinet 20.3.18)	-1,083			
Highways, Additional Grant	438			
Corporate Landlord Asset Investment - Parks & Open Spaces reduction in Grant/S106 assumptions	-126			
New Schemes:				
Strategic Network of Electric Vehicle Rapid Charging Points	547			
Information Technology- GDPR related IT systems upgrades	300			
Information Technology- Digital by Design	2,927			
Total Additions/Reductions		5,017		0
REVISED CAPITAL ROLLOVER PLAN (2018/19-2022/23)		307,155		140,300

KIRKLEES COUNCIL - FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

1. 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.
2. 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.
3. 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 :
 - i) *funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;*

Qualifying expenditure in 2017-18

£2.5m transformation spend – used to support the Programme Management Office and the Council's external business partner in providing governance, monitoring, review and delivery of transformation and change.

£3.5m voluntary severance costs – will deliver future ongoing efficiency savings to the Council through a rationalised workforce.

- ii) *driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;*
4. 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 November 17th, 2017.
5. The extent to which capital receipts will actually be applied in-year will take into account the following factors :
 - i) the amount of capital receipts actually generated in-year;
 - ii) the amount of qualifying capitalisable revenue expenditure in-year;
 - iii) 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 Council's annual general fund capital plan

6. 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.
7. It is intended that officers will update members as part of the annual budget report to full Council each February, and finalised proposals for the flexible use of capital receipts to be incorporated into an annual early closedown review report for Cabinet consideration early April.



Name of meeting: Corporate Governance and Audit Committee **11 May 2018**

Title of report: Annual Report on Treasury Management 2017-18

Purpose of report

Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report reviews borrowing and investment performance.

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?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	Yes
The Decision - Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by Service Director & name	Eamonn Croston
Is it also signed off by the Service Director for Finance, IT and Transactional Services?	As above
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft
Cabinet member portfolio	Cllr Graham Turner Cllr Musarrat Khan

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: Public

1. Summary

- 1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 15 February 2017. Investments averaged £37.9 million, were largely deposited in instant access accounts and earned an average interest rate of 0.26%. Total external borrowing decreased for the year by £25.0 million to £413.2 million. (£438.2m 31st March 2017) The decrease is due to a variety of reasons including; repayment of existing debt, slippage in the capital

plan and increases in reserves due to policy changes. The majority of borrowing is on fixed rate terms and the average borrowing rate for 2017-18 was 4.76%.

- 1.2 In 2017-18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.
- 1.3 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1m. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1m each year over the next 10 years, starting from 2017-18 onwards. Within the 2017-18 accounts this has resulted in the budgeted over-provision element of £9.1m being transferred to financial resilience reserves in order to strengthen the Council's overall financial resilience as per the Council's approved reserves strategy.
- 1.4 Treasury management costs incurred in the year include £10.4 million on net interest payments and £4.1 million on providing for the repayment of debt (MRP). The Council complied with its treasury management prudential indicators in the year.
- 1.5 This report also notes a number of early 2018-19 treasury management issues for consideration. These include options for re-financing two current Lender Option-Borrower Option loans at £10m each, and a proposed amendment to the treasury management strategy to include a further potential loan funding source; SALIX Finance, a government funded interest free loan funding body for public sector services. It also considers potential Council investment in a property fund investment fund, CCLA, specifically set up for not-for profit investors, including local authorities.

2. Information required to take a decision

2.1 Background

- 2.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.
- 2.1.2 Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.

- 2.1.3 In reviewing performance, reference will be made to the Treasury Management Strategy Report approved by Council on 15 February 2017.

2.2 Borrowing and Investment Strategy 2017-18

- 2.2.1 The Councils overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2017-18. The Council aims to invest externally balances of £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.

2.3 The economy and interest rates

Below paragraphs 2.3.1-2.3.2 are a commentary from our external treasury management advisors, Arlingclose

- 2.3.1 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.
- 2.3.2 The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

2.4 Investment activity

- 2.4.1 The Council's treasury management investments totalled £36.1 million as at 31 March 2018 (£31.3 million 31 March 2017). The Council invested an average balance of £37.9 million externally during the year (£41.8 million 2016-17). Income of £98k was generated through these investments (£153k 2016-17). Appendix 1 shows where investments were held at the beginning of April, the end of September and the end of March, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.26% (0.37% 2016-17). The fall in rates between the years reflects the Base Rate in 16-17 being 0.5% until autumn and then a reduction to 0.25%. In the current year there has been 4 months at the increased rate of 0.5%, but there is also an element of lag in institutions passing on the benefit of higher interest rates.

