

CABINET MEETING: 6 JULY 2017

OUTTURN 2016/17

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 8

**PORTFOLIO: FINANCE, MODERNISATION & PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

Reason for this Report

1. This report serves to inform the Cabinet of the Council's financial position in respect of the year ending 31 March 2017.

Background

2. The report compares the outturn for the financial year ending 31 March 2017 with the budget for the year for both revenue and capital expenditure and also provides a summary Treasury Management Statement in respect of investments and borrowing. All figures are subject to external audit.
3. The final revenue outturn position indicates that the Council has maintained its spending within its overall net budget of £578 million in 2016/17 with a balanced position reported after contributions to and from reserves. Favourable variances within the Summary Revenue Account (SRA) including the previously reported savings of £600,000 against contingency budgets for voluntary severance and £700,000 from lower than anticipated costs of insurance has also enabled contributions to be made to two new strategic reserves that will benefit the Council in the medium term. This includes an allocation of £800,000 to support corporate landlord functions across the Council and to provide a cohesive and commercial operating model for those functions. Funding of £2.532 million has also been allocated to a new Strategic Budget Reserve which will assist the Council in managing the impact of budget reductions over the three year budget period within the Medium Term Financial Plan.
4. During the year the Council's monitoring process identified financial pressures in a number of directorates, notably Social Services, City Operations, Corporate Management and Education & Lifelong Learning. This reflected a range of factors including increased demographic and cost pressures, shortfalls in income and the failure to fully achieve the savings targets set as part of the 2016/17 budget. This is reflected in the overall directorate outturn position which shows an overspend of £7.630

million, an increase of £598,000 compared to the monitoring position at month nine. The most significant factor in the increase was additional costs in relation to looked after children including associated legal costs, with a significant increase in the number of children being placed in care during the final quarter of the year. The overall position on directorate budgets included overspends of £6.745 million in Social Services, £1.173 million in City Operations, £329,000 in Corporate Management and £178,000 in Education & Lifelong Learning however these were partly offset by savings in other directorates. The directorate overspends were also partially offset by the £4.0 million general contingency budget which was maintained as part of the 2016/17 budget in order to reflect the quantum, risk and planning status of the proposed savings in 2016/17. The overall position also includes savings in other areas including Capital Financing, Council Tax collection, NDR refunds on Council properties and the Summary Revenue Account.

Issues

5. An overall summary of the position shows:

- A comparison of revenue spend against budgets shows a balanced position following transfers to reserves and the funding of voluntary severance costs in 2016/17.
- Directorate budgets showed an overspend of £7.630 million at the year end with overspends of £6.745 million in Social Services, £1.173 million in City Operations, £329,000 in Corporate Management and £178,000 in Education & Lifelong Learning. The issues faced by these directorates were set out clearly in monitoring reports during the year. These were offset by underspends in other directorates and by the £4.0 million General Contingency Budget.
- Overall, schools increased their individual reserves by £1.722 million (net). A reduction of £794,000 was also made to the previous on-going commitments arising from the 2014/15 overspend of £1.9 million on redundancy costs. When this is taken into account the overall increase in school balances is £2.516 million.
- The Housing Revenue Account (HRA) shows a balanced position after transfers to earmarked reserves. Contributions to reserves include £500,000 to meet future pressures in housing repairs and building maintenance services and £50,000 to reflect pressures in relation to the impact of Welfare Reform on Council tenants. Monitoring reports during the year reflected the intention to allocate the balance of any savings to a new reserve to fund housing development and acquisitions. The transfer to this reserve at the year end was £2.582 million.

- The Council spent £107.987 million on capital expenditure. A comparison of the capital spend against the budget shows an underspend of £21.817 million.

Revenue

6. Appendix 1 shows the financial summary for the year while Appendix 2 provides further details in respect of variations against budget by directorates.
7. The 2016/17 savings targets are set out in Appendix 3(a) to this report together with the final outturn positions in terms of savings achieved and shortfalls against targets. An overall shortfall of £6.475 million is reported against the £25.892 million directorate savings targets for 2016/17 with a further shortfall of £1.881 million against the savings targets carried forward from 2015/16 as set out in Appendix 3(b). Compared to the position at month nine this represents an increased shortfall of £222,000 against the 2016/17 savings and £49,000 against the savings targets carried forward from 2015/16. The shortfalls are reflected in the directorate monitoring positions although where possible these have been offset by savings in other budget areas within the directorates. The £4.0 million General Contingency Budget which was allocated to reflect the risk and planning status of the proposed savings in 2016/17 partly offsets these shortfalls. The shortfalls do however represent a significant challenge particularly given the level of further savings targets approved as part of the 2017/18 Budget and the amounts required in future years. The risk of these savings not being achieved was considered as part of the 2017/18 budget process and as a result £1.073 million of these budget savings were written back in the budget. This still leaves an ongoing shortfall of £7.283 million to be achieved in 2017/18 in addition to the budget savings approved as part of the 2017/18 budget process itself. It is essential therefore that the directorates continue to progress any outstanding savings from 2015/16 and 2016/17 so that these are fully achieved in the current financial year. This will be reviewed as part of the financial monitoring process in 2017/18.
8. The Summary Revenue Account (SRA) consolidates the overall revenue position for the Council and includes various adjustments to the Council's accounts including the revenue impact of changes to the Council's bad debt provisions, the revenue effect of balance sheet adjustments and any prior year revenue items which have impacted on the overall revenue position of the Council. It also consolidates the final position in relation to contingency budgets and any adjustments arising from these and includes a number of commitments including transfers to earmarked reserves and provisions. Favourable variances within the SRA including the previously reported savings of £600,000 against contingency budgets for voluntary severance and £700,000 from lower than anticipated costs of insurance has enabled a number of contributions to be made to earmarked reserves at the year end. This includes contributions to three new reserves as set out in appendix 4 to this report, which are subject to Cabinet approval. This includes an allocation of £800,000 to support corporate landlord functions across the Council and to provide a

