

## **FINANCIAL UPDATE 2016/17 AND 2017/18**

### **1. PURPOSE OF THE REPORT**

- 1.1 This report provides the panel with an update on the latest position with regards to the 2016/17 budget, confirms the assumptions made within the forecast for the 2017/18 budget and gives the panel an update on the Council's mid-year Treasury Management position.

### **2. BACKGROUND**

- 2.1 There are two types of financial reports that are presented to Cabinet throughout the year. The Financial Monitoring Reports (FMR) focus on the current years' performance and provide a forecast budget outturn, and the Medium Term Financial Plan (MTFP) reports give updates on the current forecast budget position over a 3-4 year period, allowing for known and estimated funding and budget changes. Often items featured in the FMR's feed into the MTFP, if the adjustments are on-going.
- 2.2 In February 2016, at the same time as setting the 2016/17 budget, Council approved the Treasury Management strategy covering 2016/17 – 2018/19. A mid-year progress report was reviewed by the Audit Committee in September 2016, and an outturn report is reviewed each June.

### **3. LATEST POSITION 2016/17**

- 3.1 A General Fund budget of £17.192m for 2016/17 was agreed by Council in Feb 2016.
- 3.2 The first FMR of the year (Aug Cabinet) identified budget savings of £731k and new budget requirements of £77k. The second FMR of the year (Nov Cabinet) identified further budget savings of £1.061m and new budget requirements of £279k. The narratives as included in the relevant FMR's are included as appendix 1.
- 3.3 Each report also included rephasings (from/to earmarked reserves), with the August report bringing rephasings from 2015/16 into 2016/17 totalling £2.297m, and the November report including rephasing out of 2016/17 into 2017/18 of £272k.
- 3.4 The following table summarises the change in budget position as a result of the reported variations, outlined above;

	<b>Savings £'000</b>	<b>New Req. £'000</b>	<b>Rephasing £'000</b>	<b>Total £'000</b>
<b>Original Budget April 2016/17</b>				<b>17,192</b>
Variations agreed in August	-731	110	2,297	1,676
Transfer from Reserves in August		-33	-2,297	-2,330
<b>Updated Budget August 2016/17</b>	<b>-731</b>	<b>77</b>	<b>0</b>	<b>16,538</b>
Variations Agreed in November	-1,061	279	-272	-1,054
Transfer to Reserves in November			272	272
<b>Updated Budget November 2016/17</b>	<b>-1,792</b>	<b>356</b>	<b>0</b>	<b>15,756</b>

#### 4. LATEST ASSUMPTIONS 2017/18

- 4.1 The acceptance (via July Cabinet) of the Governments' 4 year finance settlement has given some degree of certainty around the levels of funding that the Council is due to receive until 2019/20.
- 4.2 The MTFP presented to Cabinet in October includes the latest funding forecast, and confirms a reduction in grant funding and resources when comparing 17/18 to 16/17 of £957k (11%).
- 4.3 Council tax is now the Council's main funding source, in 2016/17 representing 57% of total funding. An assumed increase for 2017/18 of £5 (equivalent to 3.16%) has been allowed for in the MTFP assumptions, which is forecast to generate an additional £349k. A baseline adjustment is also made (£33k), reflecting the number of new homes in the district. This total increased Council Tax yield reduces the funding shortfall down to £575k.
- 4.4 The following table summarises how different percentage changes to Council Tax would impact the current zero bottom line forecast for 2017/18;

Percentage Increase	3.16%	2.91%	2.66%	2.41%	2.16%	1.91%	1.66%	1.41%
Yield Increase (£'000)	349	321	293	266	238	211	183	155
Difference to £5 (£'000)	0	28	56	83	111	138	166	194

- 4.5 As of October expected Pay & Price increases for 2017/18 are £774k. At this point the total budget gap for 2017/18 is (£575k + £774k) £1.349m.
- 4.6 The implementation of the Council's new Senior Management Structure gave an opportunity for a fresh review of each and every service and back office function that the Council provides and requires. This has been given financial context by the inclusion of a Budget Stabilisation Target for each of the Service Managers. The principal of the target is to freeze the budgets in their areas of responsibility for the next 3 years, based on the 2016/17 level. This results in the need to absorb forecast cost increases (pay award, increments, inflation

etc.) over the 3 year period of £2.438m. A graph is included as Appendix 2 showing the breakdown of this total per Service Manager.

- 4.7 The forecast savings as a result of the Service Manager's year 1 reviews totals £1.373m. Other significant budget changes include a reduction in our forecast interest earnings (to reflect the drop in base rate; see section 6), and a temporary increase to the Asset Maintenance and Replacement programme, to balance the budget (as at October) for 2017/18 back to 0.