2.4.2 The majority of investments were placed in instant access bank deposit accounts/Money Market Funds (MMFs). MMFs offer greater diversification of counterparties and thus lower risk, as well instant access and relatively good returns.

2.5 Borrowing requirement and debt management

2.5.1 In terms of borrowing, long-term loans at the end of the year totalled £392.5 million and short-term loans (excluding interest accrued) £20.7 million (£400.5 million and £37.7 million 31 March 2017), an overall decrease of £25.0 million. There was no new long term borrowing in 2017-18. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2018.

2.5.2 Fixed rate loans account for 81.25% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 9% of all 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.

2.5.3 The primary source of the Council's borrowing is from the Government ie Public Works Loan Board (PWLb).

2.5.4 The table below sets out the estimated external borrowing requirement against actual requirements;

	2017-18 £m estimated	2017-18 £m actual
General Fund CFR - Non PFI	437.9	420.3
PFI	52.3	52.3
HRA CFR - Non PFI	182.8	182.8
PFI	54.9	54.9
Total CFR	727.9	710.3
Less: Other debt liabilities*	111.3	107.1
Borrowing CFR	616.6	603.2
Less: Deferred Liabilities	4.1	4.1
Less: Internal borrowing	104.3	185.9
PWLb Loans	278.6	278.6
LOBOs	76.6	76.6
Loan Stock (Fixed Rate)	7.0	7.0
Other LT Loans (Fixed Rate)	30.3	30.3
Temporary Borrowing	115.7	20.7
Total : External Borrowing	508.2	413.2
Investments	30.0	36.1

2.5.5 As can be seen from the table above the temporary borrowing requirement is far lower than expected due to a combination of an increase in internal balances (it was expected that these would reduce in year by £38.0m from £146.4m) and additional slippage in the capital plan of £21.8m.

2.5.6 The Local Capital Finance Company established in 2014 by the Local Government Association as an alternative source of local authority finance. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. It has yet to issue any loans but officers will continue to monitor developments of this potential new funding source.

2.5.7 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2017-18.

2.5.8 The average long term borrowing rate for 2017-18 for the Council's long-term loans outstanding was 4.76% (4.78% 2016-17).

2.6 Trends in treasury management activity

2.6.1 Appendix 4 shows the Council's borrowing and investment trends over the last 5 years. This highlights the current trend to re-pay long term debt at maturity and where required borrow over the short term.

2.7 Risk and Compliance Issues

2.7.1 The Council has complied with its prudential indicators for 2017-18, which were approved as part of the Treasury Management Strategy. Details can be found in Appendix 5. Indicators relating to affordability and prudence will be highlighted in the 2017-18 Outturn Report to Cabinet and Council In June and July.

2.7.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £100k. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.381m. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10m per counterparty.

2.7.3 In line with Council treasury management strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.

2.7.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

- 2.7.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2017-18. Training was provided to Members on the 17th November 2017.

Looking ahead – Treasury Management developments in 2018-19

2.8 Re-financing/re-payment of current Long Term Borrowing

- 2.8.1 As outlined within the Council approved Treasury Management Strategy 2018-19, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.
- 2.8.2 Within the next 12 months there are 2 Lenders Option Borrowers Option (LOBO) loans which may present us with an option to convert or re-finance and these as detailed further below.
- 2.8.3 The Council currently has a £10.0m Range LOBO with Barclays. The Range LOBO has an annual rate of interest of 3.4% when the 6 month London Interbank Offered Rate (LIBOR) Rate is between 4%-6%, and a rate of 4.1% when it falls outside of this. Currently the LIBOR Rate is 0.83% and hasn't been as high as 4% since November 2008. The current interest rate is therefore 4.1%.
- 2.8.4 Barclays have approached the Council to convert the LOBO into a fixed rate of interest. The rate is currently subject to discussion between both parties, and would remain until maturity of the loan on 15th January 2067. This could generate immediate savings per annum. By way of illustration, a mid-point fixed rate of 3.75% would equate to immediate £35k annual savings to the Council for the remainder of the loan.
- 2.8.5 The Council also has a £10.0m LOBO loan with Commerzbank. The rate of interest applied for the first 2 years of the loan was 3.8%, which then increased to 5.0% after the first 2 years as per the signed agreement. This LOBO loan matures on the 9th June 2042.
- 2.8.6 Commerzbank have also approached the Council to review options for re-paying this loan early.
- 2.8.7 On both LOBO loans the Lender has the option to exercise their right to change the interest rate. At which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost.
- 2.8.8 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review both lender options, and proceed if they are considered to be in the longer term best interests of the Council.

