CABINET	AGENDA ITEM No. 10
10 JULY 2017	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources	
Contact Officer(s):	John Harrison, Corporate Director: Resources Marion Kelly, Interim Service Director, Financial Services	Tel. 452520 Tel. 384564

BUDGET MONITORING REPORT FINAL OUTTURN 2016/17

RECOMMENDATIONS	
FROM: Corporate Director: Resources	**Deadline date:** 30 June 2017

It is recommended that Cabinet:

1. Note the final outturn position for 2016/17 (subject to finalisation of the statutory statement of accounts) of a £1.3m underspend on the Council's revenue budget.
2. Note the outturn spending of £76.8m in the Council's capital programme in 2016/17.
3. Note the reserves position, including the position on the Grant Equalisation reserve.
4. Note the performance against the prudential indicators;
5. Note the performance on treasury management activities, payment of creditors, collection performance for debtors, local taxation and benefit overpayments.

1. ORIGIN OF THE REPORT

1.1. This report is submitted to Cabinet as a monitoring item. Some key aspects of the outturn were reported to Audit Committee on 26 June 2017 in reporting the draft statement of accounts.

2. PURPOSE AND REASON FOR REPORT

2.1. The report provides Cabinet with the outturn position for both the revenue budget and capital programme for 2016/17, subject to any changes required in the finalisation of the Statement of Accounts.

2.2. The report also contains performance information on treasury management activities, payment of creditors and collection performance for debtors, local taxation and benefit overpayments.

2.3. The report is for Cabinet to consider under its terms of reference 3.2.7 to be responsible for the Council's overall budget and determine action to ensure that the overall budget remains within the cash limit.

3. TIMESCALE

Is this a Major Policy Item/ Statutory Plan	**NO**	If yes, date for Cabinet meeting	**N/A**

4. FINAL OUTTURN 2016/17

Corporate Overview

4.1. The Council, at its meeting on 9 March 2016 approved a balanced budget for 2016/17 that supported the Council's key priorities. The approved budget included £23.2m of savings, along with a further reduction in grant of £9.8m and £7m of demand-related pressures and investment. The Medium Term Financial Strategy (MTFS) also outlined a number of risks that were required to be monitored during the year. Following on from the publication of the Autumn Statement, and subsequently, the Budget, officers have taken a proactive approach to meeting the financial challenges that face the Council in future years.

4.2. During the year the Corporate Management Team (CMT) have received regular reports on the in-year budget position, including progress updates against savings approved as part of previous budget rounds. The Cabinet also discuss the financial position regularly, with formal positions reported to Cabinet meetings held between September and March. Financial plans have also been considered by a cross-party budget working group.

4.3. Actions undertaken by the CMT and Cabinet have included:

- Departmental management teams have reviewed the budget position monthly and have taken appropriate action, including plans to address budget issues. These have been acknowledged in corporate budget reports;
- Regular reports to CMT have included a summary of progress with savings proposals, additional pressures and risks;
- Savings brought forward as part of a two stage budget process for 2017/18;
- Review of the capital programme during the year, deferring projects into future financial years or removing projects that are no longer required. Any reduction in the amount that the council requires to borrow to fund the capital programme has reduced the costs of financing borrowing which has been reflected in the revenue outturn position;
- Utilising all opportunities to capitalise expenditure relieving pressure on the general fund; and
- Review of reserves and provisions, and the management of risk.

4.4. As a result of management action in 2015/16, a number of one off savings allowed for the creation of a Grant Equalisation (GE) reserve. This is being used to defer the impact of reductions in Government funding and allow officers to tackle the issues that lay ahead whilst protecting, as far as possible, the services that residents value the most. Further details on the Grant Equalisation reserve can be found in section 6.

4.5. The December 2016 information, reported within the MTFS, indicated a £1.0m overspend for the year. The Council can now report a departmental underspend of £1.3m, which will be added to the GE reserve for future use, stabilising the budget position for the Council. The final outturn position for 2016/17 is outlined in a summary table section 5 below, with additional detailed information in Appendix A.

4.6. In addition to this, there were a number of other items such as receipts from the disposal of assets and additional benefit received from Direct Revenue Funding which will be added to the GE Reserve. This reserve was created in the 2016/17 MTFS to protect the Council's financial position over the longer term. The table on page 5 shows the 2016/17 contributions to and from the Grant Equalisation reserve forecast in the MTFS and the outturn position, along with an explanation of any variances.

4.7. The Council's budget for 2017/18 includes savings of £20.7m and a planned use of £7.2m from the GE reserve. With the further use of £4.3m from the GE reserve in 2018/19, a budget gap of £14.8m still remains, with the gap increasing substantially to £26.5m by 2021/22.

