

	REPORT TO CABINET TO BE HELD ON 13 SEPTEMBER 2016
	Key Decision NO Forward Plan Ref No
Corporate Priority – ALL	Cabinet Portfolio Cllr H Mallory Holder

REPORT OF THE DIRECTOR (NE) - 16/206

WARDS AFFECTED: ALL

SUBJECT: FINANCE AND TREASURY OUTTURN REPORT 2015/16

RECOMMENDATION (S):

Cabinet is recommended to:-

- (i) Note the report, and in particular:
 - the £765k underspend on the revenue budget for 2015/16
 - the outturn position for capital schemes completed in the period and capital receipts for the 2015/16 year; and
 - the outturn position of the Council’s Treasury Management function for the 2015/2016 year.

- (ii) Approve that £611k of the revenue budget underspend be transferred to the Council’s Investment Fund and note that the remaining £154k will be used to fund the following areas, which were approved by Director’s Team:
 - £65k – Electricity Upgrade for Filey Country Park
 - £37k – South Bay underground Car Park repair works
 - £12k – Khyber Pass Public Conveniences initial marketing and planning consent budget
 - £15k – Contribution to the Local Enterprise Partnership for 2016/17
 - £10k – One-off materials budget for Community Environment Team to generate further value from the team
 - £15k to Fylingdales Parish Council to refurbish Bank Top toilets at Robin Hoods Bay.

- (iii) Recommend that Council approve the revised Prudential Indicators for Capital Expenditure and the Capital Financing Requirement.

REASON FOR RECOMMENDATION (S):

- (i) To utilise the year end surplus in a way that helps the Council to address future year funding reductions.
- (ii) To comply with the CIPFA Code of Practice of Treasury Management in Local Authorities by informing Cabinet of the Council's treasury management activities before 30 September following the end of the financial year that the report relates.
- (iii) To keep Members informed of Treasury Management activities and performance.

HIGHLIGHTED RISKS:

- That the Council overcommits its available revenue and capital resources
- That reserve balances are not adequate
- The Council does not comply with the Code of Practice of Treasury Management in Local Authorities, which may result in adverse comment from the external auditors

1. INTRODUCTION

1.1 FINANCIAL OUTTURN

1.1.1 The Council is committed to a performance management culture which underpins a focus on continuous improvement. Regular monitoring of the Council's finances is a key component of the performance management framework and Cabinet are presented with financial monitoring reports throughout the year.

1.1.2 Cabinet were presented with a financial monitoring report covering the first 3 quarters of the 2015/16 financial year (April 2015 to December 2015) in February 2016 (report reference 16/32).

1.1.3 This report provides an update on the final outturn position and reserve balances for 2015/16, a summary of how the outturn differs from the information provided to Cabinet in February 2016, and the outline proposals to utilise the in-year surplus.

1.2 TREASURY MANAGEMENT

1.2.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities (the Code), which

this Council formally adopted and complies with; together with the CIPFA Code for Capital Finance in Local Authorities (the Prudential Code).

1.2.2 The primary requirements of the Code are:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury activities;
- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Reporting to Cabinet and/or Council of both the expected treasury activities for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report);
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

1.2.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's previously approved policies.

1.2.4 In order to support Member's scrutiny role training on treasury management was carried out on 2 February 2016, which was well attended.

1.2.5 Treasury Management in this context is defined as:

"The management of the Local Authority's investments and cash flows; its banking; money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of the optimum performance or return consistent with those risks."

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

2.1 This report covers how the Council is performing financially in relation to all Corporate Objectives.

3. BACKGROUND AND ISSUES

3.1 REVENUE BUDGET

3.1.1 In February the Q3 forecast outturn for 2015/16 was presented to Cabinet. This was based on figures available to the end of December and showed a forecast, uncommitted, underspend against budget at that time of £325k.

3.1.2 The underspend increased during the final three months of the year from £325k to £765k. The major variances, when compared to the Q3 forecast, are outlined in the table below. Appendix B provides further details on the underspend.

	£'000	£'000	Note
SURPLUS REPORTED IN Q3 MONITORING REPORT (16/32)		325	
MAJOR CHANGES DURING LAST QUARTER:			
Income - Off-street Parking	120		1
Cemeteries and Crematoria net income	61		2
Salaries – Refuse Collection	62		3
Utility Costs	37		4
Housing Benefit Subsidy	43		5
Vehicle Fuel	20		6
Creation of one-off Special Events budget for 2016/17	(30)		7
Other (net)	127		8
		440	
HEADLINE OUTTURN SURPLUS		765	

Notes:

1. Parking in the final quarter of the year (particularly end of February and March) was £220k higher than expected (and higher than previous year). £100k related to Easter 16, which fell before year end, so has been set aside in reserves and will be accounted for in 16/17
2. Higher number of services than expected in final quarter of the year (particularly burials)
3. General underspend on salary / wages costs
4. Milder Winter has led to reduced costs on utilities
5. Slightly better than expected recovery through subsidy.
6. Reduced cost of fuel had bigger (and longer) impact than expected
7. Money has been earmarked for the Directors Team to allocate to Special Events, which are not base funded, during 2016/17. Examples where this money has been used in the past include Armed Forces Day and entertainment on the North Bay piazza.
8. This includes 2016/17 savings implemented early (ie staffing reductions) together with various net underspends across services that individually are relatively small.