## 5. ASSET MAINTENANCE AND REPLACEMENT PROGRAMME 2017/18

- 5.1 Officers are currently working on finalising the Asset Maintenance & Replacement programme for 2017/18. A summary of the projects will be presented to a special December COSP meeting, to ensure that members have the opportunity to review the programme and make a recommendation to Cabinet.

## 6. MID-YEAR TREASURY MANAGEMENT UPDATE

- 6.1 The preliminary estimate of quarter 2 of 2016 showed strong growth as the economy grew 0.6% quarter-on-quarter, as compared to 0.4% in quarter 1 and year/year growth running at a healthy pace of 2.2%. However the referendum result in June led to a sharp decline in household, business and investor sentiment.

- 6.2 The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting a cut in base rate to 0.25% in August 2016.

- 6.3 The Council's investment holding was £65.38m at 25 August 2016 and was placed in the following investment types;

Duration to maturity	Overnight £m	<1 year £m	>1 year £m	Total £m	Average Rate/Yield %	Average Life years
<i>Subject to bail-in risk</i>						
Bank notice accounts	-	3.5	-	3.5	1.05	0.16
Bank certificates of deposit <sup>1</sup>	-	7.0	-	7.0	0.52	0.39
	-	10.5	-	10.5	0.70	0.31
<i>Exempt from bail-in risk</i>						
Covered floating rate notes	-	7.7	11.3	19.0	0.77	1.31
Corporate floating rate notes	-	1.0	-	1.0	0.67	0.45
Covered fixed bonds	-	2.0	2.0	4.0	1.12	0.93
Supranational bonds	-	2.0	-	2.0	0.61	0.29
Government bonds	-	8.0	-	8.0	0.72	0.30
Money market funds	4.9	-	-	4.9	0.42	0.00
Local authorities	-	8.0	5.0	13.0	1.08	1.02
Pooled property funds	-	-	3.0	3.0	4.52	-
	4.9	28.7	21.3	54.9	1.04	0.87
<b>Total</b>	<b>4.9</b>	<b>39.2</b>	<b>21.3</b>	<b>65.4</b>	<b>0.98</b>	<b>0.78</b>

6.4 The average interest rate earned on the Council's investments at 25 August 2016 was 0.98%. The base rate cut by 0.25% will have an impact on future interest returns as existing investments mature. An adjustment of £200k has been made in the MTFP for 2017/18, reducing our budgeted interest earning income from £600k to £400k.

## 7. CRIME & DISORDER / EQUALITY & DIVERSITY / ENVIRONMENTAL IMPLICATIONS

7.1 There are no implications as a direct result of this report.

## 8. FUTURE REPORTING

8.1 The reporting of financial information to this panel needs to fit in with the established Cabinet reporting timetable already in place, and give this panel an opportunity to feed into the Cabinet reports.

8.2 In some instances, due to the tight reporting timetables only actions agreed at the COSP meetings and put forward immediately by the panel chairman will find their way onto the appropriate Cabinet report.

8.3 The existing schedule of financial reporting to Cabinet and a proposed schedule of financial updates for this panel is as follows;

	<b>CABINET REPORTS</b>	<b>PROPOSED COSP REPORTING</b>
July	First MTFP	
August	First FMR	
September		Monitoring & MTFP (to feed into October MTFP)
October	Second MTFP	
November	Second FMR	Monitoring & MTFP (to feed into Jan MTFP)
December		
January	Third MTFP	Update on MTFP (to feed into Feb Budget Setting)
February	Final MTFP and Budget Setting	
March		
April	Final FMR	
May		Annual Review Report
June	Annual Performance and Provisional Outturn Report	

COSP Meetings

## **9. CONCLUSION**

- 9.1 Significant funding reductions and cost increases require the Council to be proactive in its review of activities, in order to set a balanced budget.
- 9.2 The on-going savings identified in 2016/17 via the FMR's are built into the current MTFP assumptions, in principal as part of the Budget Stabilisation figures.
- 9.3 Council Tax plays a significant part in the way the Council is funded. Any changes to the £5 increase creates a budget deficit for 2017/18 (and a small cumulative effect going forward), which will then need to be addressed.

## **10. RECOMMENDATIONS**

- 10.1 That the members of COSP;
  - a) note the contents of this report, and feedback any relevant comments for inclusion in the January MTFP report to Cabinet, and
  - b) note the proposed schedule of future financial updates, as laid out in section 8.

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**Background Papers**  
**FMR – 03/08/2016**  
**FMR – 02/11/2016**  
**MTFP – 05/10/2016**