2.9 Loan Funding Sources

- 2.9.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current treasury management strategy. These may be at preferential rates of interest and therefore the Chief Financial Officer (s151 officer) will look to maximise the use of source funds when it is preferential to do so.
- 2.9.2 One opportunity is a source of funding from SALIX Finance Ltd. SALIX provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council has taken the opportunity to apply to SALIX for interest-free loan funding to be applied against the £11m Council approved street lighting replacement scheme within the 2018-19 – 2022-23 Capital Plan, which would otherwise be funded entirely from Council prudential borrowing.
- 2.9.3 SALIX has approved an in-principle £5.9m interest-free loan, repayable over a 7 year period.
- 2.9.4 The in-principle SALIX loan agreement requires Council approval to incorporate this type of loan product into its overall borrowing portfolio. It is estimated that this would save the Council £55k in interest payments over the period of the scheme, based on current short-term borrowing rates. If interest rates were to increase, the comparable savings to the Council would be higher.

2.10 Investment Opportunities

- 2.10.1 The Local Authorities Property Fund was established in 1972, and is managed by CCLA Fund Managers. Any Local Authority in the United Kingdom can invest in the Fund, and the minimum investment is £25k. The Fund aims to provide investors with a high level of income and long-term capital appreciation, and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets, but may invest in other assets. There is an accompanying prospectus and factsheet attached to this report, for information.
- 2.10.2 Such funds tend to generate a higher rate of return. For example, (016-17 returned 3.07% dividend on the Local Authority Property Fund compared with the Council's average rate of return on investments of 0.37%.
- 2.10.3 Clearly there are increased risks associated with higher yield investment opportunities, and any potential investment would need to be considered very much as a much longer term investment strategy, pro-actively managed by CCLA, to manage those risks over time.
- 2.10.4 Investment opportunities in funds such as the CCLA are not part of the current Treasury Management Investment Strategy for 2018-19.

2.10.5 The annual budget report to Budget Council on 14 February 2018, in setting out the treasury management strategy for 2018-19, noted that the strategy reflected the pre-existing CIPFA Prudential Code and statutory Government guidance on Investment strategy and Minimum Revenue Provision. The CIPFA code and Government statutory guidance was updated early 2018, and officers intend to bring forward an updated Treasury Management Strategy, for member consideration, at the same time as the Budget Strategy Update report, in Autumn 2018.

2.10.6 It is proposed that as part of the treasury management strategy update, officers will bring forward more detailed proposals for potential investment in the Local Authority Fund and any other investment opportunities.

3. Implications for the Council

- 3.1 Early Intervention and Prevention (EIP) – no impact
- 3.2 Economic Resilience (ER) – no impact
- 3.3 Improving Outcomes for Children – no impact
- 3.4 Reducing demand of services - no impact
- 3.5 Other implications – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. Consultees and their opinions

None.

5. Next steps

Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet in June and Council in July 2018 as part of the overall financial outturn and rollover report 2017-18.

6. Officer recommendations and reasons

CGAC are asked to consider the following for Cabinet and Council approval ;

- 6.1 note treasury management performance in 2017-18 as set out in this report;
- 6.2 agree officer proposals to review the two LOBO loan re-financing options in conjunction with Arlingclose, and to proceed if considered beneficial to the Council;
- 6.3 agree an amendment to the existing borrowing strategy to incorporate

SALIX Finance as an interest free loan funding source; and

- 6.4 note officer intention to bring forward more detailed proposals regarding potential investment in the Local Authority Fund, as part of the Treasury Management strategy update later in the year, for member consideration

7. CPAG recommendations

To follow

8. Contact officer

Eamonn Croston Acting Service Director for Finance, IT and Transactional Services

James Buttery Finance Manager

9. Background Papers and History of Decisions

CIPFA's Code of Practice on Treasury Management in the Public Services.