3.1.3 The fact that the majority of these variances arose in the final quarter of the year and could not have been foreseen at the end of quarter three demonstrates that the Council has strong financial management controls in place and that the Council's budget monitoring procedures are working effectively.

- 3.1.4 A separate report on this agenda (reference 16/194) sets out the Council's budget strategy and efficiency plan for the period from 2016 to 2020. The Strategy recognises that the Council must not be overly prudent in its budget setting approach and unnecessarily reduce service levels to bridge the funding gap when some budgets could simply be reduced.
- 3.1.5 The efficiency Plan sets out that an exercise will be undertaken to review the savings that contributed towards the 2015/16 budgetary underspend with a view to including overstated areas as savings where they are expected to recur and haven't already been taken into account. A high level review of the areas has already been undertaken and it is anticipated that as much as £0.5million could be found from within existing annual budgets from this piece of work.

3.2 CAPITAL BUDGET

- 3.2.1 Major capital schemes progressed in the year include the construction of the Leisure Village, the redevelopment of Scarborough Market and involvement in a brand new Waterpark.
- 3.2.2 Coastal defence and flood protection works continued throughout the year with significant investment in Cell 1 Strategic Coastal Monitoring, Filey Flood alleviation, urgent works to the North Bay Sea Wall and restoration works to the Whitby Harbour Fish Quay.
- 3.2.3 Funding for coastal defence and flood protection works continue to be predominantly sourced through the Environment Agency. Changes in the method of funding allocations for coastal protection and flood defence works continue to apply further pressure on Council resources. Of those major schemes previously highlighted both the North Bay Sea Wall and Whitby Fish Quay required significant investment from Council resources
- 3.2.4 The following schemes can now be reported as complete and removed from the Council's Capital Programme:

Scheme	Budget (£000's)	Actual (£000's)	Variance (£000's)	Impact on SBC resources (£000's)
Disability Discrimination Works	363	345	18	18
North Bay Wall Urgent Works	653	570	83	83
Staithe Harbour Wall Improvements	140	187	(47)	(47)
Whitby TIC Telephony and Improvement works	61	30	31	31
Spa Options Appraisal	886	886	-	-
Town Hall Urgent Repairs	176	176	-	-
Futurist Redevelopment	117	117	-	-
Disabled Facility Grants	685	737	(52)	-
Spa Roof Works	35	35	-	-
OAT Box Office	17	20	(3)	(3)
Totals	3,133	3,103	30	82

3.2.5 Details of the completed schemes which resultantly impact upon the Council's resources are detailed below.

Disability Discrimination Works

This historic scheme was established in response to the Disability Discrimination Act (DDA). The objectives of the scheme were to provide a focus for the Council in improving accessibility to Council properties. Many individual improvements have been made over the years such as alterations to the crematorium, Filey Country Park, Scarborough Sports Centre and Whitby Leisure Centre.

In addition to works carried out through this scheme, overlapping works are also carried out as part of the Council's Property Asset Management Strategy (PAMS). Indeed works that would be defined as DDA works have been completed and funded through the PAMS. As there are currently no works being carried out under the DDA scheme, this scheme will be closed and removed from the capital programme.

The remaining budget will be consolidated with the Property Management budget in order to further allow the continued maintenance and improvements to the Council's property portfolio.

North Bay Wall Urgent Works

Coastal defence inspection works identified the need to carry out urgent works to sections of the seawall. These works were to include reinstating concrete edging, replacing failed blockwork and installing a new scour and toe protection apron in order to increase the asset life by 30 years.

Estimates for the cost of the works originally totalled £631k. Under the capital allocation funding system Environment Agency Funding of £446k was awarded for the scheme and the remaining £185k was funded through Council borrowing, with repayments of £31k per annum being made over 6 years from annual coastal protection budgets. A further £22k of E.A. funding was subsequently made available from savings on an alternative scheme, taking the revised budget for these works to £653k.

Works have now been completed with total scheme expenditure of £570k. After utilising the whole of the E.A. funding (£468k) a contribution of £102k is therefore required from Council resources, which results in a saving in Council resources of £83k. This saving will partially be utilised to fund the £46k overspend on the Staithes Harbour Wall Improvement scheme (as detailed below).

Staithes Harbour Wall Improvements

In Sept 2012 Members agreed to accept £140k of Environment Agency funding in order to carryout urgent maintenance works to the inner harbour wall.

