2017-18 Provisional Outturn and Annual Treasury Management Review

Cabinet	**26 July 2018**
Report Author	**Tim Willis, Deputy Chief Executive and s151 Officer**
Portfolio Holder	**Cllr Ian Gregory, Cabinet Member for Financial Services and Estates**
Status	**For information**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**All Wards**

1.1 This report deals with the 2017-18 provisional outturn for:
- General Fund – Section 1.
- Housing Revenue Account – Section 2.

The financial position remains subject to audit.

1.2 The council is also required to produce an Annual Treasury Management review of activities with actual prudential/treasury indicators for 2017-18. This is set out in section 4 of this report. The treasury management review was also considered by the Governance and Audit Committee at its meeting on 25 July.

Recommendation(s):

1. That the provisional outturn for 2017-18 contained within this report is noted.
2. That the earmarked reserves as outlined in sections 1.6 and 2.8 be noted.
3. That the capital programme carry forwards shown in Annex 1 and Table 4 are noted.
4. That the Annual Treasury Management Review of Activities for 2017-18 set out in section 4 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 Deputy Chief Executive, 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	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. 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. 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. 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. 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.

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 2017-18

General Fund Revenue

1.1 The 2017-18 provisional outturn shows that the council's budget strategy to maintain the General Reserve balance at its existing level has been achieved, following a breakeven result. Table 1a provides a summary of the provisional outturn position against the latest approved budget. Note that the position remains subject to audit and could change.

1.2 **Table 1a – 2017/18 General Fund Provisional Outturn v Budget Summary**

Directorate	Variance to Budget £'000s	Comments
Chief Executive	(20)	
Corporate Resources	473	Mainly due to subsidy loss as a result of increased demand for housing benefit.
Operational Services	126	Overspend made up of a combination of minor overspends and underspends.
Community Services	201	Mainly due to additional pressure experienced in Housing Services.
Corporate Governance	(42)	
Corporate finance items incl transfer to reserves	1,583	Due to increase in earmarked reserves as outlined in paragraph 1.4.
Total Net Expenditure	2,321	
Financing of Net Expenditure	(2,321)	
Balance to General Reserve	-	

General Reserve

1.3 The General Reserve balance stands at £2.011m at 31 March 2018 which is in line with the council's agreed Budget. The General Reserve is managed so that it provides flexibility to meet unexpected demands and pressures without de-stabilising the council's overall financial position. The level of the General Reserve should be set to give a reasonable allowance for unquantifiable risks or one off exceptional items of expenditure not covered within existing budgets.

General Fund Earmarked Reserves

1.4 All reserves are reviewed by the section 151 Officer at year end. Total General Fund earmarked reserves have increased by £1.438m to £7.777m at 31 March 2018. Most of this balance has been added to the Local Taxation Funding reserve to deal with accounting differences in respect of business rates. Table 1b outlines the General Fund reserves.

Table 1b – General Fund Earmarked Reserves

General Fund – Earmarked Reserve	Balance at 31 March 2017	Balance at 31 March 2018
	£'000s	£'000s
Local Taxation Funding	1,354	3,069
Investment and Growth Fund	1,892	2,035
Risk and Insurance Reserve	2,109	1,618
Repairs and Renewals Reserve	984	1,051
Lottery Reserve	0	4
Total	**6,339**	**7,777**

1.7 The council's total General Fund reserves at 31 March 2018 therefore stand at £9.788m.

General Fund Capital

1.8 Actual capital expenditure was £6.0m compared to the revised budget of £15.6m, under-achieving the programmed spend by £9.6m.

1.9 Table 1c shows details of actual spend compared to the budgeted capital programme.

Table 1c – 2017-18 Capital Outturn

General Fund Capital Programme	Revised 2017-18 Budget	Actual 2017/18	Variance to Revised 2017-18 Budget
	£'000	£'000	£'000
Corporate Services (incl. East Kent Services)	1,117	434	683
Community Services	5,382	3,146	2,236
Operational Services	9,063	2,405	6,658
Capital Salaries	75	62	13
Total	**15,637**	**6,047**	**9,590**

1.10 The variance is due to capital work slipping from 2017-18 into future years. In particular, £3m of the carry-over is in respect of the purchase of Mill Lane car park Margate and £1.5m towards urgent refurbishment and improvements to Ramsgate Harbour (gate, bridge and piles).

