

2016/17 Provisional Outturn and Annual Treasury Management Review Report

Cabinet	27 July 2017
Report Author	Tim Willis, Director of Corporate Resources
Portfolio Holder	Cllr John Townend, Portfolio Holder for Financial Services and Estates
Status	For Information
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

Executive Summary:

This report deals with the 2016/17 provisional outturn for:

- The General Fund - section 1.
- Housing Revenue Account - section 2.
- The Capital Programme - section 3.

The Council is also required by regulations issued under the Local Government Act 2003 to produce an Annual Treasury Management review of activities and the actual prudential and treasury indicators for 2016/17. Section 4 of this report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) The report was presented for consideration at the Governance and Audit Committee on 28 June 2017 and it was recommended that it be submitted to Cabinet.

Recommendation(s):

1. That the provisional outturn information for 2016/17 contained within this report is noted;
2. That the capital programme carry forwards requested in Table 6 and 8 are approved;
3. That the earmarked reserves as outlined in Paragraphs 1.5 and 2.7 be noted;
4. That the Annual Treasury Management activity and information for 2016/17 is noted.

CORPORATE IMPLICATIONS									
Financial and Value for Money	The financial implications have been reflected within the body of the report.								
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, it is the Director of Corporate Resources (S151 Officer), and this report is helping to carry out that function.								
Corporate	Corporate priorities can only be delivered with robust finances and this report gives Members the opportunity to review the Council's current position.								
Equalities Act 2010 & Public Sector Equality Duty	<p>Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1" data-bbox="432 1016 1404 1261"> <thead> <tr> <th colspan="2">Please indicate which aim is relevant to the report.</th> </tr> </thead> <tbody> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td></td> </tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td></td> </tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </tbody> </table> <p>There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.</p> <p>It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.</p>	Please indicate which aim is relevant to the report.		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,		Advance equality of opportunity between people who share a protected characteristic and people who do not share it		Foster good relations between people who share a protected characteristic and people who do not share it.	
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CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1.0 General Fund – Provisional Outturn 2016/17

- 1.1 The General Fund provisional outturn figure shows that a breakeven position has been achieved in 2016/17. Table 1 provides a summary of the out turn position with an analysis of main variances. All figures are subject to external audit and may change.

Table 1 – 2016/17, General Fund Outturn

Service	Outturn £'000s	Main Variances
Chief Executive	(82)	Adjusted democratic & core costs recharged to the HRA, offset by severance costs.
Corporate Resources	(369)	Revenue savings from capital financing & lower borrowing costs, council tax collection costs, lower employee costs due to vacancies & higher investment income. This was offset by reduced housing benefit subsidy and higher contributions to the pension fund.
Operational Services	(22)	Increased income from parking & garden waste collections & lower transport costs. Offset by increased costs from dredging / maintenance.
Community Services	146	Savings from lower employee costs, & increased planning income This was offset by an increase in homelessness costs and other operating costs.
Corporate Governance	327	Savings from lower employee costs. This was offset by asset management income targets not being fully achieved and higher maintenance / operating costs.
Total	0	

Note: figures are based on direct / controllable budget which does not contain recharges between services

General Fund Working Balance

- 1.2 The estimated working balances as at 31 March 2017 is £2.011 million which is the same as the anticipated level reported in February 2017.
- 1.3 The General Fund balance is being managed so that it provides the flexibility to meet unexpected demands and pressures without destabilising the Council's overall financial position. The level of the working balance should provide a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure that are not covered within existing budgets.
- 1.4 General guidance and practice amongst other authorities varies. Options include a percentage of Gross Operating Costs and a percentage of Net Spending Requirement to be maintained as a minimum. A minimum reserve level of £2.011 million was agreed at the February 2017 Council meeting which is at the level recommended by the S151 Officer of 12% of the net revenue budget requirement.

General Fund Earmarked Reserves

- 1.5 All reserves have been reviewed by the Section 151 Officer as part of the year end procedures and these have been rationalised into main headings for analysis and reporting to members, purposes. Total general fund earmarked reserves have increased by £187k in year to £6.339m and this is in line with the MTFs. Table 2 provides details of the earmarked reserves.