cohesive and commercial operating model for those functions. A new reserve has also been created to provide funding flexibility against the Council's costs in relation to the Shared Regulatory Service and an amount of £243,000 has been allocated to this reserve. This reflects the Council's share of the 2015/16 surplus on the Shared Service arrangement which was confirmed and received in 2016/17 and initially credited to the SRA as a prior year item. In addition, funding of £2.532 million has also been allocated to a new Strategic Budget Reserve which will assist the Council in managing the impact of budget reductions over the three year budget period within the Medium Term Financial Plan. A number of contributions to and from provisions were also reflected in the SRA. The most significant of these were a £187,000 contribution to a provision for anticipated commitments at the Cardiff Market and the write back of £248,000 in relation to a previous provision for water / drainage costs which is no longer required.

9. In total, the redundancy costs incurred during the year amounted to £1.051 million. This is lower than 2015/16 (£2.027 million) and significantly lower than in recent years with the comparative cost in 2014/15 totalling £11.861 million. The £1.051 million includes £636,000 in respect of school-based staff. The overall redundancy figure also includes £60,000 which was funded via the Housing Revenue Account. In line with the Code of Practice on Local Authority Accounting these figures include provision in the 2016/17 accounts for payments relating to severance costs paid in 2017/18 as a result of budget savings agreed in 2016/17. As set out in the month nine monitoring report, having considered the level of payments required to be met from the voluntary severance budget in 2016/17 and estimates of future costs an amount of £600,000 has been released from the contingency budget and is reflected as a saving in the SRA. As previously planned, the balance of £5.021 million on the voluntary severance budget was transferred to the Employee Changes Reserve in order to support staff costs associated with organisational change including the future impact of voluntary severance on the Council's budget. In addition, pension costs charged to the Council arising as a result of voluntary severance in 2016/17 total £830,000. These will be funded via the Pension Fund and will be repaid to the Fund over a five-year period.
10. A surplus of £365,000 was reported in relation to Council Tax collection, a reduction of £277,000 compared to the position projected at month nine. The surplus is mainly due to a lower levels of single person discounts than was anticipated when the Council Tax Base Report was approved in December 2015. These are partly offset by an increase in exemptions during the year. The surplus represents a variance of 0.2% of the estimated gross debit. A saving of £590,000 was also reported in relation to refunds of non domestic rates (NDR) on Council properties achieved through the appeals process. This is broadly in line with the position reported at month nine. These backdated sums represent an exceptional and one-off source of income to the Council.
11. During the year expenditure of £439,000 was incurred on various corporate initiatives. These include funding contributions towards the

Euro 2016 fan zone, the World Half Marathon, preparatory costs for the Champions League Final, the Extreme Sailing Event and the Children's Literature Festival. The final outturn position on corporate initiatives showed an underspend of £129,000 which was transferred to the Corporate Events and Cultural Services Reserve in order to provide funding for corporate events and initiatives in future years.

12. School balances currently stand at £4.243 million surplus, which is a total increase in balances of £2.516 million compared to 2015/16. The overall change is made up of a £1.722 million increase to individual school balances together with the repayment of outstanding redundancy costs from previous years of £794,000.
13. The outstanding balance brought forward into 2016/17 in respect of the £1.9 million 2014/15 redundancy overspend was £794,000. During the year there was a £400,000 budgeted repayment together with a further £394,000 repayment, which was possible due to lower than anticipated expenditure against the annual redundancy budget. Therefore, there will be no outstanding redundancy liability carried forward to 2017/18.
14. The table below sets out the balances held by individual schools as at 31 March 2017 -

2016/17	£m	% of Delegated Budget
Primary	5.236	4.43
Secondary	(1.601)	(1.64)
Special	0.608	4.98
Total – Individual Schools	4.243	1.86