4.8. Whilst the Council has achieved a balanced position for 2016/17, it will remain challenging to deliver a balanced position for 2017/18 and to deliver the substantial savings required from 2018/19 onwards. To be clear, many difficult decisions remain.

4.9. The contributions made in 2016/17 to the GE Reserve will aid officers in taking a strategic and measured approach to address this, however, it remains a significant gap to cover and difficult decisions will be needed in the future. The GE reserve will be utilised in full to address the challenges outlined above.

5. Financial Report – Revenue Outturn

5.1. The Council's overall revenue outturn shows a balanced position for 2016/17, after movements in reserves. The table below summarises the revenue outturn position by the Directorates during 2016/17.

Revenue outturn 2016/17

Department	Budget	Contributions from Reserve	Revised Budget	Actual	Variance	Contributions to Reserve	Revised Variance
	£000	£000	£000	£000	£000	£000	£000
Chief Executive	285	0	285	184	-101	50	-51
Governance	6,432	340	6,772	6,595	-177	69	-108
Growth & Regeneration	12,810	984	13,794	11,423	-2,371	185	-2,186
People & Communities	69,934	1,381	71,315	73,706	2,391	1,690	4,081
Public Health	-76	118	42	43	1	0	1
Resources	54,589	922	55,511	48,212	-7,299	4,233	-3,066
Totals	**143,974**	**3,745**	**147,719**	**140,163**	**-7,556**	**6,227**	**-1,329**
						Financing Adjustment	**52**
						Revised Underspend	**-1,277**
						contribution to Grant Equalisation Reserve	1,277
						Final Variance	**0**

5.2. A detailed breakdown of the outturn by Directorate and explanation of the major variances is provided in Appendix A.

5.3. The overall position shows a £1.3m underspend, against a December 2016 Budgetary Control Report (BCR) forecast of a £1.0m overspend. This is largely due to favourable variances in the Growth & Regeneration directorate, with underspends also achieved in the Resources and Governance Directorates.

5.4. In addition to this, an additional £4.7m was contributed to the Grant Equalisation Reserve due to the departmental underspends, Direct Revenue Finance savings and cash receipts received in relation to the disposal of assets. Further details are provided in section 6.

6. Financial Report – Reserves

6.1. The Council's departmental reserves and the capacity building reserve are monitored throughout the year as part of budget monitoring and feed into the budget setting process accordingly. The next table summarises the balance for all reserves at the end of 2015/16 against the position at the end of 2016/17.

Earmarked Reserves	31/03/16 Balance £000	Contributions to £000	Contributions from £000	Movement Between reserves £000	31/03/17 Balance £000	Change £000
Capacity Building Reserve	**5,397**	249	-1,556	224	**4,314**	-1,083
Earmarked / Departmental	**4,384**	376	-702	-203	**3,855**	-529
Risk Management Contingency	**712**	23	-55		**680**	-32
School Capital Expenditure Reserve	**1,426**	381	-520		**1,287**	-139
Insurance Reserve	**3,947**	478			**4,425**	478
Future Cities Reserve	**1,273**		-704		**569**	-704
Public Health Reserve	**524**		-96		**428**	-96
Other Minor Reserves	**619**	179	-232	-21	**545**	-74
Grant Equalisation Reserve	**11,925**	4,664	-950		**15,639**	3,714
Development Equalisation Reserve	**0**	1,233			**1,233**	1,233
Subtotal- Earmarked Reserves	**30,207**	**7,583**	**-4,815**	**0**	**32,975**	**2,768**
General Fund Balance	**6,000**				**6,000**	
Total Reserves balances	**36,207**	**7,583**	**-4,815**	**0**	**38,975**	**2,768**

6.2. The majority of reserve balances are set aside for specific purposes and a significant element will be required in 2017/18 and 2018/19. They are therefore not additional monies, only a timing issue between financial years of when the commitments are likely to occur.

6.3. Key comments for reserve movements are as follows:

Departmental Reserves - the amounts set aside by departments during the preparation of the accounts is in accordance with financial guidance to minimise risk exposure to the council in the following financial year.

School Capital Expenditure Reserves/Insurance/Other Minor Reserves - are held on behalf of others or are sums that the Council is independently advised to hold.

Future Cities Reserve – the movement on this reserve represents further drawdowns from the Future Cities Grant awarded to Peterborough in 2013/14.

Risk Management Contingency – this reserve was created in the 2014/15 budget process by transfer from the capacity building reserve to fund one-off type expenditure. In 2016/17 we expected to fully utilise the funds within this reserve, however a turn of events has meant that this reserve has only seen a very small reduction in balance.