Table 2 General Fund Earmarked Reserves

General Fund - Earmarked Reserve	Balance at 31 March 2017
	£ 000's
Local Taxation Funding	(1,353)
Investment & Growth Funds	(1,893)
Risk & Insurance Reserve	(2,109)
Repairs & Renewals Reserve	(984)
Total	(6,339)

- 1.6 The main earmarked reserve headings are explained in detail in paragraphs 1.7 to 1.10.
- 1.7 **Local Taxation Funding** is used for operational risks including loss of Housing Benefit subsidy, Rates Appeals and other service movements such as car park income. Any release of this reserve to services is controlled by a business case approach to the Section 151 Officer.
- 1.8 **Investment & Growth Funds** are used to encourage inward investment & promote growth in the district including changing the way the council operates in support of these activities.
- 1.9 **The Risk & Insurance Reserve** is held in respect of excess costs, self-insurance & TUPE obligations.
- 1.10 **The Repairs & Renewals Reserve** is used to fund planned maintenance in respect of Buildings, Coastal sites, ICT and other equipment and includes a mechanism to avoid peaks & troughs in service budgets.
- 2.0 Housing Revenue Account (HRA) – Provisional Outturn 2016/17**
- 2.1 The Housing Revenue Account (HRA) outturn shows a projected surplus of £1.418 million. The forecast for the HRA (as reported to Council in February 2017) was a deficit of £352k.

2.2 Table 3 provides a summary of the actual spend on the Housing Revenue Account compared to the estimated outturn.

Table 3 - HRA Outturn 2016/17

	2016/17 Estimated Outturn £'000	2016/17 Actual £'000	2016/17 Variance £'000
Income:			
Dwelling Rents	(12,900)	(12,877)	23
Non-dwelling Rents	(227)	(244)	(17)
Charges for services and facilities	(383)	(364)	19
Contributions towards expenditure	(231)	(395)	(164)
Other charges for services & facilities	(35)	(47)	(12)
TOTAL INCOME	(13,776)	(13,927)	(151)
Expenditure			
Repairs & Maintenance	3,631	3,294	(337)
Supervision & Management	4,317	4,319	2
Depreciation	2,816	6,300	3,484
Contribution to Capital	1,508	845	(663)
Non-service specific expenditure	800	1,381	581
TOTAL EXPENDITURE	13,072	16,139	3,067
Other Adjustments:			
HRA Investment Income	(76)	(89)	(13)
Debt Interest Charges	1,170	809	(361)
Government Grants and Contributions	(610)	(1,370)	(760)
Adjustments, accounting /funding basis	571	(2,981)	(3,552)
Deficit/ (Surplus) for HRA Services	352	(1,418)	(1,770)

2.3 Table 4 outlines the key variances.

Table 4 - HRA Main Variances

Budget	(Under)/ Over Spend £,000	Explanation
Capital Expenditure funded from Revenue	(1,550)	Decision to withdraw from the Local Growth Fund development programme, revenue contribution to capital no longer required.
Contributions to Expenditure	(164)	Increase in recovered costs for leasehold and rechargeable repairs
Day to Day Repairs Expenditure	(337)	Void charges which are being examined in order to reduce budgets in the 30 year business plan
Other minor under or overspends	281	Various budgets / Technical adjustments
TOTAL VARIANCES	(1,770)	

HRA Working Balance

- 2.4 The accumulated HRA balance at 31 March 2017 is £6.714 million.
- 2.5 The HRA working balance is being managed so that it provides the flexibility to meet unexpected demands and pressures without destabilising the Council's overall financial position. The level of the working balance is being examined in the context of risk and also the need to replace lost rent following the increased right to buy sales of dwellings.

Major Repairs Reserve

- 2.6 The balance on the reserve is £8.359 million and this is available for expenditure of a capital nature including repayment of borrowing.