15. The individual figures within the above table show a mixed trend with 37% of the schools across the phases reducing their balances and 63% increasing their balances.
16. Although the overall percentages of balances represent less than 2% of the total school budget, there are significant variations between schools. The number of primary schools holding balances in excess of the School Funding (Wales) Regulations guideline of £50,000 has increased from 39 to 46, whilst eight secondary / special schools hold balances in excess of the recommended level of £100,000.
17. It was anticipated, during the year, that primary schools, as a group, would reduce their balances considerably. However, a combination of grant funding, planned reductions in expenditure in anticipation of a challenging 2017/18 budget settlement and delays on the completion of work has led to greater than anticipated balances. The reduced total net deficit balances for secondary schools is partly the product of agreed medium term plans for the reduction in deficit balances held by individual schools.
18. In setting individual school budgets for 2017/18, indications are that individual school balances in surplus are being used to set balanced

budgets. However, this was also the case in 2015/16 and 2016/17 and overall school balances still increased in totality. The Council will continue to review individual school balances that are in excess of the Welsh Government recommended limits and consider if there is a need to claim back any excess surplus. Currently, the intention remains for it to only be in the case that where it is clear that the school is unable to spend their reserves in a responsible and reasonable manner. Currently, no school fits this criteria.

19. It is noted that there are 14 schools in Cardiff with negative balances amounting to £2.749 million. This represents a significant improvement compared to the 22 schools that were in deficit at the end of the 2015/16 financial year. Each of these schools has a medium term financial plan agreed with the Council. Of that figure, £2.573 million is in respect of seven schools in the secondary sector. Work will continue in partnership with the individual school governing bodies to ensure that these deficits are managed downwards over a period of time. Of the seven secondary schools, three have had financial delegation withdrawn from the Governing Body: Cantonian High, Michaelston Community College and Glyn Derw High School. Eastern High School has also had financial delegation withdrawn, however that school currently has a surplus balance.

20. In line with standard accounting practice a number of budgeted and anticipated contributions to and from reserves have been reflected in the 2016/17 accounts with the overall position excluding school balances and the HRA showing a net increase of £4.7 million in 2016/17. In accordance with Council Minute 799(8) transfers to new earmarked reserves have been effected and these are set out in Appendix 4 together with the purpose of the reserves. The new reserves and their purpose have been set out earlier in this report in reviewing the movements on the SRA. In summary, £3.575 million has been allocated to these new reserves, £2.532 million to the Strategic Budget Reserve, £800,000 to the Corporate Landlord Reserve and £243,000 to the Shared Regulatory Service Reserve. A further £175,000 has also been allocated to the Corporate Landlord Reserve as a result of realigning balances held on existing reserves, whilst in the case of the Shared Regulatory Service Reserve this has been partly utilised to offset costs in 2016/17. Other significant changes to the Council's earmarked reserves include increased net contributions of £3.924 million to the Employee Changes Reserve, £1.138 million to Insurance Reserves, £1.093 million to the Cardiff Enterprise Zone Reserve and £646,000 to the Apprenticeship Reserve. The net increase to the Employee Changes Reserve includes the planned transfer of £5.021 million from the voluntary severance budget in order to support staff costs associated with organisational change including the future impact of voluntary severance on the Council's budget. This has been partly offset by drawdowns from the reserve, most notably in relation to the planned repayment of previous year pension costs. Significant net drawdowns from reserves during the year include £1.709 million from the School Organisational Plan Reserve in order to meet planned commitments, £1.047 million from the Highways LABGI Reserve which was no longer

required and has been utilised as part of the funding for the Council's 2016/17 Budget, £742,000 from the Waste Management Reserve, £611,000 from the Welfare Reform Reserve and £357,000 from the School Formula Funding Reserve. A full list of the Council's earmarked reserves and movements during the year will be included within the Financial Statements for 2016/17.

21. Following transfers to earmarked reserves and provisions the revenue outturn shows a balanced position. The table below sets out the movement in the accounts that make up that figure.

	£000
Net service position - Deficit	7,630
Contingency	(4,000)
Capital Financing	(520)
Summary Revenue Account	(5,735)
Contribution to new earmarked reserves	3,575
Discretionary Relief	5
Council Tax collected in excess of budget	(365)
NDR refunds on Council properties	(590)
Net Revenue outturn – Balanced Position	0

22. A balanced position is reported in relation to the net revenue outturn for 2016/17 and therefore there is no consequential impact on the Council Fund Balance. A specific contribution of £1 million was transferred into the balance in 2015/16 in order to fund the 2016/17 budget and this has been drawn down and reflected as part of the 2016/17 Budget proposals.
23. The Council Fund Balance at 31 March 2016 was 15.255 million. Following the planned use of the £1 million to support the 2016/17 Budget the Balance at 31st March 2017 therefore stands at £14.255 million.
24. The Section 151 Officer has reviewed the Council Fund Balance and considers the balance prudent given the unbudgeted risks that the Council faces albeit that the position will be further reviewed as part of the 2018/19 budget preparation. These financial risks were set out in the 2017/18 Budget Report.

