# DECISION ITEM

| REPORT OF | MEETING | DATE | ITEM NO |
|---|---|---|---|
| RESOURCES DIRECTORATE | FINANCE AND DEMOCRACY COMMITTEE | 25 JUNE 2018 | 4 |

## MEDIUM TERM FINANCIAL STRATEGY (MTFS) – GENERAL FUND REVENUE, CAPITAL PROGRAMME & TREASURY MANAGEMENT OUTTURN POSITION FOR 2017/18

**PUBLIC ITEM**

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


**SUMMARY**

On 5th March 2018 the Council set its budget for 2018/19 and also set a revised budget for 2017/18. This report sets out for Members: the expected General Fund Revenue, Capital, and Treasury Management Outturn position for the financial year 2017/18; the major variations between the latest approved budget and the actual outturn expenditure; quantifies the impact on the Council's reserves; and includes a summary of the Council's Treasury Management operations for the financial year.


**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 transfer 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 2017/18 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 2017 and January 2018 and to Council in December 2017 and February 2018, with the Medium Term Financial Strategy (MTFS) and budget decisions presented to full Council for approval in March 2018. This report sets out the outturn position at the end of the financial year to 31st March 2018.

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

2.1 On the 5th March 2018, Council approved a revised Revenue Budget net requirement of £8.794m for 2017/18. The outturn position for 2017/18 is a net requirement of £8.472m resulting in a favourable variance (before financing and slippage) of £0.322m. A £0.375m favourable variance against the budgeted total of financing received during the year has resulted in a Revenue Budget underspend, before slippage requests, of £0.697m.

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 | |
|---|---|---|---|---|
| Financing for the year: | | | | |
| Gross financing | (11.917) | (12.292) | (0.375) | (Fav) |
| Less: budgeted transfer to Funding Volatility Reserve | 2.000 | 2.000 | - | - |
| Net financing for the year | (9.917) | (10.292) | (0.375) | (Fav) |
| Less: Net expenditure for the year | 8.794 | 8.472 | (0.322) | (Fav) |
| **Surplus of resources for the year** | **(1.123)** | **(1.820)** | **(0.697)** | (Fav) |
| Less: | | | | |
| budgeted transfer to M55 Link Road Reserve | 0.041 | 0.041 | - | - |
| budgeted transfer to Capital Investment Reserve | 1.082 | 1.082 | - | - |
| required transfer to GF balances re slippage | - | 0.137 | 0.137 | (Fav) |
| **Balance – underlying outturn variance** | **0** | **(0.560)** | **(0.560)** | (Fav) |
| **Analysis of further recommended transfers to reserves:** | | | | |
| - transfer to Capital Investment Reserve | 0 | 0.560 | 0.560 | (Fav) |
| **Recommended further transfers to reserves** | **0** | **0.560** | **0.560** | (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 2017/18 financing at **Appendix A** includes a favourable variance of £0.375m in relation to government grants and council tax and business rate income. The majority of this relates to additional business rate income received during the year, including the consequence of the timing differences in the required accounting transactions between the Council's General Fund and the Collection Fund.

2.5 There are a number of budget variances arising from slippage and other adjustments that are recommended for operational effectiveness. These items total £0.137m 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 2018/19.** The underlying underspend after accounting for this slippage is therefore reduced from £0.697m to £0.560m.

2.6 After allowing for slippage of £0.137m and the budgeted transfers to reserves of £3.123m there remains a favourable outturn variance of £0.560m. **It is recommended that the sum of £0.560m is transferred to the Capital Investment Reserve to provide additional financing resources for future capital projects.**

This would result in a current forecast balance of the reserve in the sum of £4.063m including the planned transfer into the reserve in respect of 2018/19. Of this £1.933m is already committed to deliver existing approved capital schemes in the years 2018/19 to 2019/20, leaving an unallocated balance on the reserve of £2.130m.

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 (Non-Domestic Rates – NDR)**

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 the 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 in recent years from 270 (with a total value of £9.613m) at 1st April 2016 to 170 (with a total value of £4.922m) at 31st March 2017, and again in 2017/18 to 106 with a total value at 31st March 2018 of £3.656m.

