

Outturn & Budget Monitoring July 2019 Council

This year has been another challenging year for balancing the books.

Continued Government funding arrangements and changes, together with the economic climate, present ongoing concern for this council's budgets. It is important that this council looks to grow its economy at the same time as ensuring that it uses under-spends to support economic growth, the budget strategy reserve and general balances, bearing in mind the Medium Term Financial Strategy.

I am pleased to say that we have finished the year with an under-spend of £40,377. This is not a feat that happens without a great deal of hard work and sound financial management, by those who work for us across the authority and its partner organizations who constantly work to find savings, cut costs and generate income wherever they can. This saving has been transferred into the Budget reserve pending decisions for its use in future years.

A number of savings are the result of delays or slippage which are still necessary and will need to be completed in the financial year 2019/20. Where this applies, requests for carry forwards are documented in Appendix 5 to this report. A full explanation of all variances over 50,000 can be seen at appdx 4

Two requests has been made to carry forward an underspend to be used in a different way to that for which the budget was originally intended. Since this falls outside the budget set by Council in February 2018, their alternative use requires council approval.

Treasury Management

With the 29th March 2019, the original EU 'exit day' now been and gone, having failed to pass a number of meaningful votes in Parliament, including voting down Theresa May's deal for the third time, MPs voted by a majority of one (313 to 312) to force the prime minister to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. All talks between the Conservative and Labour parties to reach common ground on a deal which may pass a vote by MPs have not yielded any positive results. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Local context

On 31st March 2019, the Authority had net borrowing of £101.525m arising from its revenue and capital income and expenditure, an increase on 2017/18 of £47.956m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement, while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1.

Borrowing position

At 31st March 2019, the Authority held £120.595m of loans, an increase of £48.509m on the previous year, as part of its strategy for funding the current years' capital programme and maintaining cashflow. The year-end borrowing position and the year-on-year change is show in table 3.

The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2019 and the year-on-year change is show in table 2

The council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The current strategy has been to fund a number of capital asset purchases with the use of temporary borrowing and then take long term borrowing from the Public Works Loan Board. At the back end of September 2018 the Council took out 38 Maturity loans with the PWLB for £43.083m to fund the purchase of several commercial properties within the Borough. The loans were taken out over 3yrs to 40yrs with the average rate of 2.57%. This has saved £940k in interest over the life of the borrowing when compared to the original business cases. A further £7m was taken out for 50 years at a rate of 2.55% to fund the build of the new Crematorium.

The Authority continues to hold £7m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2018/19.

Investment Activity

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured bank investments, the council further diversified into higher yielding asset classes during 2018/19. £2m was invested into the Schroder Maximizer Income Fund and a further £2m was invested in the CCLA Diversified Income Fund. Returns on all three pooled funds have significantly increased the revenue returns compared with fixed term deposits.

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Authority's investment balance ranged between £16.625m and £65.510m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change is shown in table 4.

Business Rates

The final outturn for the Pilot is a gain of £14.27 million and the distribution of the pilot benefit, based on the previously agreed methodology, is set out in the table at 6.2, the Council's share of the pilot gain was £607,002.

One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return which is submitted to the Ministry of Housing, Communities and Local Government. The NNDR1 return was submitted by the deadline of 31st January 2018 and the budget was based on the figures within that return.

The table at 6.4 shows the actual performance against the revised budget with an overall positive variance of £231,177.

Capital Outturn

The outturn position in respect of General Fund capital is contained in Appendix 8. Members are asked to note the outturn position and, where there is slippage, approve the carry forwards as requested by officers.

Following an initial risk assessment of allotment provision over the short to long term it is considered unlikely that the current budget allocation of £561,402 is required. It is proposed that £400,000 is reallocated to the High Street fund to support delivery of phase 2. A full risk assessment will be undertaken and presented to Cabinet later this year to agree the final amount to be reallocated.

In addition, in light of the current development of the High Street following the successful completion of Phase 1, it is recommended that the £1.8m set aside for the development of Boots Corner is reallocated to the next phase of the High Street (planned to be the Strand and Cambray Place) and this capital is then replenished by future allocations via Community Infrastructure Levy (CIL), future review of capital projects and any reallocation arising with continued investigation of match grant funding.