Whilst the Council's contractor was working in the vicinity of the wall, undertaking some coast defence maintenance and improvement works, the harbour wall collapsed. Further additional works were therefore necessary to safeguard properties, footpath and infrastructure affected.

A scheme of emergency works was actioned and financed with agreement from the Environment Agency utilising the contingency funding held within the project. Whilst this emergency work ensured that the land was stable, original features such as sandstone boundary walls were replaced with temporary timber fencing and one of the residents was left with the loss of a brick store building.

On completion of the project, consultation was made with the National Parks Planning Authority in order to agree a way forward to have the emergency works formally adopted so that the appearance is in keeping with the area. A scheme of enhancements was agreed and included stone facing work to the gabion retaining wall and replacing timber fencing with stone to match adjacent areas, in addition the works included the reinstatement of the collapsed brick built store.

The cost of these further works has resulted in a project overspend of £46k. This overspend has been funded from unutilised funding for the North Bay Sea Wall scheme (detailed above).

Whitby Tourist Information Centre (TIC) Telephony & Improvement Works

This scheme derived from a decision to relocate the Whitby customer first function from Skinner Street to the TIC, in order to rationalise the Council's operational assets and make budget savings.

A total budget of £61k was established, with plans for a new circular information desk in the TIC area together with the provision of a new retail point and additional internal and external signage.

Some works were carried out in order to accommodate the changes needed to deliver the savings, however following the decision to review the provision of TIC's across the Borough future works were postponed. Cabinet have subsequently approved that the premises should be made available for lease. Resultantly the remaining budget is no longer required and will be retained within the Councils Capital Programme.

Disabled Facility Grants

Within the Capital Programme the Council undertakes a rolling provision of Disabled Facility Grants (DFG's). The provision of these grants is budgeted as 100% externally funded.

Historically funding came direct from the Department for Communities and Local Government (DCLG) however in April 2015 DFG grant funding became part of the wider Better Care Fund pool. The Better Care Fund pool is allocated to Upper Tier Authorities with details of DFG allocations broken down by district council as an annex in their grant determination letter. It is vital that the entirety of these DFG allocations are passed down as the statutory duty to provide adaptations remains in place with District Councils.

Expenditure within the year exceeded the 2015/16 DFG allocation by £52k. Non eligible works, which were fully funded by clients, accounted for £34k of the over spend. In addition a further £18k of means tested contributions were received. The in-year overspend was therefore fully funded from third party contributions and did not impact upon Council resources.

Open Air Theatre Box Office

The new theatre box office has been completed at the entrance site to the facility. Final costs for the works total £20k, which slightly exceeded the original £17k budget. These additional costs arose from further works providing security shutters and additional internal fixings. Funding of £3k has been provided from additional monies made available as part of the 2016 Financial Strategy.

3.2.6 Capital Receipts

The capital plan incorporated within the 2016 Financial Strategy included a capital receipts target of £8.16m for the 2015/16 financial year. Cash receipts in the year totalled £7.109m, which represents a shortfall against budget of £1.051m.

The primary driver behind the shortfall is the slippage of capital receipts for the sale of land at Danes Dyke, Newby Farm and Ryndle Crescent, which forms part of the Leisure Village development. These receipts are still expected to be received and have been rolled forward into the 2016/17 financial year.

The most significant receipts in the year were for the sale of development land at Weaponess to the University Technical College and Coventry University, the former football ground on Seamer Rd, first stage payments for land at Middle Deepdale and land at Helredale Gardens Whitby.

3.3 RESERVES

3.3.1 The levels of corporate reserves as at the Balance Sheet date were within the optimum ranges set out in the Financial Strategy. Further details of the Council's reserves are provided in **Appendix C** to this report.

3.4 TREASURY MANAGEMENT

Investment and Borrowing Portfolios as at 31 March 2016

3.4.1 The Council's investment and borrowing position at the beginning and end of the financial year was as follows:

	31 March 16 Principal	Rate %	31 March 15 Principal	Rate %
Borrowings				
Fixed Rate Funding	7,949,019	2.8682	8,000,000	2.8700
Variable Rate Funding	4,000,000	4.4500	4,000,000	4.4500
Total Borrowing	11,949,019	3.3977	12,000,000	3.4000
Investments				
In-house	29,000,000	0.6300	22,000,000	0.5050
Total Investments	29,000,000	0.6300	22,000,000	0.5050

3.4.1 The level of external borrowing is within the Authorised Limits established by the Treasury Management Prudential Indicators reported to Cabinet on 17 February 2015 (15/53) and Full Council on 27 February 2015 as part of the Financial Strategy for the 2015/2016 financial year.

3.4.2 The un compounded 7-day LIBID rate investment benchmark for the year was 0.361% and the 3-month LIBID un compounded was 0.456%.

3.4.3 The average rate of external borrowing has reduced slightly over the course of the financial year.

3.5 The Strategy for 2015/2016

3.5.1 The treasury strategy for 2015/2016 was based on a low but rising Bank Rate, commencing in Q1 2016 and gradual rises in medium and long term fixed borrowing rates during 2016/2017. Variable, or short term rates, were expected to be the cheaper form of borrowing over the period.