The Council joined the Lancashire Business Rate Pool with effect from 1st April 2017 in order to benefit from a higher level of retained Business Rates. As a result of this decision the Council was able to retain £598k worth of additional business rate income which would otherwise have been paid over to the government by way of a levy payment. The impact of this additional income is reflected in this financial outturn report.

However 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. Consequently the Council's Financial Forecast assumes that the pool will continue to operate for 2018/19 only and thereafter will cease to deliver the financial benefits to Fylde Council that existed in 2017/18 and that are anticipated in 2018/19.

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 deficit on the fund as at 31st March 2018 of £149k. This will be shared between Fylde Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2018/19 & 2019/20. Fylde Council's share of the deficit is £20k.

3.3 For Non-Domestic Rates only, there was a surplus on the fund as at 31st March 2018 of £531k. The surplus will be shared between Central Government, Fylde Council, the County Council and the Fire & Rescue Authority in 2018/19 & 2019/20. Fylde Council's share of the surplus is £212k.

**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 2018:

**Table 2 – Statement of General Fund Revenue Balances**

| | Budget £m | Actual £m | Variation £m | |
|---|---|---|---|---|
| Opening Balance 01/04/2017 | 3.548 | 3.548 | - | |
| In-year surplus transferred to reserves re slippage | - | 0.137 | 0.137 | (Fav) |
| **Closing Balance 31/03/2018** | **3.548** | **3.685** | **0.137** | **(Fav)** |

4.2 The first call on revenue balances in 2018/19 is the proposed slippage of £0.137m as set out in **Appendix C** leaving general fund balances after allowing for these items at £3.685m.

**5. General Fund Revenue Outturn Conclusions**

5.1 The favourable outturn position for revenue allows for a further contribution to be made to the Capital Investment Reserve in the sum of £0.560m to provide additional financing resources for future capital projects.

5.2 This favourable revenue outturn represents an improvement to the overall financial position of the Council. Future updates to the Financial Forecast during 2018/19 will reflect this improvement. 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 in recent years and has continued to 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.

**6. Capital Outturn 2017/18**

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 2017/18 was £7.844m, and outturn expenditure was £7.313m leaving a net underspend of £0.531m for the year.

After adjusting for slippage of £0.521m the overall outturn position for 2017/18 is an in-year £10k favourable variance against the latest updated estimate (as shown in table 3). Capital programme expenditure for 2017/18 and details of variances for all capital schemes are shown in **Appendix D**.

**Table 3 - Latest Estimate Compared with Outturn 2017/18**

| | Notes | £m | |
|---|---|---|---|
| MTFS 05/03/18: | | | |
| ***Approved Capital Programme: Latest Estimate*** | | **7.844** | |
| Less Outturn Expenditure | | (7.313) | |
| ***Net Underspend for Year*** | | **0.531** | (Fav) |
| Less Slippage (as per Note 1 below) | **1** | (0.521) | |
| **Underlying Variance at Outturn** | | **0.010** | **(Fav)** |

**Note 1: Capital Schemes Slippage Requests to 2018/19** (Full slippage explanations contained in **Appendix E**)

| | £'000 |
|---|---|
| Affordable Housing Scheme - Church Road Methodist Church | 275 |
| Disabled Facilities Programme | 245 |
| M55 Link Road – Design works | 108 |
| Affordable Warmth Scheme | 31 |
| Replacement Vehicles | 19 |
| St Annes Regeneration Scheme | 8 |
| Fairhaven Lake and Gardens Restoration Project | 5 |
| Coast Protection Scheme – re-phasing of expenditure | (170) |
| **Total Slippage requested** | **521** |

6.3 The first periodic update of the Five Year Capital Programme for 2018/19 will be amended to reflect the outturn results and any other changes approved to date.