HRA Earmarked Reserves

- 2.7 In addition to the Working Balance, the HRA maintains an earmarked reserve specifically for acquisition of property. The balance in the reserve is currently £5.367 million (HRA Property Reserve).

3.0 Capital Programme – Provisional Outturn

General Fund

- 3.1 Actual capital expenditure was £7.68 million compared to the revised budget of £11.915 million.
- 3.2 Table 5 shows details of actual spend compared to the revised budget for the capital programme.

Table 5 – 2016/17, Capital Outturn

General Fund Capital Programme	Revised 2016/17 Budget	Actual 2016/17	Variance to Revised 2016/17 Budget
	£'000	£'000	£'000
Corporate Services (East Kent Services)	146	93	53
Community Services	8,668	6,025	2,643
Operational Services	3,026	1,488	1,538
Capital Salaries	75	74	1
Total	11,915	7,680	4,235

- 3.3 The variance is due to capital work slipping from 2016/17 into future years, and £4.104m of the variance will be required in future years and will be carried forward into 2017/18.
- 3.4 Spend on the General Fund Capital Programme for 2016/17 required prudential borrowing of £556k.
- 3.5 Table 6 lists each of the General Fund capital schemes which require funding to be carried forward to 2017/18.

Table 6 – General Fund Capital Carry Forwards into 2017/18

General Fund Schemes	Amount to be carried forward £000	Explanation
Dip/Workflow	39	Re-profiled expenditure
Payroll-HR System	17	Re-profiled expenditure
Telephony	(3)	Re-profiled expenditure
Sunshine Cafe	560	Re-profiled expenditure
Dreamland	642	Re-profiled expenditure
Dalby Square	889	Re-profiled expenditure, Revised programme agreed with external funders
Margate Housing Intervention – Loan Scheme	150	Re-profiled expenditure
Planning Project	2	Re-profiled expenditure
Private Sector Housing	400	Re-profiled expenditure
Skatepark	61	Re-profiled expenditure
Allotments	6	Re-profiled expenditure
Crematorium Office Upgrade	60	Re-profiled expenditure, Project under review
Waste Transfer Station	100	Re-profiled expenditure
CCTV	10	Re-profiled expenditure
Vehicle Replacement Programme	1,164	Re-profiled expenditure
Berth Replacement	7	Re-profiled expenditure
Total Carry Forward Request	4,104	

Housing Revenue Account Capital Programme

- 3.6 The out turn of the HRA capital programme for 2016/17 is £5.156 million, compared to the original budget of £23.090 million and the revised budget of £6.895 million.
- 3.7 Table 7 shows details of the actual spend by project.

Table 7 – HRA Capital Outturn

	Revised 2016/17 Budget	Actual 2016/17	Variance 2016/17
	£'000	£'000	£'000
Total HRA Capital Programme Expenditure	6,895	5,156	(1,739)
<i>HRA Capital Resources Used:</i>			
HRA Major Repairs Reserve	2,926	2,444	(482)
HRA Revenue Contributions/Reserves	1,378	845	(533)
Capital Grant	1,904	1,394	(510)
Capital RTB Receipts	320	336	16
Prudential Borrowing	367	137	(230)
Total Resources	6,895	5,156	(1,739)

3.8 The variance is due to capital works being re-profiled into future years.

3.9 Table 8 lists each of the capital schemes which require funding to be carried forward to 2017/18.

Table 8 – 2016/17 HRA, Capital Carry Forwards into 2016/17

HRA Scheme	Amount to be carried forward £'000	Explanation
HRA Decent Homes Schemes	74	Structural/ Repointing
Housing Intervention	1,004	King Street programme re-profiled
New Build Programme	383	Re-profiled expenditure.
Development Schemes	274	Fort Road Hotel, Coastguard Cottages and Westcliffe road
Total Carry Forward Request	1,735	

4.0 Annual Treasury Management Review 2016/17

Introduction and Background

- 4.1 This Council is required by regulations issued under the Local Government Finance Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 4.2 During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:
- An annual treasury strategy in advance of the year (Council 04/02/2016)
 - a mid-year treasury update report (Council 09/02/2017)
 - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 4.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken on 21/09/2015 in order to support members' scrutiny role. The Council's external treasury management advisor is Capita Asset Services (Capita).
- 4.5 The Council's 2016/17 accounts have not yet been audited and hence the figures in this report are subject to change.

