DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	FINANCE AND DEMOCRACY COMMITTEE	19 JUNE 2017	4

MEDIUM TERM FINANCIAL STRATEGY (MTFS) – GENERAL FUND REVENUE, CAPITAL PROGRAMME & TREASURY MANAGEMENT OUTTURN POSITION FOR 2016/17

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

On 2nd March 2017 the Council set its budget for 2017/18 and also set a revised budget for 2016/17. This report sets out for Members the expected General Fund Revenue, Capital, and Treasury Management Outturn position for the financial year 2016/17. The report outlines the major variations between the latest approved budget and the actual outturn expenditure and quantifies the impact on the Council's reserves. The report also includes a summary of the Council's Treasury Management operations for the financial year. Work is still ongoing and some minor variations may be identified which will be reported in future Medium Term Financial Strategy (MTFS) updates.

RECOMMENDATIONS

The Finance and Democracy Committee is recommended to:

1. approve the General Fund Revenue Outturn position as summarised in table 1 of the report;
2. approve the revenue slippage items as set out in Appendix C of the report;
3. approve the transfers to earmarked reserves as set out in paragraphs 2.5 & 2.6 and as summarised in table 1 of the report;
4. approve the Capital Outturn position, including financing, as set out in sections 6 to 9 of the report;
5. approve the capital slippage items as set out in Appendix E of the report; and
6. approve the Treasury Management Annual Report as set out in sections 10 to 12 and the actual Prudential Indicators set out in Appendix F of the report.

SUMMARY OF PREVIOUS DECISIONS

The outturn position for the prior financial year is considered by members annually. There are no previous decisions in respect of the 2016/17 financial outturn.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (**Value for Money**)	√
Delivering the services that customers expect of an excellent council (**Clean and Green**)	√
Working with all partners (**Vibrant Economy**)	√

To make sure Fylde continues to be one of the most desirable places to live (**A Great Place to Live**)	√
Promoting Fylde as a great destination to visit (**A Great Place to Visit**)	√

REPORT

1. Introduction

1.1 The Revenue Budget Forecast Update was reported to the Finance and Democracy Committee in both November 2016 and January 2017 and to Council in December 2016 and February 2017, with the Medium Term Financial Strategy (MTFS) and budget decisions presented to full Council for approval in March 2017. This report sets out the outturn position at the end of the financial year to 31st March 2017.

2. General Fund Revenue Outturn Position (including Collection Fund)

2.1 On the 2nd March 2017, Council approved a revised Revenue Budget net requirement of £9.049m for 2016/17. The outturn position for 2016/17 is a net requirement of £8.789m resulting in a favourable variance (before financing and slippage) of £0.260m. A £0.186m favourable variance against the budgeted total of financing received during the year has resulted in a Revenue Budget underspend, before slippage requests, of £0.446m.

2.2 The underspend position is summarised in Table 1 below:

Table 1 – Estimated General Fund Revenue Outturn Position:

	Budget £m	Actual £m	Variance £m	
Net expenditure for the year	9.049	8.789	(0.260)	(Fav)
Financing for the year	(10.039)	(10.225)	(0.186)	(Fav)
Surplus of resources for the year	**(0.990)**	**(1.436)**	**(0.446)**	(Fav)
Less:				
budgeted transfer to Accommodation Project Reserve	0.471	0.471		-
budgeted transfer to M55 Link Road Reserve	0.519	0.519		-
required transfer to GF balances re slippage	0.000	0.067	0.067	(Fav)
Balance - further transfers to reserves	**0**	**(0.379)**	**(0.379)**	(Fav)
Analysis of further recommended transfers to reserves				
- transfer to Accommodation Project Reserve	0	(0.135)	(0.135)	(Fav)
- transfer to M55 Link Road Reserve	0	(0.244)	(0.244)	(Fav)
Recommended further transfers to reserves	**0**	**(0.379)**	**(0.379)**	(Fav)

2.3 A more detailed analysis of the General Fund Revenue Account comparing actual expenditure against the revised approved estimate, analysed by service, is set out in **Appendix A**. A detailed list of the variances within services which contribute to the outturn position is set out in **Appendix B**.

2.4 The analysis of the 2016/17 financing at **Appendix A** includes a favourable variance of £0.186m in relation to government grants and council tax and business rate income. This arises as a consequence of the timing differences in the required accounting transactions between the Council's General Fund and the Collection Fund (the Collection Fund being necessary to allow the Council to account separately for business rate and council tax income).