Capacity Building Reserve - this reserve is held to meet one off costs of service transformation and the delivery of savings within the MTFS. The MTFS agreed that a proportion of this would be used in 2016/17 and 2017/18 to drive forward the transformation of services to deliver savings.

Public Health – movements on this reserve represent a net carry forward of Public Health grant. Any underspends are carried forward to this reserve in accordance with appropriate accounting treatments.

Grant Equalisation – This reserve was created in 2015/16, with the purpose of stabilising the budget position, while the Government funding received by the Council reduces considerably. The use of this reserve has been outlined within the 2017/18 MTFS, with £7.2m being used to support the position in 2017/18 and £4.2m in 2018/19. However there has been a number of transactions within 2016/17 which have favourably impacted the balance on this reserve. The detail on these transactions is outlined within 6.4.

Development Equalisation Reserve- This reserve has been established at the end of 2016/17 to manage cash flow in relation to a £1.2m declared loan note distribution from the Peterborough Investment Partnership (PIP). This money was included within the MTFS for 2017/18, therefore this money will be fully utilised as intended within this year.

General Fund – the general fund will be maintained at £6.0m and this is consistent with the current budget strategy.

6.4. The Grant Equalisation Reserve has been created to mitigate the impact of known Government funding reductions, in order that officers can take a measured and strategic response to the financial challenge ahead. The MTFS has agreed that this reserve will be fully utilised by 2018/19.

Table 1: Grant Equalisation Reserve transactions

Item	**Forecast in MTFS £000s**	**Outturn £000s**	**Variance £000s**	**Explanation**
To balance 2016/17 bottom line	(950)	(950)	0	Included within the 2016/17 MTFS
Chief Executive - additional saving from permanent arrangement	50	50	0	Additional Savings/Deferred pressures creating a one-off surplus to be contributed to the GE Reserve.
Alternative Governance saving	50	50	0	
Additional saving from MRP review	150	150	0	
Apprenticeship Levy not payable in 2016/17	218	218	0	
Additional Direct Revenue Funding		1,040	1,040	The December 17 BCR included a £803k favourable position for this, which at outturn then come in at £1,040k, a £237k improved position. In December 2017it was anticipated the budget position overall would be in deficit, this being used to mitigate that in part. Given the change in circumstance, this has now been transferred to the GE reserve for future use.

Item	Forecast in MTFS £000s	Outturn £000s	Variance £000s	Explanation
Right to buy receipts in relation to 2015/16		1,246	1,246	£1,246k in relation to cash received as part of the 2015/16 Right to Buy receipts. .
Investment Property sale, in advance of planned disposal date		633	633	The two asset disposals (Pyramid Centre and Lindems) form part of the 2017/18 MTFS, and were disposed of earlier than expected.
Departmental Underspend at outturn 2016/17		1,277	1,277	

7. Financial Report – Capital

7.1. The planned capital programme for the financial year was £156.7m. Slippage of expenditure from 2015/16 of £81.6m increased the agreed budget at 1 April 2016 to £238.3m. Throughout the year the capital programme was regularly reviewed and finally reduced to £75.5m through slippage and savings. Much of the slippage has been built into future budgets as part of setting the 2017/18 budget.

7.2. Capital expenditure during 2016/17 totalled £76.8m as shown in the summary table below:

Capital Programme 2016/17 by Directorate	**Budget 01/04/2016 £000**	**Revised Budget £000**	**Actual £000**
Governance	49	-	-
Growth & Regeneration	37,560	23,803	23,918
People & Communities	49,624	26,024	27,632
Resources	24,368	6,581	6,179
Invest to Save	126,661	19,048	19,107
Total	**238,262**	**75,457**	**76,835**
Financed by:			
Capital Receipts	44,715	34,810	35,904
External Sources	1,000	-	1,000
Prudential Borrowing	192,547	40,646	39,931
Total	**238,262**	**75,457**	**76,835**

7.3. The Council and CMT have agreed to reduce and re-phase some projects in the programme during the year to reduce the impact on financial resources or to reflect changing demographic needs. Other projects have been subject to delays which have led to budgets being slipped to 2017/18. Listed below are the significant projects that have been slipped into 2017/18 that has contributed to the variance between the revised budget reported in December 2016 and the reported capital programme outturn of £76.8m.