3.5.2 The continued uncertainty in the financial markets promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, with emphasis being on security (protection

of the capital sum invested) and liquidity (keeping money available for expenditure when needed), but taking advantage of favourable rates if available.

- 3.5.3 The Council would continue to maintain an under-borrowed position; using internal resources in lieu of external borrowing as the most cost effective means of financing capital expenditure. The Strategy recognised that the short term savings to the General Fund by avoiding new long term borrowing has to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when Public Works Loan Board (PWLB) rates may be significantly higher.
- 3.5.4 The Council's expansive capital programme for the forthcoming years identified that new external borrowing would be required at a future date. Any new borrowing would only take place in advance of need if the rates available were so favourable that the long term benefits significantly exceeded the short term costs.
- 3.5.5 Opportunities for the cost effective repayment or rescheduling of existing borrowing were to be constantly monitored and would be exploited if they emerged and were of favourable terms.

4. ASSESSMENT

4.1 REVENUE BUDGET – PROPOSALS FOR UTILISING THE IN YEAR SURPLUS

- 4.1.1 As part of the year end process Directors and SUM's were asked to put forward funding requests for any priority areas of expenditure not currently included in the Council's approved budget. It was explained that this route should not be used to circumvent the annual budget setting process and that proposals put forward would undergo the same scrutiny as they would have had they come forward as part of the budget setting process.
- 4.1.2 Following this exercise DT have endorsed that the following areas be funded from the year-end underspend:
- £65k – Electricity Upgrade for Filey Country Park
 - £37k – South Bay underground Car Park repair works
 - £12k – Khyber Pass Public Conveniences initial marketing and planning consent budget
 - £15k – Contribution to the Local Enterprise Partnership for 2016/17
 - £10k – One-off materials budget for Community Environment Team to generate further value from the team
 - £15k – loan to Fylingdales Parish Council to refurbish Bank Top public conveniences.
- 4.1.3 Appendix D to this report sets out further details on each of these bids.

After allowing for these approved bids it is proposed that the remaining balance of the in-year surplus (£611k) be transferred to the Councils Investment Fund to aid the Council's budget setting process from 2017/18 onwards.

The Investment Fund was created as part of the 2016/17 budget proposals to provide one off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond.

Examples of areas that may require future funding from the monies are as follows:

- The creation of an MOT test centre at Dean Road Depot
- The purchase of equipment for use at the travellers site rather than hiring equipment in annually
- The review of public conveniences
- Investment in transformation initiatives
- One off contribution towards balancing the 2017/18 budgetary shortfall, should savings take longer than expected to be identified / delivered

4.2 CAPITAL BUDGET – PRUDENTIAL CODE REQUIREMENTS

4.2.1 The Financial Strategy, presented to Cabinet in February, set out the Prudential Indicators that are used in demonstrating that the Capital Programme is affordable, prudent and sustainable.

4.3.2 The outturn indicator and estimates for capital expenditure and for the capital financing requirement are revised as follows:

Prudential Indicators	2015/16 Outturn (£000's)	2016/17 Estimate £000's)	2017/18 Estimate (£000's)
Capital Expenditure per Financial Strategy	20,898	41,731	3,712
Revised	14,573	52,033	9,668
Closing Capital Financing Requirement per Financial Strategy	23,129	34,983	32,476
Revised	20,749	35,087	32,684

4.3.3 The lower capital expenditure in the outturn figure for 2015/16 is primarily a result of slippage in scheme expenditure of £6.228m, while £97k relates to changes in budget on current schemes and new schemes added to the programme after the publication of the Financial Strategy.

4.3.4 The increase in expenditure estimates for 2016/17 reflects scheme slippage from 2015/16 together with the addition of new schemes identified since the publication of the Financial Strategy and variations to existing schemes. An appropriate set aside of grants, contributions and capital receipts are matched to the variations in expenditure.

4.3.5 The decrease in the capital financing requirement for 2015/16 is primarily a result of lower borrowing undertaken in the year due to slippage in expenditure primarily driven by the Leisure Village redevelopment. Future year movements relate to the differences in timings on the repayment of waterpark borrowings.

4.4 TREASURY

4.4.1 Economic Out-turn for 2015/2016

Market expectations for the first increase in Bank Rate moved considerably during 2015/2016, starting at Q1 2016 and finishing the year at Q2 2018. This was primarily due to concerns around China's economic growth; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year.

Economic growth in the UK surged strongly during both 2013/2014 and 2014/2015; however 2015 has been disappointing with growth falling steadily from an annual rate of 2.9% in Q1 2015 to 2.1% in Q4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate economic growth.

In March 2015 the European Central Bank commenced their full blown quantitative easing programme of purchases of Eurozone government and other bonds at €60bn per month. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.