Reserves

The Section 151 Officer has, under delegated powers (financial rule B11.4), authority to make transfers to and from these operational reserves in accordance with the intention of the reserve as determined by the Council's Reserves Policy and Protocol. The transfers approved by the Section 151 Officer for 2018/19 are set out in the outturn performance position schedules at Appendix 2 and 3.

Appendix 6 also details the reserves held by the Council, states their purpose and indicates the balance at 31st March 2019. In setting the budget for 2019/20 a review of reserves was undertaken to assess whether the levels were appropriate and in line with the policy for reserves and balances; and also whether they took into account the needs and risks of the organisation and the prevailing economic conditions. At the year end this process has been repeated, the optimum level to be £1.348m. At the year end, the General Fund Balance stands at £1.321m and therefore is marginally below the optimum level recommended.

An assessment of the Council's earmarked reserves has been made in line with the fiduciary duty of the Section 151 Officer at the year end. Accepting that the front-loaded cuts to core government funding could leave the council exposed without clear decision-making in delivering a balanced budget, the level of reserves appears adequate at this point in time and no other changes are currently recommended.

However, it is important to make Members aware of the following points.

The current Medium Term Financial Strategy (MTFS) supports all windfalls and underspends being earmarked towards the Budget Strategy Support Reserve (BSSR).

Given the risks arising from Business Rates volatility, both through appeals and the future proposals for full business rates retention, it should be noted that wherever possible, the Business Rates Retention Equalisation Reserve should also be strengthened to mitigate these risks.

Members can see the position statement with regards to Section 106 receipts at appdx 9, I know that the bottom line amount often causes members some concern and I have received a number of enquiries as have officers which have been answered, I would ask if members have detailed questions that they come to me following the meeting rather than in the debate.

Council tax and business rates continue to be collected at very high rates members can see this at appdx 10 along with the sundry debt collection at appdx 11.

The last item (but by no means least) of the outturn report is the HRA

The revised forecast for the HRA, as presented to Council in February anticipated a net increase to revenue reserves of £183,700 leaving a balance of £8,785,200 at 31st March 2019.

The outturn statement at Appendix 12 shows a positive variance

HRA Capital Programme (Appendix 13)

Actual expenditure for the year was £9,479,235, an underspend of £296,065 on the forecast of £9,775,300.

The programme includes a number of projects where expenditure plans span a number of financial years and are delivered through more than one contract. Where delays occur, for example through extended consultation with leaseholders or procurement issues, opportunities are sought for advancing other projects within overall funding. Costs remain controlled at both contract and project level.

As we have come to accept not just expect our ALMO consistently improves our existing housing stock through an extremely proactive approach to budget management.

There are a couple of things I would like to just mention with regards to the budget monitoring. Due to the pressures of the year end process a detailed monitoring exercise has not been undertaken at this point in the year.

However, the following significant variances have been identified at this stage.

Salary Vacancies

The council carries a salary vacancy target saving of £372,800 per annum allocated to individual service areas and achieved via staff turnover or vacant posts being held open.

A review of salary underspend against this target for the first three months of the financial year shows that this target is likely to be delivered, although this will be carefully monitored throughout the year.

Car Parking there is a current surplus of £23k in the first quarter of 2019/20. At the cabinet meeting on the 9th July I proposed that consideration be given to an element of any surplus income over and above what is already budgeted to be placed into an ear marked reserve for climate change initiatives, as colleagues are well aware this council has declared a climate change emergency with a report coming back later in the year on potential actions. I am proposing to bring a formal commitment back to cabinet in the quarter two budget monitoring in October this year.

Cemetery & Crematoria – income

With the new crematorium now fully opened, the income has returned to the budgeted level. There is an £11k deficit for the 1st Quarter, mainly of additional sales such as headstones rather than burials and cremations, but this is expected to be made up during the remainder of the financial year.

Ubico Ltd. Operations

The current contract sum for Ubico is £8.921m. We have not been advised that there are any issues with this sum and therefore we are still on track to achieve the budget for this financial year.

I am sure you will all support me in saying a huge thank you to each and every member of this authorities staff and our partners.

Finally Mayor

Despite continuous financial uncertainty from central government our officers together with this administration have not only come in on budget but also with a small underspend despite some challenges. With your permission I will just say that the proof is in the award that Paul presented to you earlier as the judges said a whole council approach delivering for our residents.