Civil Parking Enforcement

25. Civil Parking Enforcement (CPE) manages parking, parking enforcement and moving traffic offences throughout the city. The income from these activities is used to support the operational costs and enforcement service. Any surplus or deficit is transferred to the Civil Parking Enforcement Reserve.

26. The following table provides a summary of the budget and outturn position.

2015/16 Outturn £000		2016/17 Budget £000	2016/17 Outturn £000	2016/17 Variance £000
	Income			
(4,271)	On street car parking fees	(4,242)	(4,362)	(120)
(805)	Off street car parking fees	(918)	(1,042)	(124)
(308)	Residents parking permits	(290)	(330)	(40)
(2,022)	Penalty charge notices	(2,129)	(2,019)	110
(2,840)	Moving Traffic Offences (MTO's)	(3,668)	(3,256)	412
(63)	Camera Car	(151)	(104)	47
(2)	Other income	0	0	0
(10,311)	Total Income	(11,398)	(11,113)	285
	Expenditure			
978	TRO, operational costs, parking a/c	1,573	1,037	(536)
4,376	Enforcement service	4,131	4,607	476
5,354	Total Expenditure	5,704	5,644	(60)
(4,957)	Annual (Surplus)/Deficit	(5,694)	(5,469)	225

27. The position for 2016/17 showed a net trading surplus of £5.469 million. Whilst this was £225,000 below target, due primarily to delays in implementing the planned additional bus lane enforcement, the overall position represents an increase of £512,000 (10%) on the previous year. This was mainly achieved through Increases in MTO enforcement and from off-street car parking fees.
28. Total gross income generated was £11.113 million. This included £4.362 million from on-street and £1.042 million from off-street parking fees with a further £330,000 from Residents Parking Permits. Enforcement generated £2.019 million from Penalty Charge Notices, £3.256 million from MTO's and £104,000 from the Camera Car.
29. Total expenditure was £5.644 million and was £60,000 below budget. Lower employee costs due to managed recruitment enabled earlier repayment in respect of the set up costs associated with the Moving Traffic Offences which will reduce future costs.

Parking Enforcement Reserve

30. The use of the reserve is governed by Section 55 of the Road Traffic Regulations Act 1984. This specifies that the surplus may be used to fund operational costs including subsidising the enforcement service, supporting public passenger transport services, transport planning and road safety, maintaining off-street car parks and highway and environmental maintenance and improvements.

31. The following table illustrates the movements in the Parking Enforcement Reserve and the balance carried forward.

2015/16 £000		2016/17 £000
69	Brought forward balance	371
4,957	Annual trading surplus	5,469
5,026		5,840
	Utilisation	
4,655	Contribution to overall provision for transportation, highways and environmental maintenance and improvements	5,025
0	Budgeted contribution - Cardiff West Bus Interchange—design and contract	174
0	20 mph zones and 75% residential parking (lines and signage)	79
0	Digital, new signs, school keep clear zones, lining/patching	96
0	Car Free Day	15
0	A4232/A47 Resurfacing	100
4,655		5,489
371	Reserve Balance	351

32. When the 2016/17 trading surplus of £5.469 million is applied to the brought forward figure of £371,000 the balance in the Parking Enforcement Reserve is increased to £5.840 million.
33. Eligible expenditure totalling £5.489 million was drawn down from the reserve leaving a balance of £351,000 at the 31 March 2017. The drawdown included a budgeted sum of £5.025 million to support a range of Council services including ongoing support and improvements to transport, parking, highways and environmental services. It also included specific drawdowns for various improvement schemes and initiatives. These were approved by the Director of Operations in consultation with the Cabinet Member for Transport, Planning and Sustainability and the allocation from the reserve was approved by the Corporate Director of Resources. Whilst there were variances compared to the original plan these were broadly in line with the forecast position as reported at month nine.

Housing Revenue Account

34. The Housing Revenue Account (HRA) shows a balanced position after transfers to earmarked reserves. Contributions to earmarked reserves include a transfer of £2.582 million to the new Housing Development and Acquisitions reserve to fund the development of the additional build programme, other land and property acquisitions and to support the Housing Partnership programme, £50,000 to a new earmarked reserve

for pressures anticipated in relation to the impact of Welfare Reform on council tenants and £500,000 to the Housing Repairs and Building Maintenance services earmarked reserve to be set aside for the specific costs of Health and Safety initiatives and improvements.