The US economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the Federal rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around world growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a

referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

4.4.2 Investment Out-turn for 2015/2016

The Council's investment policy is governed by Communities and Local Government guidance, which has been implemented in the Annual Investment Strategy approved by Cabinet on 17 February 2015 as part of the Financial Strategy. This policy sets out the approach for choosing counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks and credit default swaps).

The Council manages its investments in-house and invests with the institutions that meet the minimum creditworthiness criteria approved by Full Council. During the year, as well as using short term instruments, such as liquidity accounts, the Council invested in fixed term deposits up to 6 months duration with strong rated institution, including those benefiting from the UK Government's sovereign rating. The selection of period and type of instrument is dependent on the Council's cashflows, its interest rate view and the interest rates on offer.

The Council can, dependant on cash levels, invest for periods greater than 1 year, but given the economic instability this was not considered a prudent approach. In addition to making investments to generate interest the in-house team must also ensure that the Council's day-to-day cashflow requirements are aligned to support the Capital Strategy and revenue expenditure.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Although the Council took an element of new external borrowing toward the end of the 2014/2015 financial year for specific projects an under-borrowed position was maintained and cash balances used to fund capital expenditure.

The level of cash balances at 31 March 2016 was higher than had been expected due to slippage in the capital programme and a higher level of capital receipts generated during the year.

In applying stringent credit criteria, which has reduced the number of counterparties available, the Council demonstrated its adherence to the overriding principles of security and liquidity which are the cornerstone of its investment policy and objective. The Council accepted the diminution in investment return from investing with highly rated counterparties as an acceptable risk-reward trade-off. Due to the limited counterparties available, the Council had increased the maximum investment limits with the applicable institutions, which enabled greater flexibility in implementing the investment strategy.

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

4.4.3 Borrowing Out-turn for 2015/2016

At the beginning of the financial year the Council had £12.00 million in external borrowing spread equally over three loans as detailed beneath:

Principal £	Lender	Date Taken	Type of Loan	Rate %	Loan Period (Years)
4,000,000	Barclays	15 Sept 2003	LOBO	4.45	40
4,000,000	PWLB	2 February 2015	Maturity	2.59	15
4,000,000	PWLB	2 March 2015	Annuity	3.15	40

Two of the loans are with the PWLB, with the other being a £4.00 million six monthly callable LOBO (Lenders Option, Borrowers Option) with Barclays Capital, with a maturity date of 15 September 2043.

A LOBO is a money market loan where the Lender can exercise its Option to vary the terms of the loan, principally the interest rate, and then the Borrower exercises its Option to either accept the new terms or repay the loan without penalty. The callable dates are 15 March and 15 September each year.

There has been speculation for some time that Barclays was looking to reduce the level of long term borrowing held on its balance sheet and in May 2015 Barclays made a formal approach asking whether the Council wished to repay the loan prematurely.

An early redemption of the LOBO would incur a premium, and the level of that premium would be one of the determining factors as to whether the option to repay would be favourable or not to the Council. The terms offered by Barclays were not financially favourable, thus the early redemption opportunity was rejected. It is possible that Barclays may revisit this in the future; therefore the Council will keep matters under review.

The PWLB loans were taken out in the previous year to support the financing of the Waterpark and Leisure Village. One loan was a 15 year maturity; the other a 40 year annuity. The PWLB permits Council's to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. However, loans cannot be redeemed within the first 12 months from commencement, and as these two loans were taken towards the end of the previous financial year rescheduling opportunities were limited.

The annuity loan has a fixed annual repayment amount over the duration of the loan (40 years) which incorporates an amount for principal as well as interest. Over the course of the 2015/2016 financial year £50,981 of principal has been repaid. As an element of principal is being repaid with each instalment the interest payable on debt outstanding reduces annually throughout the loan term.

4.4.3 RISK MANAGEMENT

The much publicised events of recent years surrounding the difficulties faced by Sovereign nations and individual financial institutions illustrate the risks associated with investment and borrowing activity and these are addressed within the Council's Treasury Management Strategy which is reviewed each year by Council. That report also refers to the controls that are operated on a daily basis and are designed to mitigate the risks associated, particularly with investment institutions.

Clearly for borrowing decisions the nature of risk is different in that the Council owes money to them rather than the reverse scenario. Nonetheless there are risks in that decisions made could have an adverse effect upon the overall financial position of the Council such as choosing to borrow, restructure or repay debt at an inopportune time.

To mitigate the possibility of erroneous judgement the Council employs Capita Asset Services to provide specialist advice to support such decisions. The year commencing 1 April 2016 is the last year of this contract, therefore a tender exercise will be conducted in 2016/2017.

The Council's treasury activities were subject to an external audit by Mazars, and an internal audit review during the financial year, resulting in an opinion of High Assurance.