Growth & Regeneration

- £ 2.6m Street Lighting projects
- £ 2.m Housing Joint Venture
- £ 6.2m Roads & Bridges/Transport projects
- £ 2.1m Public Realm Projects

Resources

- £ 7.4m ICT Projects
- £ 0.7m Renewable Energy projects
- £ £5.2m Fletton Quays Fit Out
- £3.4m Householders Recycling Centre
- £1m London Road Fit Out

People & Communities

- £6.9m Jack Hunt Expansion
- £7.2m Hampton Leys (Gardens)
- £3.7m Paston Reserve Primary
- £3.7m Clare Lodge Phase 6
- £0.5m Adult Social Care Transformation

Invest to Save

- £2.8m Axiom Loan
- £66.1m Empower Loan
- £2.1m Invest To Save

7.4. The Invest to Save outturn of £19.1m in 2016/17 includes expenditure on delivering energy efficiency measures across the council's buildings portfolio including schools. The schemes are self-funding in two ways:

a. Firstly, introducing energy efficiency measures through the replacement of plant inside the buildings driving down energy costs (for example in our swimming pools through new filters and a combined heat and power unit for the regional pool, more efficient lighting in car parks and replacing school boilers).

b. Secondly, putting solar panels on roofs to provide a cheaper source of energy for the buildings and an income stream by selling surplus energy to the grid (including schools).

7.5. The Invest to Save outturn also includes the investment the Council has made in its strategic partnership with Empower Community Management LLP (EC), a social enterprise company that has, as its primary purpose, the installation of solar panels on residential properties. This scheme is the first scheme of its type in the UK and in particular the first of its kind that involves a Council. The major benefits of the scheme are:

- No cost to the owner for installation
- Free energy generated to the occupier
- A fee for installation paid to the owner
- Creation of a local community fund out of profits
- A fee to the Council out of profits generated
- Investment returns generated by the Council

7.6. The capital programme is financed through borrowing, capital receipts, grants and contributions. Although the amount of borrowing required has reduced due to slippage in the capital programme since the MTFS was approved, the Council would need to borrow £39.9m to fund 2016/17 capital expenditure although the actual Council borrowing was £32.4m as reported in paragraph 8.3b.

8. Financial Report – Treasury Management Activity for 2016/17

8.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

8.2. Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

8.3. The treasury activity for the Council during 2016/17 is compliant with the Treasury Management Strategy approved in March 2016. Investment and borrowing activities include:

a. Investment – The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term and only invest with Barclays (the Council's current banking provider), the Debt Management Office and Local Authorities. As at 31 March 2017 the Council's external investments totalled £13.6m and have yielded interest at an average rate of 0.25% in the financial year 2016/17. Investments were placed for short periods to cover daily cash flow fluctuations.

b. Borrowing – In 2016/17 the Council increased its borrowing by £32.4m. Although £39.9m was required to fund the capital programme, due to timing issues surplus cash balances were utilised to off-set the actual borrowing requirement in the year. The borrowing has been taken out over a range of periods to best fit the Council's maturity profile of debt. Also the best possible interest rate has been sought in line with the budget for borrowing, including the continuation of the council benefitting from reduced interest rates on long term PWLB loans by 20 basis points (0.2%) due to it submitting borrowing plans to government.

c. Consideration has been made to rescheduling debt however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the Council and no savings were to be made.

8.4. The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. In accordance with the 2016/17 Code the liability for the Private Finance Initiative (PFI) agreement and finance leases also impact on the CFR.

8.5. In 2016/17 the CFR was:

Capital Financing Requirement	**£000**
Opening Capital Financing Requirement 1 April 2016	480,939
New Capital Expenditure Financed by Borrowing	39,931
Minimum Revenue Provision for Debt Repayment	(10,087)
Minimum Revenue Provision for PFI	(376)
Minimum Revenue Provision for Leases	(636)
Closing Capital Financing Requirement 31 March 2017	**509,771**

8.6. As part of the setting of the treasury strategy, the Council sets annual prudential indicators to measure effectiveness of treasury management and reports against these indicators during the financial year. The indicators have not been breached during 2016/17.

8.7. Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B along with an update on treasury management activity and other financial performance indicators in Appendix C.

9. Consultation

9.1. Detailed reports have been discussed in Departmental Management Teams and this report with the Corporate Management Team.

10. Anticipated Outcomes

10.1. That the outturn position for 2016/17 is noted.

11. Reasons for Recommendations

11.1. This monitoring report forms part of the 2016/17 closure of accounts and decision making framework culminating in the production of the Statement of Accounts and informs Cabinet of the final position.

12. Alternative Options Considered

12.1. None required.

13. Implications

13.1. Members must have regard to the advice of the Section 151 Officer.

14. Background Documents

14.1. The 2016/17 Medium Term Financial Strategies.

15. Appendices

15.1. Appendix 1 – 2016/17 Revenue Outturn Report

15.2. Appendix 2 – Treasury Management Strategy – Prudential Indicators – 2016/17

15.3. Appendix 3 – Performance Monitoring

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