1.11 Spend on the General Fund Capital Programme for 2017-18 required prudential borrowing of £1m.

1.12 Annex 1 sets out the final General Fund capital programme position for 2017-18.

2.0 Housing Revenue Account (HRA) – Provisional Outturn 2017/18

Housing Revenue Account Revenue

2.1 The Housing Revenue Account (HRA) outturn shows a surplus of £1,039k. The budget for the HRA (as reported to Cabinet in March 2018) was a projected surplus of £940k.

2.2 Table 2 provides a summary of the actual spend on the Housing Revenue Account compared to the budget.

Table 2 - HRA Outturn 2017/18

	2017/18 Budget £'000	2017/18 Actual £'000	2017/18 Variance £'000
Total Service Income	(13,843)	(13,828)	15
Total Service Expenditure	11,488	14,203	2,715
Non-Service Costs	800	1,207	407
Investment Income & Debt Interest Charges	1,004	732	(272)
Tansfer to/(from) Reserves	0	(1,785)	(1,785)
Other adjustments	(389)	(1,568)	(1,179)
(Surplus) for HRA Services	**(940)**	**(1,039)**	**(99)**

2.3 Table 3 outlines the key variances.

Table 3 - HRA Main Variances

Budget	(Under)/ Over Spend £,000	Explanation
Rent Income	159	Increase in the number of right to buy sales and delays in the New Build and Margate Intervention projects.
Contributions to Expenditure	(96)	Increase in recovered costs for leasehold and rechargeable repairs
Day to Day Repairs Expenditure	(507)	Underspend due to an overall reduction in day to day expenditure and delays to external decorations. This is offset by increased costs in relation to asbestos, emergency lighting and estate clearance.
Management & Landlord Costs	(240)	Reduced number of void properties and reduced landlord costs
Bad & Doubtful Debt Allowance	203	Increase in allowance due to universal credits and former tenant arrears
Other minor under or overspends	382	Various budgets / technical adjustments
TOTAL VARIANCES	**(99)**	

HRA Working Balance

2.4 The accumulated HRA balance at 31 March 2018 is £7.753m.

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.

2.6 Table 4 highlights the revenue budgets to be carried forward for specific projects.

Table 4 - HRA Budgets to Carry Forward

Budget	£,000	Explanation
External Decorations	250	To hold in contingency to allow for a review of backlog of works.
New Build Contingency	33	To extend the project officer and project assistant posts to 2018/19 to progress phase 2 and 3 of the new build programme .
Day to Day Repairs	10	To allow a consultant to carry out the new repairs contract preparation in 2018-19.
Welfare Reform	50	To hold in contingency to allow for a review of arrears arising as a result of universal credits and discretionary housing payments.
TOTAL	**343**	

The balance is held in an earmarked reserve at year end.

Major Repairs Reserve

2.7 The balance on the reserve is £10.019m and this is available for expenditure of a capital nature including repayment of borrowing.

HRA Earmarked Reserves

2.8 In addition to the Working Balance, the HRA maintains an earmarked reserve specifically for acquisition of property. The balance in the reserve is currently £4.90m (HRA New Property Reserve).

Housing Revenue Account Capital

2.9 The outturn of the HRA capital programme for 2017-18 is £4.492 million, compared to the revised budget of £13.909 million a variance of £9.417 million.

Table 5 below shows details of the actual spend by project.

Table 5 HRA Capital Project Spend

HRA Capital Programme	Revised 2017-18 Budget	Actual 2017-18 Actual	Variance to Revised 2017-18 Budget
	£000	£000	£000
Major Works	2,249	2,037	(212)
Empty Properties Programme	4	0	(4)
Ramsgate Housing Intervention	86	3	(83)
Margate Housing Intervention	4,120	639	(3,481)
New Build Programme	5,775	634	(5,141)
Fort Road Hotel	180	163	(17)
Coastguard Cottages Major Works	201	216	15
93 Westcliff Road	34	9	(25)
141 Acquisitions Programme	1,130	790	(340)
St Johns Crescent	130	1	(129)
Total Expenditure	**13,909**	**4,492**	**(9,417)**

2.10 Table 6 below shows how the actual spend was financed:

Table 6 Financing of HRA Capital Programmey

HRA Capital Programme	Revised 2017-18 Budget	Actual 2017-18 Actual	Variance to Revised 2017-18 Budget
	£000	£000	£000
Total HRA Capital Programme Expenditure	13,909	4,492	(9,417)
HRA Capital Resources Used:			
HRA Major Repairs Reserve	2,170	2,093	(77)
HRA Revenue Contributions/Reserves	5,811	1,179	(4,632)
Capital Grant	1,379	376	(1,003)
Capital Receipts	2,144	434	(1,710)
Prudential Borrowing	2,405	410	(1,995)
Total Resources	**13,909**	**4,492**	**(9,417)**

The variance is due to capital works being re-profiled into future years and delays in the new build programme.