5. IMPLICATIONS

(a) Policy

5.1 No direct implications.

(b) Financial

5.2 The financial implications are set out in the report.

(c) Risk

5.4 Risk Matrix attached (**Appendix A**).

(d) Legal

5.5 This report fulfils the requirement to inform Members of the Council's treasury management activities in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities.

5.6 None.

(e) Environmental and Sustainable Development

- 5.7 No specific implications, though many of the Corporate priorities are linked to Economic and Sustainable Development.

Nicholas Edwards

Nicholas Edwards
Director

Authors:

Kerry Metcalfe

Telephone No: (01723) 383542

E-mail address: kerry.metcalfe@scarborough.gov.uk

Martin Pedley

Telephone No: (01723) 232359

E-mail address: martin.pedley@scarborough.gov.uk

Background Papers:

Previous Monitoring reports (Cabinet September 2015), November 2015, February 2016), Financial Strategy (Council February 2016)

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT KERRY METCALFE ON 01723 383542 e-mail kerry.metcalfe@scarborough.gov.uk or MARTIN PEDLEY ON 01723 232359 e-mail martin.pedley@scarborough.gov.uk

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	July 2016	Resources are overcommitted	<ul style="list-style-type: none"> - Cuts in Services - Non delivery of priorities - Insufficient reserves 	<ul style="list-style-type: none"> - Long-term Financial Strategy - Strong budget monitoring procedures - Pre-determined minimum levels for reserve balances 	B4	B4	DBS / CFM	None
2	July 2016	Financial Management arrangements not in place	<ul style="list-style-type: none"> - Overspends and requirement to draw from General Fund Reserve - External Auditor criticism 	<ul style="list-style-type: none"> - Robust budget monitoring process - Quarterly monitoring reports to Cabinet 	B4	B4	HFAM / CFM	None
3	June 2016	The Council does not comply with the Code of Practice of Treasury Management in Local Authorities.	It may lead to a detrimental comment from the external auditors.	This report is to be presented to Audit Committee/Cabinet prior to the 30 September 2015.	B2	A1	Asset & Risk Manager	Presentation of reports in line with required deadline

DBS – Director of Business Support
CFM – Corporate Finance Manager

Glossary of Terms

Risk	An event which may prevent the Council achieving its objectives
Consequences	The outcome if the risk materialised
Mitigation	The processes and procedures that are in place to reduce the risk
Current Risk Score	The likelihood and impact score with the current mitigation measures in place
Corporate Objectives	An assessment of the Corporate Objectives that are affected by the risk identified.
Target Risk Score	The likelihood and impact score that the Council is aiming to achieve
Service Unit Manager	The Service Unit or Officer responsible for managing the risk
Action Plan	The proposed actions to be implemented in order to reduce the risk to the target score

Risk Scoring

Impact	5					
	4					
	3					
	2					
	1					
		A	B	C	D	E
	Likelihood					

Likelihood:

A = Very Low
 B = Not Likely
 C = Likely
 D = Very Likely
 E = Almost Certain

Impact

1 = Low
 2 = Minor
 3 = Medium
 4 = Major
 5 = Disaster

FINANCIAL OUTTURN BY SERVICE

The following tables outline the year end outturn by Director and Service.

Service	Actuals	Budget	Outturn Surplus / (Deficit)	Q3 Forecast
DIR01 - Chief Executive				
S403 Benefit Fraud Investigation Unit	75	118	43	23
S404 Capital and Procurement Unit	86	89	2	12
S004 Electoral Services	226	223	(3)	-
S301 HR and Health and Safety	340	374	34	22
S416 Internal Audit	119	116	(3)	-
S802 IT Services	900	937	37	37
S028 Land Drainage and Coast Protection	350	331	(18)	-
S424 Public Relations	45	51	6	-
S430 Senior Management Team and Support	268	277	9	32
	2,409	2,515	107	126
DIR06 - Director (Nick Edwards)				
S401 Accountancy	261	287	26	18
S402 Accounts Receivable and Payable	172	183	11	10
S405 Cash Collection and Administration	82	59	(24)	(20)
S003 Corporate Management	195	189	(6)	18
S043 Decorative Lighting	6	4	(2)	-
S065 Depots and Admin Buildings	325	355	30	-
S410 Emergency Planning	20	22	2	-
S411 Energy Management	121	121	-	-
S412 Environmental Health and Safety	81	91	10	-
S413 Estates and Asset Management	393	395	2	-
S415 Housing Benefits administration	(192)	(192)	-	22
S055 Housing Benefits Subsidy	(605)	(442)	163	120
S012 Industrial Units	(73)	(71)	2	8
S028 Land Drainage and Coast Protection	-	-	-	-
S006 Local Taxation	(88)	(137)	(49)	(62)
S704 Parks and Open Spaces	1,745	1,844	99	66
S033 Property Services Operational Unit	23	(38)	(61)	(50)
S027 Public Clocks and Fountains	1	-	(1)	-
S703 Public Conveniences	378	377	(1)	-
S426 Refuse Collection and Street Cleansing	2,525	2,706	182	106
S428 Rental Properties	(1,347)	(1,373)	(26)	11
S061 Scarborough Harbour	(302)	(305)	(3)	6
S430 Senior Management Team and Support	87	122	35	-
S432 Street Seats, Lighting and Name Boards	85	97	13	-
S433 Transport and Vehicles Maintenance	(690)	(633)	58	51
S062 Whitby Harbour	(41)	(42)	(1)	8
	3,162	3,620	458	311