35. The overall position as set out in Appendix 5 includes a number of variances, the most significant of which is a £1.596 million underspend in the Housing Repairs Account. The main reasons for this significant underspend include lower than anticipated spend against the external painting budget due to a delay in the commencement of the programme. There was also a reduction in external contractor spend due to 92% of responsive repairs being undertaken by the in-house workforce. In addition, the variance included higher than anticipated levels of capitalisation of works and also a significant underspend on internal works employee costs largely due to vacancies.
36. Other variances within the HRA include an underspend of £505,000 on employee costs reflecting vacancies and other savings against the staffing budget. An underspend of £210,000 was also reported in relation to other premises costs. This includes reduced Facilities Management costs of £248,000 partly due to the transfer of staff to the Central Library from the now demolished Marland House and partly in relation to lower recharges to the Community Hubs and for Willcox House. There were also savings of £154,000 against utility budgets, partly offset by increased general repairs, compensation and cleaning costs. Supplies and services budgets were underspent by £43,000 mainly in relation to insurance costs but with savings also reported on other budget heads such as under-occupancy costs, bank charges and grants to outside organisations. Support services budgets were underspent by £184,000 mainly due to lower than anticipated central support costs which includes recharges in relation to Housing General Fund staff time spent supporting the HRA and from Central Transport Service recharges. Capital financing budgets were overspent by £176,000 due to an increase in direct revenue financing costs, partly offset by reduced capital financing charges mainly in relation to interest payments. A reduced contribution to the bad debts provision was also required providing a saving of £360,000. Other minor variances include savings of £10,000 on third party payments and a £1,000 overspend on transport costs. Income was £401,000 above target mainly due to a lower than budgeted level of void rent loss, with higher than anticipated staff recharges to capital schemes for staff time, and increased Supporting People grant funding.

Activities Inherited from Cardiff Bay Development Corporation including Harbour Authority

Cardiff Harbour Authority

37. The Welsh Government approved a three year budget covering the period 2014/15 to 2016/17 as part of a deed of variation dated 3rd April 2014 to the original S165 Agreement.

38. The budget for 2016/17 was set at £6.146 million but this was subsequently reduced to £5.891 million following discussions and agreement between the Council and Welsh Ministers.
39. The outturn position indicates an annual draw down of £5.811 million, resulting in a variance of £80,000.

Budget Category	Budget £000	Out-turn £000	Variance £000
Expenditure	6,365	6,536	171
Income	(820)	(1,015)	(195)
Fixed Costs	5,545	5,521	(24)
Asset Renewal	346	290	(56)
Approved Budget	5,891	5,811	(80)

40. The Fixed Cost budget shows an underspend of £24,000 and includes savings generated against the environment and groundwater monitoring budgets in addition to lower pest control expenditure. Furthermore a significant increase in income was achieved mainly through additional car parking fees, although higher levels were also achieved from harbour dues, water activities and various other sources. This enabled essential maintenance and improvement work to be undertaken on a range of activities.
41. In accordance with the Agreement any underspend against the Fixed Cost budget is to be shared equally between the Council and the Welsh Government. The Council's share of £12,000 has therefore been transferred to the Project & Contingency Fund.
42. The under spend of £56,000 against the Asset Renewal budget reflected lower than anticipated costs against some schemes, including the refurbishment of the Gantry Crane due to delays in the procurement.
43. The balance in the Project and Contingency Fund at 1st April 2016 was £756,000. This will increase by £12,000 in respect of the Council's share of the reported underspend on fixed costs. A further instalment of £186,000 in relation to the Volvo Ocean Race (VOR) hosting fee was made during the year and financed from the Fund. This leaves a net balance at 31 March 2017 of £582,000 which will be retained to fund the remainder of the VOR hosting fee and as a contingency against any unscheduled maintenance which may exceed the Fixed Cost budget.

Capital Outturn 2016/17

44. The Council spent £107.987 million on capital expenditure across a range of services with £24.154 million of this in relation to Public Housing (HRA). Capital expenditure was funded from a number of sources including external grants and contributions, sale of assets and also by borrowing money which will need to be repaid in future from revenue budgets, future asset sales or increases council tax and rents.

45. The delivery of capital projects is complex and influenced by a number of external and internal factors. Directorates are regularly reminded of the need to set achievable expenditure profiles and to identify slippage at an early stage.
46. The paragraphs below summarise the Outturn position of the Capital Programme for both the General Fund and Public Housing, with further detail on schemes provided in Appendix 6 and 7.

General Fund Expenditure and Funding

47. The Outturn for the year is £83.833 million, a variance of £19.164 million. This is represented by a net underspend of £1.159 together with slippage of £17.967 million. The main items of capital expenditure incurred by the Council during the year are described in the following table:-