2.5 There are a number of budget variances arising from slippage and other adjustments that are recommended for operational effectiveness. These items total £0.067m and are listed in **Appendix C**. **It is recommended that this sum is transferred to general fund balances at year end such that this**

expenditure can be met in 2017/18. The underlying underspend after accounting for this slippage is therefore reduced from £0.446m to £0.379m.

2.6 After allowing for slippage of £0.067m and the budgeted transfers to reserves of £0.990m there remains a favourable outturn variance of £0.379m. **It is recommended that the sum of £0.135m is transferred to the Accommodation Project Reserve to allow the scheme to be completed (as detailed in a separate report included elsewhere on this agenda) and that the remaining sum of £0.244m is transferred to the M55 Link Road Reserve in line with the approval of Council in July 2016 to make a contribution towards delivery of this project.**

2.7 Work continues to be undertaken to interrogate and verify the nature of any budget variances in order to continue the budget rightsizing work carried out during the last financial year. The outcome of this work will be reflected in future updates of the MTFS.

Business Rates Income (National Non-Domestic Rates – NNDR)

2.8 As a consequence of the revised arrangements in respect of business rates, which came into effect from 2013/14, local authorities became liable for a share of the cost of the settlement of appeals in respect of the valuation of properties by Valuation Office Agency (VOA), that being the body which determines business rates liability. All rateable values are supposed to be reassessed every five years at a general revaluation, although the last one, which was due in 2015, was delayed for two years and became effective on 1st April 2017.

Many businesses within the borough, and indeed nationwide, have lodged appeals against the level of their business rating valuations, with many long-outstanding appeals yet to be settled. These appeals are often supported by specialist rating agents and the outcome can be backdated to the date of the appeal or the last revaluation (i.e. 2010). This scenario can result in significant in-year business rate refunds being made to businesses whose appeals are successful. The VOA have committed to reducing the backlog of appeals within the system and each year a number of the appeals are either settled or dismissed by the VOA. The overall number of outstanding appeals for Fylde has reduced from c270 (with a total value of £9.613m) at 1st April 2016 to c170 (with a total value of £4.922m) at 31st March 2017. This reduction includes the effect of the largest value appeal in Fylde, relating to the Westinghouse Springfields site, being dismissed by the VOA during the year as reported to this committee at its meeting of 28th October 2016.

At that meeting the committee considered a report detailing a number of revisions to the business rates income expectations. The report also proposed that as a consequence of this predicted reduction in the value of the appeals provision, combined with a number of known upward revaluations of rateable values in respect of existing businesses in the borough and a number of additions as a result of new developments in the borough, that Fylde Council become a member of the Lancashire Business Rate Pool for 2017/18.

Based upon the revised assessment of Business Rate income expectations the Finance and Democracy Committee approved membership of the Lancashire Business Rate Pool for 2017/18 in order to maximise the Councils share of this additional income. The Committee also approved that the initial gains from membership of the pool (in terms of business rate income retained over and above the baseline level) are utilised to create a 'local safety net' to provide replacement funding in the event that actual income received fails to meet the baseline level. This is to be achieved through an additional contribution to the Funding Volatility Reserve in 2017/18.

The effect of the above changes to Business Rates income expectations for 2017/18 and beyond (including the 'one-off' further benefit for 2017/18) and the contribution to the Funding Volatility Reserve in 2017/18 have been reflected in the Financial Forecast that was approved at Budget Council in March 2017.

Fylde Council is required to make a levy payment of £1.464m to Central Government in respect of the government share of the increased business rate income in 2016/17 arising from both growth and the large reduction in the appeals provision. This payment has been reflected in the 2016/17 outturn position and will be funded from the Collection Fund Deficit Reserve, leaving a balance on the reserve of £0.381m. This reserve will be reviewed along with all other reserves as part of the budget setting process for 2018/19.

Each future update to the Financial Forecast will reflect the latest information on Business Rate income expectations, including any changes required as a consequence of the 2016/17 outturn position.

With regard to future levels of Business Rate income the government has announced its intention to further reform the Business Rate Retention arrangements with effect from 2019/20, one of the effects being to bring into question the viability of local Business Rate pools. Consequently the new arrangements may result in changes to the amounts of Business Rate income that is retained by Fylde Council which are, as yet however, unquantifiable. Each future update to the Financial Forecast will include the effects of any such changes as and when they are known.