Review of the Economy and Interest Rates (issued by Capita in April 2017)

- 4.6 The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

- 4.7 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

Table 9 - Overall Treasury Position as at 31 March 2017

	31 March 2016 Principal	Rate/ Return	Average Life	31 March 2017 Principal	Rate/ Return	Average Life
	£'000		Years	£'000		Years
General Fund (GF) debt	9,179	3.26%	13.8	11,629	3.14%	14.2
Housing Revenue Account (HRA) debt	20,041	4.03%	9.7	20,040	4.03%	8.9
Total debt	29,220	3.78%	11.0	31,669	3.71%	10.8
GF CFR	27,067			26,706		
HRA CFR	20,241			20,377		
Total CFR	47,308			47,083		
Over / (under) borrowing	(18,088)			(15,414)		
Total investments	28,612	0.55%		37,988	0.49%	
Net debt / (investment)	608			(6,319)		

The Strategy for 2016/17

- 4.8 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 2 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
- 4.9 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.
- 4.10 During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.
- 4.11 **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 04/02/16 was not revised during 2016/17.

The Borrowing Requirement and Debt

- 4.12 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) is shown in Table 10.

Table 10 - Council's Capital Financing Requirement

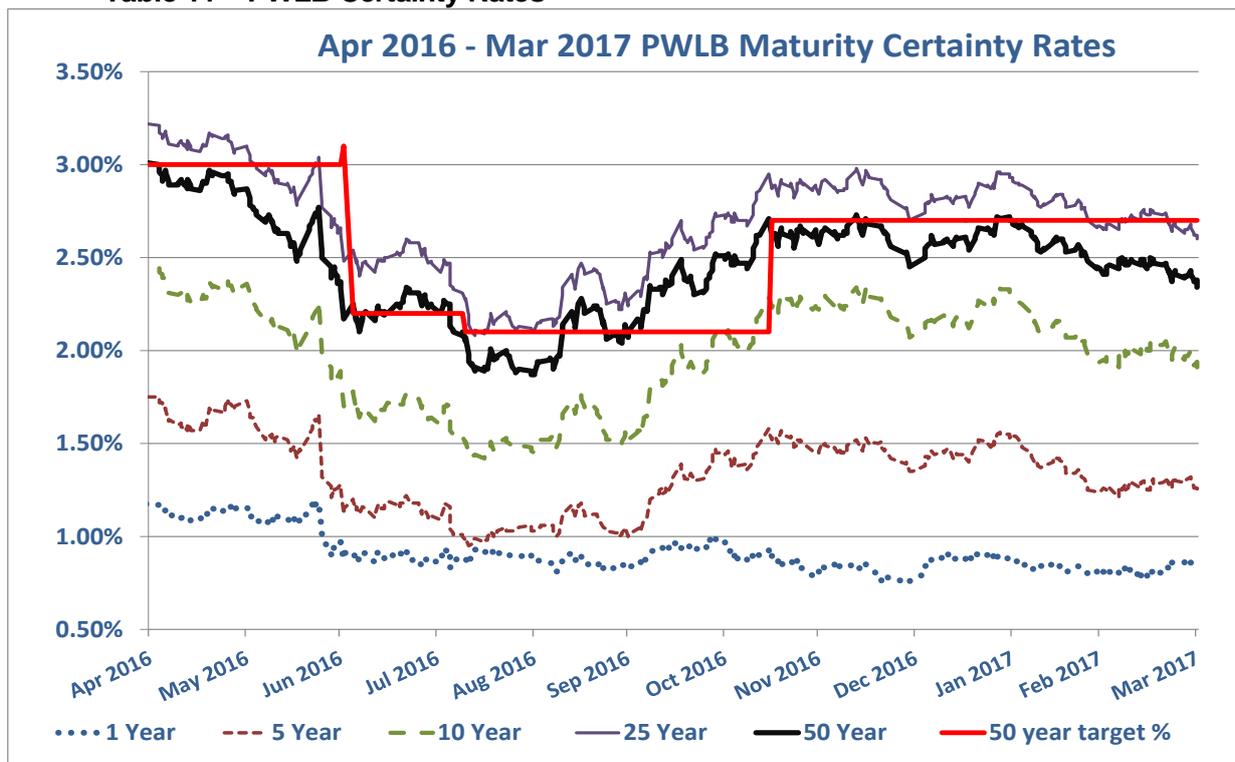
	31 March 2016 Actual £'000	31 March 2017 Budget £'000	31 March 2017 Actual £'000
CFR General Fund (GF)	27,067	29,189	26,706
CFR Housing Revenue Account (HRA)	20,241	27,477	20,377
Total CFR	47,308	56,666	47,083