FINANCIAL OUTTURN BY SERVICE

Service	Actuals	Budget	Surplus / (Deficit)	Q3 Forecast
DIR07 - Director (Lisa Dixon)				
S409 Corporate Costs	2	7	4	-
S415 Housing Benefits administration	838	929	90	74
S417 Legal Services	219	222	2	(8)
S205 Licensing	(148)	(177)	(29)	-
S005 Local Land Charges	(3)	1	4	-
S419 Member and Mayoral Expenses	398	401	3	-
S422 Print Plus	206	230	24	12
S423 Procurement Unit	51	24	(27)	(23)
S427 Regulatory, Governance, Performance, Admin	469	511	42	10
S430 Senior Management Team and Support	108	99	(9)	(25)
	2,141	2,246	105	39
DIR08 - Director (Trevor Watson)				
S438 Beach Chalets	(135)	(132)	3	6
S437 Beaches	366	331	(35)	(23)
S405 Cash Collection and Administration	52	63	10	-
S064 CCTV	199	192	(7)	(5)
S204 Cemeteries and Crematorium	(759)	(672)	86	(35)
S406 Choices 4 Energy	(4)	(5)	(1)	-
S407 Community Centres	117	122	5	-
S009 Community Partnerships and Safety	449	452	3	-
S803 Customer Services	304	318	14	8
S043 Decorative Lighting	48	48	-	-
S011 Economic Development	115	121	7	-
S412 Environmental Health and Safety	691	729	38	2
S007 Grants	262	265	3	(8)
S210 Home Improvement Agency	24	64	40	9
S414 Housing and Homelessness	583	698	116	128
S706 Indoor Leisure Sites	268	214	(54)	-
S028 Land Drainage and Coast Protection	(35)	-	35	-
S710 Marketing and Events	271	271	-	-
S060 Markets	(103)	(127)	(25)	(26)
S707 Outdoor Leisure Sites	(101)	(143)	(43)	(30)
S420 Outdoor Playing Fields and Amenities	(1)	(10)	(10)	-
S421 Outsourced services	1,308	1,300	(7)	-
S024 Parking Off Street	(4,101)	(3,822)	280	160
S013 Planning	385	428	43	18
S425 Redevelopment Projects	17	56	39	-
S428 Rental Properties	(48)	(49)	(1)	-
S430 Senior Management Team and Support	125	130	5	-
S431 Sports Development	35	35	-	-
S702 Theatres	403	123	(280)	(257)
S804 Tourist Information Centres	87	107	21	20
	823	1,108	285	(32)

FINANCIAL OUTTURN BY SERVICE

Service	Actuals	Budget	Surplus / (Deficit)	Q3 Forecast
Corporate Budget Headings				
S409 Corporate Costs	466	466	-	-
S301 Corporate	214	214	-	-
S425 Redevelopment Projects	193	193	-	-
9099 Corporate Miscellaneous*	1,653	1,488	(165)	(140)
9101 Non Distributed Costs Other Expenses	2,241	2,188	(53)	(53)
9314 Capital Expenditure Funded from Revenue	669	669	-	-
Insurance	734	717	(18)	-
Treasury Management	126	252	126	60
Property Repairs	533	537	4	-
Hard Standings	543	543	-	-
Telephony – Internal Systems	289	230	(60)	-
Core Funding				
Revenue Support Grant	(3,085)	(3,085)	-	-
Retained Business Rates Income	(5,057)	(5,062)	(6)	-
Council Tax Precept	(7,655)	(7,655)	-	-
New Homes Bonus	(966)	(953)	13	13
Other DCLG Core Funding	(92)	(86)	6	-
Council Tax Freeze Grant	(90)	(90)	-	-
Collection Fund (Surplus) / Deficit and Transfer to SIF	(19)	(56)	(37)	-
	(9,301)	(9,490)	(189)	(121)

* Cont to CDR approved by Cabinet in year less £200k VAT Mitigation contingency

RESERVES

The 2016 Financial Strategy outlined the forecasted level of reserves at 31 March 2016. A summary of these expected balances together with the final outturn position is outlined below:

	Fin Strat Forecast £'000	Outturn Position £'000	Variance	Note
General Reserve	2,509	2,509	-	1
General Reserve – Legal and Insurance proceedings	167	167	-	1
Insurance Reserve	1,357	1,428	71	2
Capital Contingency Reserve	600	600	-	4
Capital Development Reserve (including Usable Capital Receipts Reserve)	10,713	11,624	911	4
Pension reserve	1,170	1,152	(18)	
Section 106 and Commuted Sums	755	2,352	1,597	4
Operational Reserves	3,119	6,424	3,305	3
Specific Reserves (including Harbours)	450	625	175	
	20,841	26,881	6,041	