Schemes	Detail	£m
Housing & Neighbourhood Regeneration	Disabled adaptation grants, allowing people to live independently in their homes, environmental improvements including shop fronts in Grangetown and the start of a comprehensive regeneration scheme for Maelfa Centre in Llanedeyrn.	7.0
Education & Lifelong Learning	Continued investment in a number of schools as part of the 21 st Century Schools Plan including the new Eastern High School, a new high school in West, three new primary schools and extensions of facilities at a number of schools. Additional investment in the condition of properties to address electrical compliance works.	32.7
Highways & Transportation	Road and footpath resurfacing, road safety improvements, LED street lighting energy efficiency, public transport and telematics. Also Windsor Road bridge replacement, cycling strategy implementation, investment in safe routes in communities, bus priority improvements on A469 and A470 and moving traffic offences expansion as well as other pedestrian and junction improvements.	14.1
Leisure Facilities and Citizen Hubs	Completion of refurbishment of Eastern Leisure Centre, Insole Court and the development of hubs in areas of need including the new STAR hub and pool, Llanedeyrn, Llandaff North and Gabalfa hubs.	7.1
City Development	Land acquisition at Dumballs Road, waste removal at International Sports Village and public realm design to allow regeneration of Central Square.	14.0
Parks and Energy Projects	New 3G football pitches, completion of the wet play area at Victoria Park and Hydro energy generation measures at Radyr Weir.	1.9
Waste Management	Development of Lamby Way household waste recycling facility.	1.9
Other	Modernising ICT to improve business process, business investment grants, investment in arts venues, relinquishment of Global Link offices, day centre opportunities strategy and purchase of investment property.	5.1

48. The Council pays for its capital expenditure from a number of sources including borrowing money. Borrowing and any associated interest costs must ultimately be repaid from the existing and future income of the Council. General Fund capital expenditure in 2016/17 was paid for from a number of sources as shown in the table below:-

General Fund - Funding Source for 2016/17 Capital Expenditure	Amount £000	Percentage of Funding (%)
WG Supported Borrowing	8.390	10.00
WG General Capital Grant	5.106	6.09
WG and other external grants	25.349	30.24
Additional Unsupported Borrowing	17.257	20.58
Invest to Save Unsupported Borrowing	17.418	20.78
Revenue & Reserves	4.453	5.31
Capital Receipts	4.502	5.38
External Contributions	1.358	1.62
Total	83.833	100.00

49. The Council received General Capital funding from Welsh Government of £13.496 million in 2016/17. This was made up of a cash grant of £5.106 million and capital financing support within the revenue budget settlement to undertake £8.390 million of borrowing. In addition the Council can enter into unsupported borrowing which has to be fully met through the revenue budget in future years. In 2016/17, the Council used unsupported borrowing of £34.675 million to support General Fund expenditure which equates to 41.7% of total funding. Of this £17.257 million of borrowing was required to balance the Capital Programme commitments and £17.418 million was for 'Invest to Save' borrowing, repayable from directorate revenue budgets. The latter includes 21st Century School building investment as well as schemes predicated on receiving income or making savings such as energy generation or usage reduction.

General Fund Capital Receipts

50. The Capital Programme approved by Council in February 2016 included an estimate of £2 million for non earmarked General Fund capital receipts after making a deduction for revenue costs of disposal. Some receipts have either been earmarked for previous years' expenditure or for future expenditure. The significant cash receipts received during the year are shown in the following table-

	£000
General Fund – Non Earmarked	
Former Trading Standards Office, Bridge Street	566
Former Terrapin Offices, Bessemer Close	394
Suffolk House	768
Other	29
Total	1,757

General Fund - Earmarked for Specific Capital Schemes	
Former Caretakers Houses, Grangetown and Herbert Thompson	230
Former Hostel, Wedal Road	893
Former Procurement and Supplies Depot, Bessemer Close	1,600
Proceeds from Investment Properties	887
Total	3,610

51. The realisation of timing and value of capital receipts is unpredictable, however the above highlights the statement included in the Budget report of 2017/18 that the earmarking of capital receipts increases the pressure on the Council's borrowing requirement.
52. There has been no appropriation of sites between the General Fund and Public Housing during the year.

Public Housing (HRA) Expenditure and Funding

53. Expenditure on Public Housing schemes was £24.154 million. Investment was made in estate regeneration, housing stock remodelling, investment in the fabric of dwellings, disabled adaptations and development of new Council Housing following the appointment of Wates Living as development partner.
54. The table below shows how capital expenditure was paid for in 2016/17:-

Public Housing - Funding Source for 2016/17 Capital Expenditure	Amount £m	Percentage of Funding (%)
Major Repairs Allowance (WG grant)	9.590	39.70
Additional Unsupported Borrowing	5.326	22.05
Revenue & Reserves	6.009	24.88
Other WG Grants and Contributions	0.055	0.23
Capital Receipts	3.174	13.14
Total	24.154	100.00

Public Housing Capital Receipts

55. Capital Receipts of £2.637 million were generated from the sale of Council dwellings under the Right to Buy scheme. A further £620,000 has been generated from the sale of various freeholds and retained equity held from previous Council and developer home ownership support schemes. Receipts are retained within the Housing Revenue Account to pay for capital expenditure.

Treasury Management

56. The Council continued to adopt a pragmatic approach to its treasury management activities in 2016/17. This was in accordance with the strategy approved at Council in February 2016.