2.11 Annex 2 sets out the detail of the capital programme for 2017-18 and includes carry forwards.

3. Flexible Use of Capital Receipts (General Fund)

3.1 Table 7 was included in the Flexible Use of Capital Receipts Strategy.

Table 7 - Flexible Use of Capital Receipts

Project Name	Project Description	Estimated Qualifying Expenditure £'000	Estimated Annual Savings £'000
Corporate Restructure	To review and update the organisational structure to deliver efficiencies	800	814
Digitally Enabled Services	To adopt digital technology to enable new ways of working	200	50

3.2 During 2017-18 expenditure on the Corporate Restructure and Digitally Enabled Services projects was £287k and £32k respectively. It is intended that the remaining budgets be carried forward into 2018-19.

4.0 ANNUAL TREASURY MANAGEMENT REPORT 2017-18

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 2017-18. 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 2017-18 the minimum reporting requirements were that the full council should receive the following reports:

- an annual treasury strategy in advance of the year (council 09-02-2017)
- a mid-year treasury update report (council 08-02-2018)
- 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 Link Asset Services (Link).

4.5 The council's 2017-18 accounts have not yet been audited and hence the figures in this report are subject to change.

Link's Review of the Economy and Interest Rates (issued by Link in April 2018)

4.6 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon the Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of Gross Domestic Product (GDP), saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the Monetary Policy Committee (MPC) would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September 2017 indicated that the MPC was likely to raise Bank Rate very soon. The 2 November 2017 MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

4.7 The 8 February 2018 MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than

had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3–12 months increasing sharply during the spring quarter.

4.8 Public Works Loan Board (PWLB) borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 basis points for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Federal Reserve (Fed) raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

4.9 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

Overall Treasury Position as at 31 March 2018

4.10 At the beginning and the end of 2017-18 the council's treasury (excluding borrowing by private finance initiatives (PFI) and finance leases) position is outlined in Table 8.

Table 8 - Overall Treasury Position as at 31 March 2018

	31 March 2017 Principal	Rate/ Return	Average Life	31 March 2018 Principal	Rate/ Return	Average Life
	£'000		Years	£'000		Years
General Fund (GF) debt	11,629	3.14%	14.2	11,046	3.15%	13.9
Housing Revenue Account (HRA) debt	20,040	4.03%	8.9	20,040	4.03%	8.1
Total debt	**31,669**	**3.71%**	**10.8**	**31,086**	**3.71%**	**10.2**
GF CFR	26,706			23,812		
HRA CFR	20,377			20,787		
Total CFR	**47,083**			**44,599**		
Over / (under) borrowing	**(15,414)**			**(13,513)**		
Total investments	**37,988**	**0.49%**		**40,882**	**0.36%**	
Net debt / (investment)	**(6,319)**			**(9,796)**		

The Strategy for 2017-18

4.11 The expectation for interest rates within the treasury management strategy for 2017-18 was that Bank Rate would stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017-18 and the two subsequent financial years. 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.

4.12 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.

4.13 During 2017-18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

4.14 **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2017-18 approved by the council on 09-02-17 was not revised during 2017-18.

The Borrowing Requirement and Debt

4.15 The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) and is shown in Table 9.

Table 9 - Council's Capital Financing Requirement

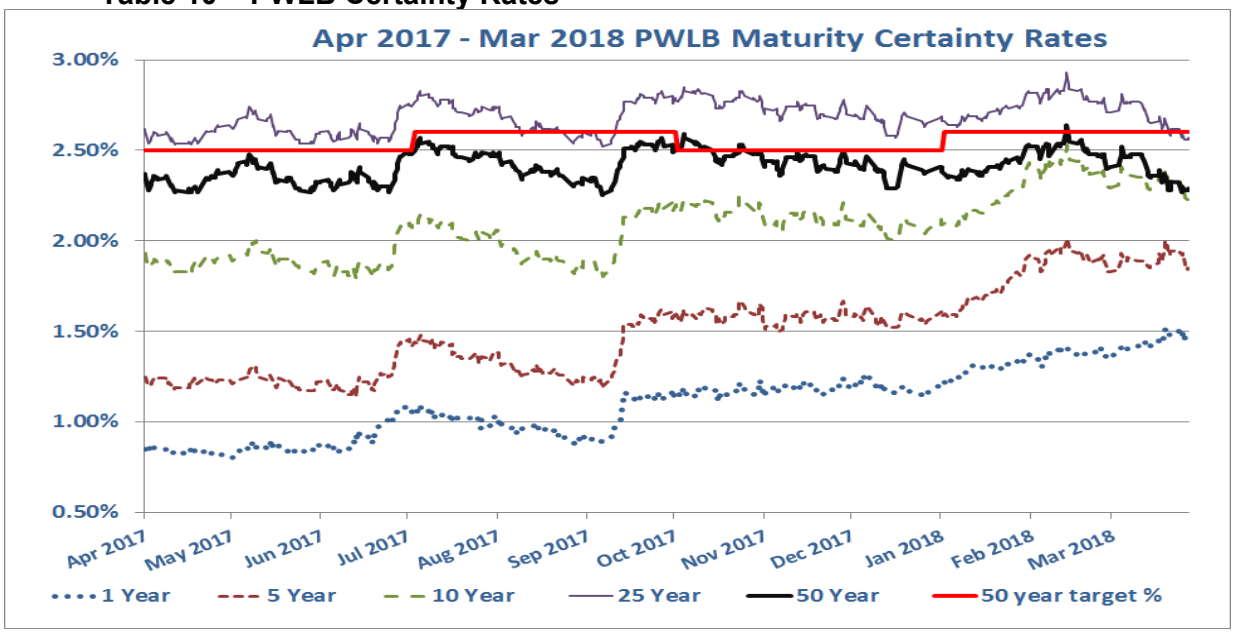
	31 March 2017 Actual £'000	31 March 2018 Budget £'000	31 March 2018 Actual £'000
CFR General Fund (GF)	26,706	30,963	23,812
CFR Housing Revenue Account (HRA)	20,377	27,283	20,787
Total CFR	47,083	58,246	44,599

The main reasons for the CFR variance are capital work which was due to be funded from prudential borrowing slipping from 2017-18 into future years, and settlement of the East Kent Opportunities spine road liability.

Borrowing Rates in 2017-18

4.16 **Public Works Loan Board (PWLB) certainty maturity borrowing rates -** the graph in Table 3 shows PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4. The graph for PWLB rates shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

Table 10 – PWLB Certainty Rates



Borrowing Outturn for 2017-18

4.17 **Borrowing** – Table 11 outlines the General Fund loans drawn (from Salix Finance Ltd) to fund net unfinanced capital expenditure and any naturally maturing debt:

Table 11 –General Fund Loans drawn in 2017-18

Principal £000	Type	Interest Rate	Maturity	GF Average Interest Rate for 2017-18
43	Fixed interest rate - Equal Instalments of Principal (EIP)	0.00%	01/04/2022	3.15%

Salix Finance Ltd provides interest-free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills.

This compares with a budget assumption of borrowing at an interest rate of 3% during the year.

4.18 **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.

4.19 **Repayments** – The council repaid £626k of maturing debt using investment balances. Details of these are outlined in Table 15.

Table 12 – Maturing Debt Paid in 2017-18

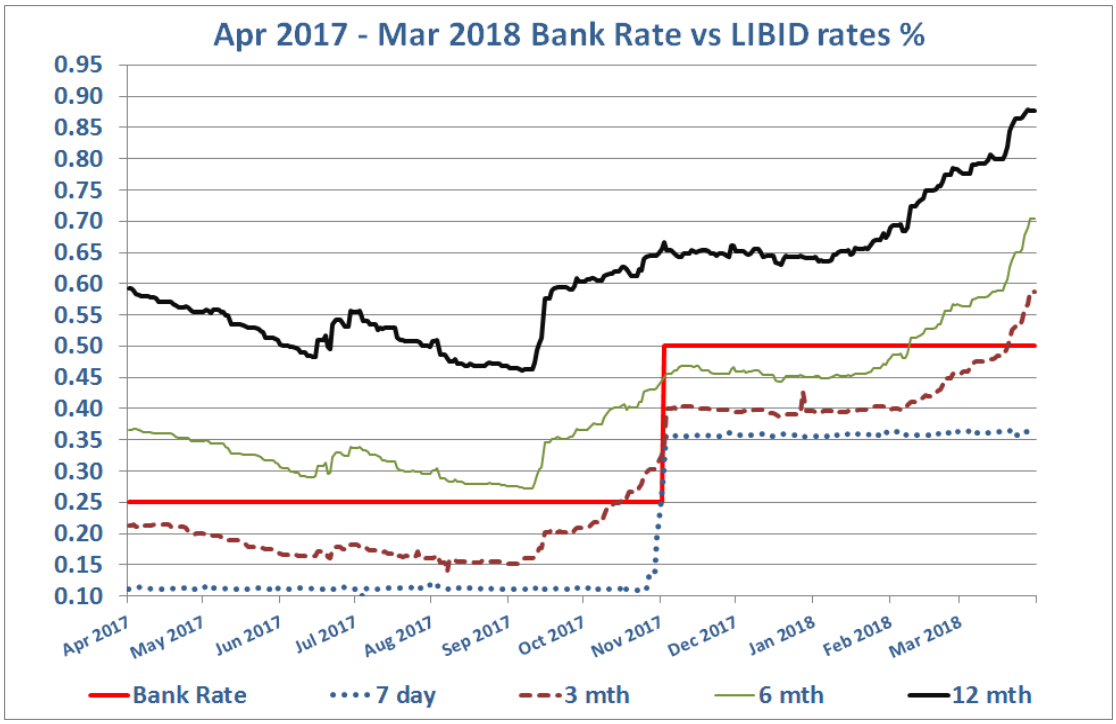
Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	23-04-17
PWLB	50	2.48%	27-05-17
PWLB	146	1.97%	27-05-17
PWLB	72	1.28%	20-06-17
Salix	4	0.00%	01-10-17
PWLB	43	3.08%	23-10-17
PWLB	50	2.48%	27-11-17
PWLB	146	1.97%	27-11-17
PWLB	72	1.28%	20-12-17
Total	626		

4.20 **Summary of debt transactions** – The average interest rate on the debt portfolio was unchanged during the year at 3.71%.

Investment Rates in 2017-18

4.21 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017-18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.

Table 12 – Investment Rates



Investment Outturn for 2017-18

4.22 **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by the council on 9 February 2017. 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.).

4.23 The investment activity during the year conformed to the approved strategy.

4.24 **Investments held by the council** - the council maintained an average balance of £46.86m of internally managed funds. The internally managed funds earned an average rate of return of 0.36%.The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was 0.22%. This compares with a budget assumption of £25m investment balances earning an average rate of 0.13%.

4.25 **Investments held by fund managers** – the council does not use external fund managers.

Investment risk benchmarking

4.26 The following investment benchmarks were set in the council's 2017-18 annual treasury strategy:

4.27 **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.

4.28 **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.

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

- Investments – internal returns above the 7 day LIBID rate

4.30 The council kept to the above benchmarks during 2017-18.

5. Options

5.1 Cabinet is asked to note the provisional outturn for the General Fund, HRA and capital programme for 2017-18. The results are provisional since the accounts remain subject to audit. Cabinet is also asked to note the Annual Treasury Management Report 2017-18 set out in section 4 (including associated annexes).

Cabinet is being asked to approve the updating of the 2018-19 Capital Programme for carry forwards.

5.2 Cabinet has the option to not approve the capital recommendations (which would then impact on the delivery of the programme) and provide reason(s) why.

6. Next Steps

6.1 The Annual Treasury Management Report 2017-18 will be presented to 25 July Governance & Audit Committee and 6 September Council for approval.

Contact Officer:	Ramesh Prashar, Head of Financial Service and Deputy Section 151 Officer Gary Whittaker – Interim Finance Manager
Reporting to:	Tim Willis, Deputy Chief Executive and Section 151 Officer Ramesh Prashar, Head of Financial Service and Deputy Section 151 Officer

Annex List

Annex 1	GF Capital Programme 2017-18
Annex 2	HRA Capital Programme 2017-18
Annex 3	Treasury management performance indicators
Annex 4	Treasury management report guidance, abbreviations and definitions

Background Papers

Title	Details of where to access copy
None	N/A

Corporate Consultation

Finance	Ramesh Prashar, Head of Financial Services
Legal	Sophia Nartey, Interim Head of Legal Services