CIPFA's Prudential Code for Capital Finance in Local Authorities. Public Works Loan Board Website.

Treasury Management Strategy Report approved by Council on 15 February 2017.

Local Authorities Property Fund & Factsheet

10. Service Director responsible

Eamonn Croston

01484 221000

APPENDIX 1

Kirklees Council Investments 2017/18											
Counterparty		Credit Rating Mar 2018*	1 April 2017			30 September 2017			31 March 2018		
			£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment
<u>Specified Investments</u>											
Bank of Scotland	Bank	F1/A+	1.3	0.20%	Instant Access			Instant Access			Instant Access
Svenka Handelsbanken	Bank	F1+/AA			Instant Access	8.0	0.20%	Instant Access			Instant Access
Std Life	MMF**	AAAmmf	8.7	0.28%	Instant Access	10.0	0.20%	Instant Access	9.9	0.46%	Instant Access
Aviva	MMF**	Aaa-mf	7.3	0.22%	Instant Access	10.0	0.16%	Instant Access	10.0	0.42%	Instant Access
Deutsche	MMF**	AAAmmf	6.9	0.20%	Instant Access			Instant Access	9.0	0.37%	Instant Access
Goldman Sachs	MMF**	AAAmmf	7.1	0.20%	Instant Access	3.5	0.13%	Instant Access	7.2	0.37%	Instant Access
			31.3			31.5			36.1		
<u>Sector analysis</u>			£m	%age		£m	%age		£m	%age	
Bank			1.3	4%		8.0	25%				
Building Society											
MMF**			30.0	96%		23.5	75%		36.1	100%	
Local Authorities/Cent Govt											
			38.3	100%		31.5	100%		36.1	100%	
<u>Country analysis</u>			£m	%age		£m	%age		£m	%age	
UK			1.3	4%							
Sweden						8.0	25%				
MMF**			30.0	96%		23.5	75%		36.1	100%	
			31.3	100%		31.5	100%		36.1	100%	

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

Key – Fitch’s credit ratings:

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

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2018

Long-term loans repaid during 2017/18

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (498358)	2,768	4.24	21 Aug 17
PWLB (496734)	4,613	8.375	6 Dec 17
Repayments on annuity loans			
PWLB (496956)*	322	4.58	29 Sep 17
PWLB (496956)*	329	4.58	29 Mar 18
Total	8,032		