57. During the year periodic reports on Treasury Management were submitted and reviewed by the Council's Audit Committee as well as at Cabinet and Council meetings.

Investments

58. At 31 March 2017, investments arising from temporary cash balances stood at £68.5 million. The balance of investments is taken at a point in time and will fluctuate depending on the timing of income and expenditure e.g. payments to suppliers, receipt of grants and capital receipts.
59. The overall level of interest receivable from treasury investments totalled £607,000 with the average rate achieved for 2016/17 being 0.62% which compares favourably against the 7 day LIBID rate of 0.20% and the 3 Month LIBID rate of 0.32%. Whilst performance compared to industry benchmarks is positive, the low rates of return can be attributed to the Bank of England Official Bank Rate which decreased from 0.50% to 0.25% on 4th August 2016. This was the first amendment in the Bank Rate since 5th March 2009.
60. The counterparties (organisations) with whom the Council invests were closely monitored in accordance with the criteria set out in the Council's Investment Strategy for 2016/17. Where possible the Council sought to diversify investments across organisations.

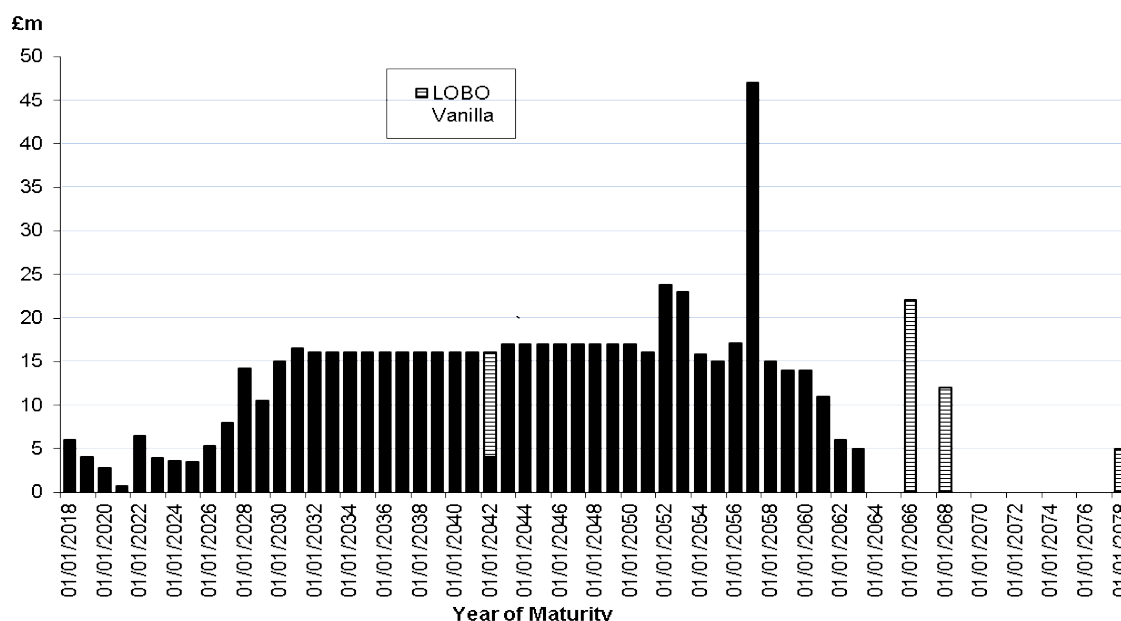
Borrowing

61. At the 31 March 2017 the Council's total external borrowing was £674 million. This was predominantly made up of fixed interest rate borrowing from the Public Works Loan Board (PWLB) payable on maturity.

31 March 2016			31 March 2017	
£m	Rate (%)		£m	Rate (%)
612.8		Public Works Loan Board (PWLB)	617.2	
52.0		Market	51.0	
0.5		Welsh Government	3.0	
0.8		Other	2.8	
666.1	4.84	Total External Debt	674.0	4.74

62. The average rate on the Council's borrowing reduced during the year, from 4.84% to 4.74% primarily as a result of additional external borrowing at a lower rate. Total interest paid on external debt was £32.285 million, of which £12.498 million was charged to the HRA. All borrowing is in the name of the Council and a single pool of debt is maintained rather than having separate loans for the HRA.

63. The maturity profile of borrowing at 31 March 2017 is shown in the following chart.



64. During 2016/17 the Council repaid £6.754 million of maturing loans. Whilst borrowing rates have remained higher than investment rates in 2016/17, the Council has undertaken internal borrowing which involves using temporary cash balances in the short term rather than undertaking external borrowing. In addition to the short term financial benefits, it also reduces exposure to credit risk. The risk attached to internal borrowing is that the Council may have to borrow at higher rates in the future when borrowing becomes a necessity.

65. In recognition of these risks, £10 million of the Council's long term borrowing requirement was undertaken to mitigate the risk of rising longer term rates. This new borrowing was taken at an average rate of 1.73% and has an average maturity of 30 years.