## 7. Usable Capital Receipts 2017/18

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 2017/18**

| | Latest Estimate | Outturn | Variance +/- | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | |
| Opening Balance at 01/04/2017 | 63 | 63 | 0 | |
| Capital Receipts received in year | 30 | 186 | 156 | Fav |
| ***Sub Total*** | **93** | **249** | **156** | Fav |
| Capital Receipts applied in year | | (186) | | |
| **Closing Balance at 31/03/2018** | | **63** | | |

7.2 The favourable variance of £156k arises from the value of “Right to Buy” capital receipts from Progress Housing being greater than budgeted for.

7.3 The closing balance of £63k includes residual receipts regarding assets sold to fund the Ashton Gardens Depot 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 this scheme.

## 8. Capital Financing 2017/18

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 leaves it with the greatest flexibility in respect of future years.

**Table 5 - Capital Financing 2017/18**

| | £’000 |
|---|---|
| **EXPENDITURE:** | **7,313** |
| **FINANCING:** | |
| Grants & Contributions | 5,483 |
| Internal Borrowing | 995 |
| Capital Receipts | 186 |
| Revenue Contribution | 24 |
| Accommodation Project Reserve | 500 |
| Capital Investment Reserve | 125 |
| ***Total Capital Financing*** | **7,313** |

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 £10k 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 Background

This section of the report covers Treasury Management operations for the financial year to 31st March 2018. 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 2017/18 were originally approved in the Medium Term Financial Strategy 2017/18 Report to Council on 2nd March 2017. The Prudential Indicators are updated as required and changes have been approved by Council in the Mid-Year Prudential Indicators & Treasury Management Monitoring Report on 4th December 2017 and the Medium Term Financial Strategy Report to Council on 5th March 2018. The Prudential Indicators and the outturn position for 2017/18 are shown at **Appendix F.**

## 11. Treasury Management & Economic Summary

### 11.1 Economic Background

The UK economy grew by 1.8% in the year 2017 due largely to a more favourable outlook in the international economy, rather than any specific UK factors.

The Consumer Price index (CPI), used as a measure of inflation, rose to 3.1% in the year to November 2017 before falling back to 2.3% for the year to March 2018. The rise in CPI was as a result of rising import prices which was in turn a consequence of the fall in the value of sterling following the 2016 EU referendum result.

The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% to 0.5% in November 2017, the first rate increase in ten years. The increase in Bank Rates resulted in slightly higher money market rates.

### 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 £9.0m was not breached.

The Council's only borrowing at 31st March, 2018 was at a fixed interest rate (average rate 3.91%) and is shown in Table 6, below.

**Table 6 – Analysis of Borrowing**

| Type of Loan | Balance 31.03.18 £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 2017 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 £20.5m 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 0.35%, compared with a benchmark return of 0.21%. Interest earned was £74k compared to a revised budget of £64k. 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 2017/18. Details can be found in Appendix **F**.

## 13. Overall Outturn Conclusions 2017/18

13.1 The favourable outturn position for revenue allows for a further contribution to be made to the Capital Investment Reserve in the sum of £0.560m to provide additional financing resources for future capital projects. This additional contribution is beneficial to the overall financial position of the Council and thus is to be welcomed.

13.2 The forecast financial position of the Council has improved since the 2017/18 budget was set in March 2017 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 for the Council to assess and 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 2017/18 there is a statutory requirement for the Chief Financial Officer to sign off a completed Annual Statement of Accounts for the Council by 31st May 2018, 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 2018 |

| BACKGROUND PAPERS | | |
|---|---|---|
| Name of document | Date | Where available for inspection |
| Medium Term Financial Strategy 2017/18 to 2021/22 | 5th March 2018 | https://fylde.cmis.uk.com/fylde/MeetingsCalendar.aspx |

**Attached documents**
**Appendix A** – General Fund Summary Revenue Expenditure & Income Account
**Appendix B** – General Fund Outturn 2017/18 – Variations from Revised Estimates
**Appendix C** – Revenue Budget Slippage Items requested
**Appendix D** – Capital Outturn 2017/18
**Appendix E** – Capital Outturn Slippage Items requested
**Appendix F** – Prudential Indicators