3. Collection Fund Outturn Position

3.1 As a Council Tax and Non-Domestic Rates (NDR) Billing Authority, the Council is required by legislation to calculate the surplus or deficit for each financial year on the Collection Fund. Prior to 2013/14 the requirement was to maintain this for Council Tax only, however, as part of the Local Government Finance Act 2012 the Government implemented a Business Rates Retention Scheme from April 2013, whereby the collection and distribution of NDR is collected and distributed via the Collection Fund (distribution of NDR had previously been managed nationally).

3.2 For Council Tax only, there was a cumulative surplus on the fund as at 31st March 2017 of £302k. This will be shared between the Borough Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2017/18 & 2018/19. The Borough Council's share of the surplus is £41k.

3.3 For Non-Domestic Rates only, there was a surplus on the fund as at 31st March 2017 of £3.505m, which has been generated as a result of the circumstances explained section 2.8 of this report. The surplus will be shared between Central Government, the Borough Council, the County Council and the Fire & Rescue Authority in 2017/18 & 2018/19. The Borough Council's share of the surplus is £1.402m.

4. Statement of General Fund Revenue Balances

4.1 Table 2 details the Council's General Fund Balances position, as a result of the estimated Outturn at 31st March 2017:

Table 2 – Statement of General Fund Revenue Balances

	Budget £m	Actual £m	Variation £m	
Opening Balance 01/04/2016	3.481	3.481	-	
In-year surplus transferred to reserves re slippage	-	0.067	0.067	(Fav)
Closing Balance 31/03/2017	**3.481**	**3.548**	**0.067**	**(Fav)**

4.2 The first call on revenue balances in 2017/18 is the proposed slippage of £0.067m as set out in **Appendix C** leaving general fund balances after allowing for these items at £3.481m.

5. General Fund Revenue Outturn Conclusions

5.1 The favourable outturn position for revenue allows for a further contribution to be made to the Accommodation Project Reserve in the sum of £0.135m to provide for completion of the project to Phase 7 of the scheme, and a further transfer to the M55 Link Road Reserve of £0.244m. This has the effect of reducing the amount remaining to be transferred to the M55 Link Road Reserve in 2017/18 to £0.041m (thus providing a total contribution by Fylde Council of £1m to the Link Road scheme).

5.2 This favourable revenue outturn represents an improvement to the overall financial position of the Council. Future updates to the Financial Forecast during 2017/18 will reflect this improvement. However, in light of the potential for future reductions in central government funding and uncertainties around 100% business rate retention from 2019/20 onwards, the Council needs to continue with the approach to delivering savings and efficiencies which have helped deliver balanced budgets and provided contributions to reserves over recent years.

5.3 Through continued focus on the importance of financial stability the Council has delivered a significant savings programme since 2007 and has continued to significantly reduce senior management costs and other overheads. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain high quality frontline services to customers. This work has yielded ongoing savings to help improve the Council's financial position over that period and to continue to provide high quality services to residents. For Fylde Council to continue to successfully meet the new challenges that it faces it is vital that this approach is re-doubled and that all reasonable opportunities for further cost-reduction measures and for the generation of additional income are seriously considered. Prudent financial management in previous years has provided a level of reserves which allows the necessary time to determine how this council can best respond to the increased challenges.

5.4 Throughout 2016/17 much has been done to address the financial challenges and a number of important decisions were taken with regard to income generation and expenditure reduction that will have a positive effect on the financial forecast for future years, demonstrating a responsiveness to the current financial challenges which is essential for the Council to continue to benefit from a robust financial position.

These decisions have had the effect of going some way towards reducing the funding gap, particularly in the final years of the forecast, from that which previously existed. Further actions will be necessary to further address the remainder of the funding gap over the course of the coming years.

6. Capital Outturn 2016/17

6.1 The summary outturn position for capital is set out in table 3 below. The latest approved expenditure budget in the capital programme for 2016/17 was £4.952m, and outturn expenditure was £3.543m leaving a net underspend of £1.409m for the year.

After adjusting for slippage of £1.382m the overall outturn position for 2016/17 is an in-year £27k favourable variance against the latest updated estimate (as shown in table 3). Capital programme expenditure for 2016/17 and details of variances for all capital schemes are shown in **Appendix D**.