The 2016/17 HRA capital expenditure budget included £14.5m subsequently re-profiled to 2017/18 in the Budget and Medium Term Financial Strategy 2017/21. This re-profiled amount was due to increase the HRA Capital Financing Requirement by £6.7m.

Borrowing Rates in 2016/17

- 4.13 **Public Works Loan Board (PWLB) certainty maturity borrowing rates** - the graph in Table 11 shows how PWLB certainty rates have fallen to historically very low levels during the year.

Table 11 – PWLB Certainty Rates



Borrowing Outturn for 2016/17

- 4.14 **Borrowing** – Table 12 outlines the General Fund loans drawn from the PWLB to fund net unfinanced capital expenditure and any naturally maturing debt:

Table 12 –General Fund Loans from PWLB in 2016/17

Principal £000	Type	Interest Rate	Maturity	GF Average Interest Rate for 2016/17
2,000	Fixed interest rate - Maturity	3.09%	18/10/2038	3.14%
1,000	Fixed interest rate - EIP	1.28%	20/06/2023	3.14%

This compares with a budget assumption of borrowing at an interest rate of 5% for the £2m loan and 4% for the £1m loan.

- 4.15 **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 4.16 **Repayments** – The Council repaid £550k of maturing debt using investment balances. Details of these are outlined in Table 13.

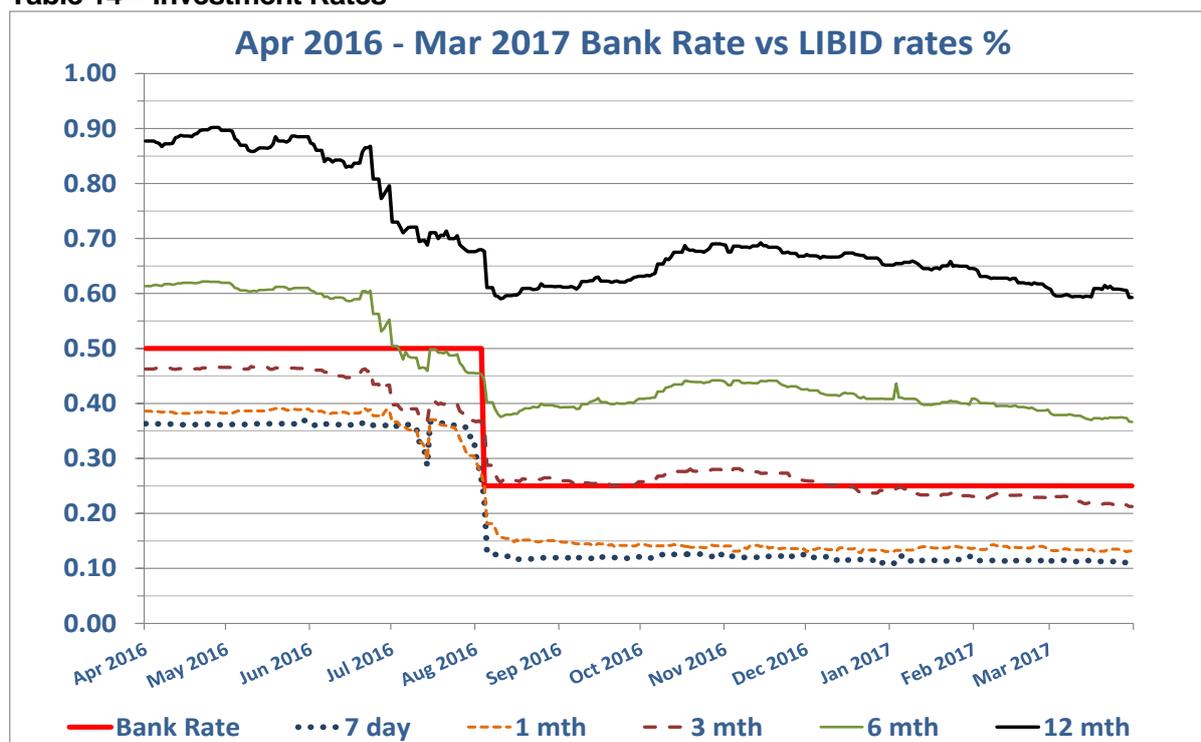
Table 13 – PWLB Maturing Debt Paid in 2016/17

Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	23/04/16
PWLB	50	2.48%	27/05/16
PWLB	146	1.97%	27/05/16
PWLB	43	3.08%	23/10/16
PWLB	50	2.48%	27/11/16
PWLB	146	1.97%	27/11/16
PWLB	72	1.28%	20/12/16
Total	550		

- 4.17 **Summary of debt transactions** – The above changes in the debt portfolio resulted in a decrease in the average interest rate of 0.07%, representing an interest saving of £22k on the weighted average of the 2016/17 debt principal.

Investment Rates in 2016/17

Table 14 – Investment Rates



- 4.18 After the EU referendum, the Bank of England Base Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3, 2016, but then moved back to around the end of 2016 in early August before finishing the year back at quarter 3, 2017. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

Investment Outturn for 2016/17

- 4.19 **Investment Policy** – the Council's investment policy is governed by Department for Communities and Local Government (CLG) guidance, which has been implemented in the annual investment strategy approved by the Council on 4 February 2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).
- 4.20 The investment activity during the year conformed to the approved strategy, apart from exceeding the £0.5m bank overdraft benchmark for one day only. This was a technical breach and the Council had no liquidity difficulties during the year.
- 4.21 **Investments held by the Council** - the Council maintained an average balance of £43.47m of internally managed funds. The internally managed funds earned an average rate of return of 0.49%. The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was 0.20%. This compares with a budget assumption of £20m investment balances earning an average rate of 0.90%.

4.22 **Investments held by fund managers** – the Council does not use external fund managers.

Investment risk benchmarking

4.23 The following investment benchmarks were set in the Council's 2016/17 annual treasury strategy:

4.24 **Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

4.25 **Liquidity** – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

4.26 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

4.27 The Council kept to the above benchmarks during 2016/17 apart from exceeding the bank overdraft benchmark as referred to in section 4.20 above.

5.0 Options

5.1 Cabinet Members note the outturn against the General Fund, HRA budgets, and the Capital Programme for 2016/17. Cabinet Members also note the earmarked reserves as at 31 March 2017 and approve the Capital Programme carry forwards outlined in Table 6 and 8 of this report. Cabinet Members note Annual Treasury Management Activity and information for 2016/17 which was considered at the Governance and Audit Committee on 27 June 2017.

Contact Officer:	Tim Willis, Director of Corporate Resources and Section 151 Officer, ext: 57617
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	Prudential and Treasury Indicators
Annex 2	Report Guidance
Annex 3	Abbreviations and Definitions

Background Papers

Title	Details of where to access copy
2016/17 Budget and Medium Term Financial Plan.	Full Council Agenda 4 th February 2016

Corporate Consultation

Finance	Ramesh Prashar, Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer