

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	6 June 2018
Subject:	Financial Outturn 2017/18
Report of:	Simon Dix, Head of Finance and Asset Management
Corporate Lead:	Robert Weaver, Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Four

Executive Summary:

The report highlights the Council's financial performance for the previous year, setting out the General Fund and capital outturn positions. To support this, a detailed statement on both positive and negative variances against budget is included.

The formation of the Council's reserves for the forthcoming year requires the approval of Executive Committee.

The performance of the Treasury Management function is also included within the report as required by the Council's Treasury Management Policy.

Recommendation:

That the Executive Committee:

- 1. notes the General Fund outturn for 2017/18, the financing of the capital programme and the annual treasury management report and performance; and**
- 2. approves the transfers to and from earmarked reserves.**

Reasons for Recommendation:

In line with the requirement to provide Members with regular information on the Council's finances and financial performance, a report on progress against budget is produced on a quarterly basis. This report on the outturn position for the Council offers more detail on the final financial position and compliments the existing reporting framework. Members are also required to approve the transfers to and from earmarked reserves and the carry forward of budgets.

The Council's Treasury Management Policy requires the Section 151 Officer to report to Members annually, by 30 September, on the treasury management activities and prudential indicators for the previous financial year.

Resource Implications:

As detailed within the report.

Legal Implications:

None specific arising from the report recommendations.

Risk Management Implications:

A number of reserves have been set aside to deal directly with specific service risk or general financial risk to the Council.

Performance Management Follow-up:

The performance of services against their set budget is monitored on an ongoing basis. In addition, performance is reported to Members on a quarterly basis.

Environmental Implications:

None associated with this report.

1.0 INTRODUCTION/BACKGROUND

- 1.1 This report sets out the final outturn position for the 2017/18 financial year. The main purpose of this report is to provide Members with an overview of the performance against the General Fund revenue budget for 2017/18 and explain significant variances.
- 1.2 The report also addresses the movement on reserves and requests Member approval for the creation of newly requested reserves or additions to existing reserves that fall outside of a previously approved sum.
- 1.3 In addition to the revenue budget outturn, this report also seeks to confirm the full year progress against the capital programme and the sources of finance used in delivering that programme and also to report the performance in 2017/18 of the treasury management function in line with the requirements of the code of practice.
- 1.4 All of the information within this report will be contained within the Council's Statement of Accounts which will be approved by the Audit Committee in July 2018 following the audit conducted by Grant Thornton.

2.0 GENERAL FUND REVENUE OUTTURN 2017/18

- 2.1 In February 2018, the quarter three outturn position was reported to Executive Committee. The report confirmed a surplus of £590,640 for this period which represented a positive variance of 8% on budget.
- 2.2 The final General Fund revenue outturn position for the full year can now be reported as a £1.5m surplus. This is a significant increase against the quarter three position and can be primarily attributed to strong performance in treasury and commercial activities, additional business rates retention and substantial external grant funding being received. The following paragraphs highlight this position.
- 2.3 The table below summarises the service performance which has generated the reported deficit. In addition, the table highlights the non-service related activity and other aspects of the overall budget to provide a whole view of the Council's general fund. The table concludes with the budgeted transfer to reserves of £57,383 and the actual transfer totalling £1,555,899.

Table 1 – General Fund outturn summary

	Full Year Budget £	Outturn Position £	Savings / (deficit) £	Budget Variance %
Employees	8,644,124	8,510,111	134,013	-1.55
Premises	521,412	486,991	34,421	-6.60
Transport	169,250	136,240	33,010	-19.50
Supplies & Services	1,820,664	1,796,943	23,721	-1.30
Payments to Third Parties	4,971,332	4,971,102	230	0.00
Transfer Payments	47,963	87,439	-39,476	82.30
Income	-6,326,381	-7,220,742	894,361	14.14
Service Total	9,848,364	8,768,083	1,080,281	-10.97
Treasury activity	57,085	-133,274	190,359	-333.47
Commercial activity	-1,197,421	-1,392,464	195,043	16.29
Corporate Savings Targets	-60,000	0	-60,000	-100.00
New Homes Bonus	47,300	0	47,300	-100.00
Business Rates Income	-1,724,138	-2,360,653	636,515	36.92
Other adjustments	-7,028,573	-6,437,591	-590,982	-8.41
Council Total	-57,383	-1,555,899	1,498,516	2,611.43

2.4 The outturn position for direct service expenditure shows a positive variance of £1,080,281 and is mainly attributable to the major items outlined below:

- The employees full year budget is underspent largely as a result of staff turnover and vacancies in most service groupings;
- Premises is underspent as a result of savings on utilities, particularly electricity, plus savings on business rates paid;
- Savings on transport have been generated across all service areas and result from reduced car allowance scheme costs plus reduced business mileage;
- Council income is showing additional income levels of £894,361 over the budgeted provision. The majority of fees and charges budgets, with the exception of planning fees, have been delivered on budget during the year. The large variance is therefore as a result of substantial external grant income being received during the year. The Council has received a number of new burdens grants from the government but has also attracted significant service specific grants particularly in relation to the delivery of the requirements for infrastructure and the Joint Core Strategy. In addition, the Council has taken on accountable body status for the Gloucestershire wide Places of Safety funding and has therefore received a transfer of funding totalling £449,000.

- 2.5** A full explanation of all variances exceeding £40,000 at a group subjective level is contained at Appendix A. The appendix also contains an explanation of the variance on the corporate codes with a more detailed explanation within the paragraphs below.
- 2.6** Treasury performance has been strong in 2017-18 with both investment and borrowing decisions contributing towards an overall surplus of £190,359. Of the surplus, circa £165,000 has been generated from investments. Whilst an increase in the portfolio balance and a slight increase in market rates has benefited the portfolio, the main reason for the surplus is the investment in the CCLA pooled property fund in May 2017 which is currently generating income returns of 4.67%. Short term borrowing rates have remained low and as a result of maintaining all borrowing requirements on a short term structure the Council has delivered a saving of £24,000 on this particular aspect of treasury activity.
- 2.7** The Council acquired a further three commercial investment properties in the second half of the year which has resulted in increased rental generation against budget of £195,043. The three properties have a combined yield in excess of the targeted yield and were purchased sooner than envisaged. The three new properties, combined with the existing units, will make a significant contribution to the Council's core budget in the coming years.
- 2.8** For the first time in four years, the Council is able to report a positive position on the retained business rates scheme. The Council has seen little impact on its position as a result of successful appeals in year partly as a result of a number of unsuccessful appeals but also because of the provisions it has made against successful appeals. Against this backdrop, additional income has been generated as a result of:
- Underlying growth.
 - The identification of renewable energy installations where the business rates are retained locally.
 - Payment of additional grant from the Government in respect of amendments to the business rate multiplier cap.
- 2.9** The final row in the table picks up all of the remaining items within the base budget to reconcile back to the budgeted transfer to reserves. This row mainly contains the precepts on the tax payer for both the Borough Council and Parish Councils but also contains other items such as the Minimum Revenue Provision. A reduced cost of £278,000 has been posted against the MRP requirement as a result of a change to historic accounting treatments. In addition, the row also contains the required payment of business rates to the Government in relation to adjustments for the 2016-17 year. These payments are made in the 2017-18 financial year and are covered by a cash backed reserve.
- 2.10** Overall, the Council is able, largely as a result of external funding, to transfer to reserves a gross total of £1,555,899.

3.0 COUNCIL RESERVES

- 3.1** A breakdown of the reserves of the Council as at 31 March 2018 is shown at Appendix B. The reserves are grouped under strategic headings so as to provide Members with a better understanding of the actual intended use of the monies set aside. Also included is a breakdown of the previous year's reserves, under the same strategic headings, so as to inform Members about the movement on those reserves in the last two years.

- 3.2** Total revenue reserves of the Council stand at £10.61m as at the end of March 2018 and include earmarked reserves, planning obligations and the general fund working balance. The increase in overall revenue reserves totals £2.56m and is as a result of a number of factors:
- In year surplus within the general fund including external grant funding as highlighted in section 2.
 - Developer contributions, expenditure against contributions already received and expenditure on existing reserves of £1.01m.
- 3.3** Where significant movements have occurred during the year, a note in Appendix B has been included, to explain the reason for the movement. Members are asked to approve the balances on the reserves for the new financial year.

4.0 CAPITAL PROGRAMME

- 4.1** The Council has committed to a substantial capital programme in the last few years and this is highlighted in the level of capital expenditure incurred in 2017/18, totalling £15.93m. The bulk of the expenditure has been on the purchase of further investment properties and the refurbishment of the Public Service Centre (£1.09m).
- 4.2** The capital programme saw over the purchase of three investment property in 2017 totalling £13.64m. This was less than the budgeted amount of £16.78m, hence a reported slippage on the land and buildings programme, but the balance of £3.14m has been added to a further allocation from Council of £12m giving a total of £15.14m to be invested during 2018.
- 4.3** An underspend of £170,113 (86%) is reported against the remaining capital balances from the community grants programme. The variance is outside of the Council's control as the draw down of awarded capital grants is subject to applicant progressing the agreed scheme.
- 4.4** The summarised capital programme is shown at Appendix C together with the sources of finance used. In summary, the Council expended £15.93m on capital projects in 2017/18 utilising £1.70m of capital reserves, £0.51m of capital grants, £0.09m of revenue contributions and £13.64 from borrowing. Following the allocation of capital receipts, primarily from right-to-buy receipts but also including some small asset sales, the balance on capital reserves, both receipts and grants, has reduced to £1.98m as at 31 March 2018 with commitments totalling £23.28m over the next three years. The commercial property investment programme and the regeneration of Tewkesbury Town will require the Council to borrow monies from external sources with the cost of borrowing being financed from new income streams associated with the capital investments. Capital grants are expected to continue to cover the annual cost of the disabled facility grant programme.

5.0 TREASURY MANAGEMENT

- 5.1** Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Members of an annual review report after the financial year end.
- 5.2** The detailed treasury report is attached at Appendix D. The report details the economic environment, a number of changes introduced into the sector, local performance and a number of prudential indicators.

5.3 The prudential indicators have been monitored regularly and there were only minor departures from the indicators arising during the year on investments as a result of timings on property investment. The in-year performance of treasury investments resulted in an average return of 0.98% and total income of £192,000. This is £165,000 above the budget for the year and reflects the range of investments made, particularly the investment in the CCLA pooled property fund.

5.4 In order to part fund the investment in commercial property, the Council has undertaken significant borrowing with year-end figures totalling £21million. Given the borrowing rates available in the market and the timing of expenditure, the Council has kept its borrowing requirement short-term and borrowed from a range of local authorities. This has resulted in the total borrowing cost being kept within £60,000 for the year, £24,000 below budget. The year-end borrowing requirement has been secured at an average rate of 0.42%.

6.0 PERFORMANCE INDICATORS

6.1 The Financial Services section reports on two performance indicators during the year relating to the speed of paying invoices and the level of sundry debt over 12 months old. The summary performance of the indicators are shown in the table below.

Table 2 – Performance Indicators

KPI description	Outturn 2016-17	Outturn Q1 17-18	Outturn Q2 17-18	Outturn Q3 17-18	Outturn Q4 17-18
Percentage of creditor payments paid within 30 days of receipt	94.74%	95.18%	94.70%	94.55%	94.56%
Outstanding sundry debt in excess of 12 months old	£33,566	£38,317	£43,351	£47,956	£27,659

6.2 It is pleasing to report a continued high performance in the speed of paying invoices. The outturn performance of 94.56% has again exceeded target and has benefited from the roll out of a new purchase ordering system in 2017. The sundry debt position has fallen by circa £6,000 across the financial year taking the amount outstanding to £27,659, the lowest year end position for a number of years.

7.0 CONSULTATION

7.1 Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

8.0 RELEVANT COUNCIL POLICIES/STRATEGIES

8.1 Treasury Management Strategy approved at Council on 21 February 2017 and the Medium Term Financial Strategy approved at Council on 6 December 2016.

9.0 RELEVANT GOVERNMENT POLICIES

9.1 None.

10.0 RESOURCE IMPLICATIONS (Human/Property)

10.1 As detailed within the report and appendices.

11.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

11.1 None.

12.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

12.1 None.

13.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

13.1 Approval of Treasury Management Strategy 2017/18 – Council 21 February 2017.
Approval of Budget 2017/18 – Council 21 February 2017.

Background Papers: Approval of Treasury Management Strategy 2017/18 –
Council 21 February 2017.

Approval of Budget 2017/18 – Council 21 February 2017.

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Appendices: Appendix A – Revenue Outturn by Group.
Appendix B – Earmarked Reserves and Carry Forwards.
Appendix C – Capital Outturn 2017/18.
Appendix D – Annual Treasury Management Report.