Table 3 - Latest Estimate Compared with Outturn 2016/17

	Notes	£m	
MTFS 03/03/16 Approved Capital Programme		4.952	
Latest Estimate		**4.952**	
Less Outturn Expenditure		(3.543)	
Net Underspend for Year		**1.409**	(Fav)
Less Slippage (as per Note 1)	**1**	(1.382)	
Underlying Variance at Outturn		**0.027**	**(Fav)**

Note 1: Capital Schemes Slippage Requests to 2017/18 (Full slippage explanations contained in **Appendix E**)

	£'000
Accommodation Project	365
Replacement Vehicles	38
Fylde Headlands Preliminary Work	8
93 St Albans Road – Compulsory Purchase Order	99
Disabled Facilities Programme	230
Affordable Housing Scheme – Sunnybank Mill, Kirkham	460
Affordable Warmth Scheme	18
Woodlands Road - Ansdell – Regeneration Phase 3	6
Kirkham Public Realm Improvements	21
M55 Link Road	137
Total Slippage requested	**1,382**

6.3 The first periodic update of the Five Year Capital Programme for 2017/18 will be amended to reflect the outturn results and any other changes approved to date.

7. Usable Capital Receipts 2016/17

7.1 Capital Receipts are a major component of the Council's capital financing strategy. Details of usable receipts are set out in table 4:

Table 4 - Useable Capital Receipts 2016/17

	Latest Estimate	Outturn	Variance +/-	
	£'000	£'000	£'000	
Opening Balance at 01/04/2016	362	362	0	
Capital Receipts received in year	70	13	(57)	(Adv)
Sub Total	**432**	**375**	**(57)**	(Adv)
Capital Receipts applied in year		(312)		
Closing Balance at 31/03/2017		**63**		

7.2 The adverse variance of £57k arises from the value of general capital receipts received and "Right to Buy" capital receipts from Progress Housing being less than budgeted for.

7.3 The closing balance of £63k includes residual receipts regarding assets sold to fund the accommodation project of £63k. The balance of receipts have been set aside into a capital receipts unapplied fund in order to finance future programmed expenditure on the Accommodation Project.

8. Capital Financing 2016/17

8.1 The proposed financing of capital expenditure is set out in table 5 below. The financing proposals represent the most cost-effective financing to the Council and leave it with the greatest flexibility in respect of future years.

Table 5 - Proposed Capital Financing 2016/17

	£'000
EXPENDITURE:	**3,543**
FINANCING:	
Grants & Contributions	1,441
Capital Receipts	312
Revenue Contribution	56
Accommodation Project Reserve	977
Capital Investment Reserve	757
Total Capital Financing	**3,543**

8.2 Should any minor changes be identified in capital expenditure as a result of final closure work, capital financing will be adjusted as appropriate.

9. Capital Outturn – Conclusions

9.1 After allowing for slippage the outturn position has produced an underlying programme favourable variance of £27k compared to the latest forecast reported to Members.

9.2 The outturn position will be reflected in future capital programme updates.

9.3 Full details of the capital outturn position on a scheme-by-scheme basis have been presented to each of the programme committees during the current meetings cycle.

10. Treasury Management Annual Report

10.1 **Summary**

This section of the report covers Treasury Management operations for the financial year to 31st March 2017. The Local Government Act 2003 requires the Council to adopt the CIPFA (the Chartered Institute of Public Finance and Accountancy) Prudential Code and produce Prudential Indicators.

The Council's treasury activities are regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Code of Practice requires authorities to report on the performance of the treasury management function.

The Prudential Indicators and Treasury Management Strategy for 2016/17 were originally approved in the Medium Term Financial Strategy 2016/17 Report to Council on 2nd March 2016. The Prudential Indicators are updated as required and changes have been approved by Council in the Mid-Year Prudential Indicators & Treasury Management Monitoring Report to Council on 5th December 2016 and the Medium Term Financial Strategy Report to Council on 2nd March 2017. The Prudential Indicators and the out-turn position for 2016/17 are shown at **Appendix F.**

11. Implications

11.1 **Economic Background**

There was significant market volatility during the year due, to a large extent, to the outcome of the referendum on membership of the European Union, the largely unexpected result of the US presidential election and a slowdown in the rate of growth of the Chinese economy.

The EU referendum outcome in particular prompted a decline in household, business and investor sentiment, at least initially. The short to mid-term economic outlook remains uncertain and will doubtlessly remain so until the future relationship between the UK and the rest of Europe is settled. The Bank of England cut the Bank Rate to 0.25% in August 2016 and embarked on further gilt and corporate bond purchases and provided cheap funding for banks.