66. In addition, interest free loans e.g. from Salix and WG were received totalling £4.627 million.

67. The Council's Capital Financing Requirement (CFR) i.e. capital expenditure incurred but not yet paid for is estimated at £723 million at 31 March 2017, of which the Housing Revenue Account CFR is £274 million. The latter is within the maximum Debt Cap set by WG of £316 million. The Council's level of internal borrowing at 31 March 2017, subject to audit is £49 million.

Reasons for Recommendations

68. The report is for information and serves to complete the financial monitoring processes for 2016/17.

Legal Implications

69. The report is submitted for information as part of the Authority's financial monitoring process. The Council's constitution provides that it is a Council responsibility to set the budget and policy framework and to approve any changes thereto or departures there from. It is a Cabinet responsibility to receive financial forecasts including the medium term financial strategy and the monitoring of financial information and indicators

Financial Implications

70. The final revenue outturn position indicates that the Council has maintained its spending within its overall net budget of £578 million in 2016/17 with a balanced position reported after contributions to and from reserves. This is in line with the position reported at month nine.
71. Directorate budgets showed an overspend of £7.630 million at the year end with overspends of £6.745 million in Social Services, £1.173 million in City Operations, £329,000 in Corporate Management and £178,000 in Education & Lifelong Learning. These were offset by underspends in other directorates and by the £4.0 million general contingency budget. They were also offset by savings in areas such as Capital Financing, Council Tax collection, NDR refunds on Council properties and by savings arising from accounting adjustments within the Summary Revenue Account.
72. A shortfall of £6.475 million was reported against the £25.892 million directorate savings targets for 2016/17 with a further shortfall of £1.881 million against the savings targets carried forward from 2015/16. Although £1.073 million of these shortfalls was written back as part of the 2017/18 Budget this still leaves an on-going shortfall of £7.283 million to be achieved in 2017/18 in addition to the budget savings approved as part of the 2017/18 budget process itself. It is therefore essential that directorates continue to progress any outstanding savings from 2015/16 and 2016/17 so that these are fully achieved in the current financial year.
73. Overall, excluding school balances and the HRA the earmarked reserves held by the Council increased by £4.7 million in 2016/17. This includes contributions to two new strategic reserves that will benefit the Council in the medium term with allocations of £800,000 to a Corporate Landlord Reserve and £2.532 million to a Strategic Budget Reserve. These and other changes to the Council's earmarked reserves as a result of the outturn position will serve to improve the Council's overall financial resilience.
74. The Council Fund Balance at 31st March 2017 is £14.255 million. The Section 151 Officer has reviewed this and considers the balance prudent given the unbudgeted risks that the Council faces albeit that the position will be reviewed as part of the 2018/19 budget preparation.

75. Overall, schools increased their individual reserves by £1.722 million (net). A reduction of £794,000 was also made to the previous on-going commitments arising from the 2014/15 overspend of £1.9 million on redundancy costs. When this is taken into account the overall increase in school balances is £2.516 million.
76. The Capital Programme Outturn for the General Fund and Public Housing for 2016/17 is £107.987 million, a variance of £21.855 million. The table below shows the movements in projected General Fund slippage from Month 4 through to Outturn. Directorates are regularly reminded of the need to set achievable profiles and identify slippage at an early stage. This will be reinforced by the monitoring process in 2017/18.

General Fund Slippage	Month 4 reported slippage	Month 6 reported slippage	Month 9 reported slippage	Outturn slippage
	£000	£000	£000	£000
General Fund (excluding SOP)	7,701	9,695	623	2,945
SOP schemes	12,236	12,236	15,031	15,022
Total	19,937	21,931	15,654	17,967

77. General Fund Capital expenditure in 2016/17 required £43.065 million of unsupported borrowing. Of this, £17.418 million relates to funding required to be repaid by savings in the revenue budgets or income generation. Consideration needs to be given to the medium and long-term impact of this additional borrowing on the Council's revenue budget. Accordingly, local affordability and other indicators need to be continually reviewed and monitored to ensure investment is prioritised and the impact of increased levels of debt is sustainable and affordable.

RECOMMENDATIONS

The Cabinet is recommended to:

1. Approve the report and the actions taken in respect of the Council's accounts for 2016/17
2. Note that this report will form an Appendix to the Financial Statements report to be considered at the Council meeting in September 2017

CHRISTINE SALTER

Corporate Director

30 June 2017

The following Appendices are attached:

- Appendix 1 - Revenue 2016/17
- Appendix 2 - Directorate Variances
- Appendix 3 (a) - Budget Savings - 2016/17 Savings

- Appendix 3 (b) - Budget Savings - 2015/16 Savings
- Appendix 4 - Earmarked Reserves
- Appendix 5 - Housing Revenue Account 2016/17
- Appendix 6 - Capital Scheme Updates
- Appendix 7 - Capital Programme 2016/17