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

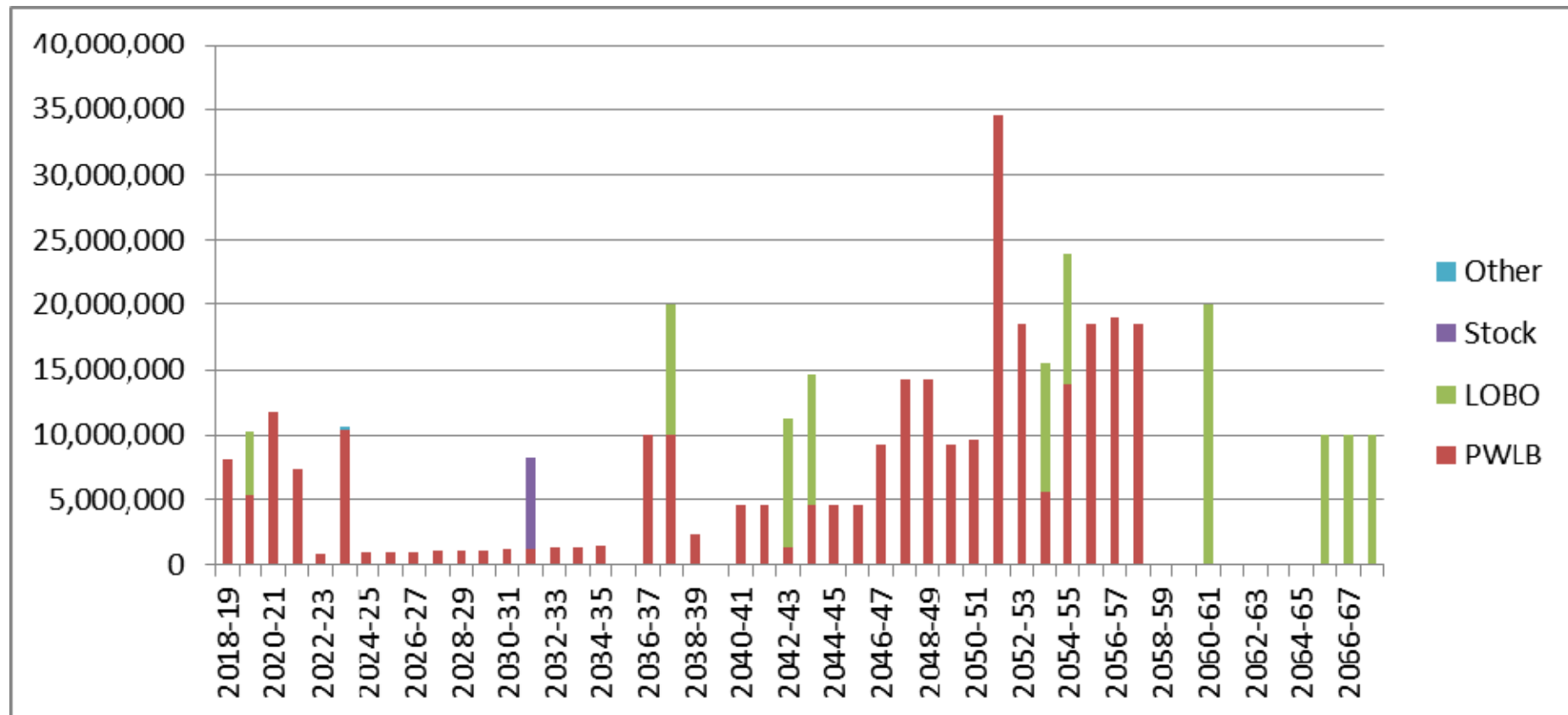
Short-term loans outstanding 31 March 2018

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
London Borough of Newham	5,000	0.45	19
Gateshead Council	5,000	0.55	9
Local lenders/Trust Funds	2,626		
Long-term loans due to mature in the next twelve months	8,062		
Total*	20,688		

* excludes interest accrued

Kirklees Council Loan Maturity Profile (All Debt)

Appendix 3



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2018	2017	2016	2015	2014
Investments	36.1m	31.3m	38.3m	38.7m	33.1m
ST Borrowing (excl interest accrued)	20.8m	37.7m	16.0m	21.1m	29.6m
LT Borrowing	392.4m	400.5m	408.4m	422.6m	432.4m
Total Borrowing	413.2m	438.2m	424.4m	443.7m	462.0m
Deferred liabilities (non PFI)	4.1m	4.1m	4.3m	4.4m	4.5m
Net debt position	373.0m	411.0m	390.4m	409.4m	433.4m
Capital Financing Requirement (excl PFI)					
General Fund	420.3m	412.8m	411.3m	422.2m	447.5m
HRA	182.8m	186.2m	192.4m	196.6m	203.3m
Total CFR	603.2m	599.0m	603.7m	618.8m	650.8m
Balances "internally invested"	185.9m	156.7m	175.0m	170.7m	184.3m
Ave Kirklees' investment rate for financial year	0.3%	0.4%	0.5%	0.4%	0.4%
Ave Base rate (Bank of England)	0.3%	0.3%	0.5%	0.5%	0.5%
Ave LT Borrowing rate (1)	2.5%	2.5%	3.2%	3.7%	4.3%

(1) Based on average PWLB rate throughout the year on a 20 year loan repayable on maturity.

APPENDIX 5

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 2017-18	Actual 2017-18
Interest at fixed rates as a percentage of net interest payments	60% - 100%	81%
Interest at variable rates as a percentage of net interest payments	0% - 40%	19%

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 2017-18	Actual Levels 2017-18
Under 12 months	0% - 20%	3%
12 months to 2 years	0% - 20%	2%
2 years to 5 years	0% - 60%	6%
5 years to 10 years	0% - 80%	4%
More than 10 years	20% - 100%	85%

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

Total principal sums invested for periods longer than 364 days

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