There was a sharp fall in the Sterling exchange rate following the referendum and this had an impact on import prices which, together with rising energy prices, resulted in inflation rising from 0.3% in April 2016 to 2.3% in March 2017.

11.2 **Borrowing**

In line with advice from treasury advisors the borrowing strategy is to postpone new borrowing and to utilise in-house cash balances instead (also known as internal borrowing). This is the most prudent strategy, particularly in periods when investment returns are low and counter-party risk is high. Such a strategy minimises treasury risk by reducing both external debt and in-house investments. Therefore, no new long term borrowing has been taken during the year.

Existing long term borrowing has only been undertaken for a capital purpose and the statutory borrowing limit (the Authorised Limit) of £7.0m was not breached.

The Council's borrowings at 31st March, 2017 were all at a fixed interest rate (average rate 3.36%) and are set out in Table 6.

Table 6 – Analysis of Borrowing

Type of Loan	Balance 31.03.17 £m
Public Works Loan Board (PWLB)	1.0
Gross Borrowing	**1.0**
Operational Boundary	**1.0**

The figures in this report are based on the actual amounts borrowed and invested and so may differ from those in the final statutory annual accounts by items such as accrued interest and other statutory accounting adjustments.

11.3 **Investments**

The security of investments is the Council's main investment objective. This is achieved by adhering to the Treasury Management Strategy approved by Council on 2nd March 2016 by investing with organisations with high credit quality. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

11.4 **Internally Managed Funds**

During the year the Council held an average cash balance of £22.1m of internally managed funds, which were invested with approved banks, money market funds, Lancashire County Council and a number of other Local Authorities in line with the approved Treasury Management Strategy.

The overall performance was a gross return of 0.41%, compared with a benchmark return of 0.20%. Interest earned was £92.5k compared to a revised budget of £82.1k. The level of interest from investments was in excess of the revised budget as the actual level of external investments was higher than anticipated due to the Council benefitting from a more favourable cash-flow position.

12. Prudential Indicators

12.1 The Council complied with all of its Prudential Indicator limits for 2016/17. Details can be found in Appendix **F**.

13. Overall Outturn Conclusions 2016/17

13.1 The favourable outturn position for revenue allows for a further contribution to be made to the Accommodation Project Reserve in the sum of £0.135m (which will provide for completion of the project to Phase 7 of the scheme) and a further transfer to the M55 Link Road Reserve of £0.244m. These additional contributions are beneficial to each of these projects and the Councils overall financial position and are to be welcomed.

13.2 The forecast financial position of the Council has improved since the 2016/17 budget was set in March 2016 and the finances of the Council remain robust. Whilst challenges remain, and will no doubt continue to be present given the reduction in central government funding for future years, prudent financial management has provided a relatively stable financial environment which allows the necessary time to determine how this Council can best respond to the challenges it faces.

13.3 At a strategic level, activity and resources are focussed on the delivery of the key objectives of the Council as set out within the Councils approved Corporate Plan. Given the level of reserves that has been generated in recent years the budget deficits in the final years of the forecast appear to be at manageable levels. However in an uncertain financial environment the position can change in unexpected ways. It is important that the Council continues to operate in a sound and prudent manner in order to maintain a stable financial position and to explore all opportunities by which the financial position can be further strengthened, whilst continuing to provide high quality services to residents and to deliver the priorities set out in the Corporate Plan.

IMPLICATIONS	
Finance	Detailed financial implications are included within the body of the report
Legal	For 2016/17 there is a statutory requirement for the Chief Financial Officer to sign off a completed Annual Statement of Accounts for the Council by 30th June 2017, in preparation for the Council's external auditors KPMG to carry out an annual audit.
Community Safety	Not applicable
Human Rights and Equalities	Not applicable
Sustainability and Environmental Impact	Not applicable
Health & Safety and Risk Management	Not applicable

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue, Chief Financial Officer	01253 658566	June 2017

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy 2016/17 to 2020/21	2nd March 2017	https://fylde.cmis.uk.com/fylde/MeetingsCalendar.aspx

Attached documents

Appendix A – General Fund Summary Revenue Expenditure & Income Account
Appendix B – General Fund Outturn 2016/17 – Variations from Revised Estimates
Appendix C – Revenue Budget Slippage Items requested
Appendix D – Capital Outturn 2016/17
Appendix E – Capital Outturn Slippage Items requested
Appendix F – Prudential Indicators