The table shows that the Council had £26.881m held in reserves as at 31 March 2016. Although this appears to be a significant amount it should be noted that £11.624m of the balance is held in the Capital Development Reserve and is fully committed to progress schemes such as the Leisure Village. A large proportion of the residual reserve balances are also committed. Further details about specific reserve balances are set out below:

Note 1 – General Fund

The General Fund balance incorporates monies that were specifically set aside to fund the costs of potential legal proceedings and insurance risks. The original allocation of these funds was £420k and to date £253k of this amount has been paid out. Additional costs associated with the originally budgeted risks are not expected and therefore this balance will no longer show as a committed element of the General Fund balance.

With £270k of the General Fund being committed as part of the 2016/17 budget, the uncommitted balance of the General Fund now stands at £2,406k.

Note 2 – Insurance Reserve

The Insurance Reserve covers risks which are by their nature difficult to insure such as cliff slippage and certain storm damage, and risks which are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses and risk management expenditure.

Note 3 – Operational Reserves

RESERVES

Operational reserves are intended to be used to support future operational requirements and specifically include funding that has been received towards the end of 2015/16 to support services and activities during 2016/17 (and beyond).

A review will be undertaken to determine which, if any, of these commitments are no longer required and the outcome of this will be reported to Members and be fed into the 2017/18 budget setting process.

Note 4 – Capital Reserves

The variations compared to the budgeted position largely relates to slippage in capital expenditure. The balances available over the 10 year investment programme have not changed substantially from those previously reported.

EXPENDITURE TO BE FUNDED FROM YEAR END UNDERSPEND

This appendix provides additional details of the schemes that have been approved by the Director's Team.

Electricity Upgrade at Filey Country Park - £65,000

The incoming electric supply to the Filey Caravan Park is, at 200Kva, inadequate to provide sufficient electricity to the users of site. In addition to the caravan site itself the incoming supply also serves the café and Filey Sailing Club.

Discover Filey Ltd has expressed their desire to construct an Education Centre within the Filey Country Park which, based on a normal operating premise would require a supply of 60Kva. This cannot be accommodated from the existing supply to the Park.

Over the years there have been numerous occasions when the electricity supply to the caravans has tripped due to an overload on the circuits.

Approximately 18 months ago the cable infrastructure within the fields, serving the caravan pitches, was improved which has gone some way to mitigating the problems with overload. The next stage would be to increase the incoming supply, which would assist in retaining customers to the site, and also enable a level of future proofing in case the site is extended, as well as being in a position to supply the Education Centre if that scheme progresses.

The proposal is to increase the incoming electric supply from 200Kva to 500Kva. If the supply is increased beyond 500Kva Northern Power has stated that a new substation may be required, together with changes to the metering situation within the Park.

The cost of moving to a 500Kva supply is approximately £65,000 and the works will take approximately 4 weeks. With a lead time of 4 to 5 months the Council would need to confirm an order in late July to ensure that the works could be undertaken in January 2017 when the caravan site is closed.

South Bay Underground Car Park - £37,000

An initial capital bid (£30,000; £5k testing and £25k remedial works) was approved for remedial works at South Bay Underground car park.

The detailed testing for these works has been carried out and completed, with the Contractor identifying additional repairs over and above what has already been quoted on.

To complete the scheme additional funding of £37,000 is required.

Kyber Pass Public Conveniences – closure and new build - £11,500

Cabinet have approved in principle (16/129) the freehold disposal of land and premises that form the existing public convenience at Kyber Pass and the

EXPENDITURE TO BE FUNDED FROM YEAR END UNDERSPEND

development of a new pay on entry public convenience facility by extending the Shellfish Holding building on Pier Road, Whitby.

To allow this project to commence, a disposal marketing budget (£6,500) and planning consent budget (£5,000) is required. The report outlined that these costs would be funded from the Council's Capital Development Reserve however, with this reserve showing overdrawn balances in some years, they will now be funded from the year end underspend.

Contribution to the Local Enterprise Partnership for 2016/17 - £15,000

All member Councils of the York, North Yorkshire and East Riding LEP make an annual contribution to the LEP which pays for the secretariat and LEP Core Team. This team is responsible for developing the LEPs Regional Economic Strategy and making the case to the UK Government for public investment in the region to address the area's strategic infrastructure, skills, education, transportation and business development needs.

This contribution was funded from one off resources in 2015/16 (as part of the Financial Strategy) however base funding is required. A growth item will therefore be included in the 2017/18 budget setting process.

Contribution towards the Community Environment Team - £10,000

This one off funding contribution will provide a materials budget for the Community Environment Team, which in turn will allow the Council to generate further value from the team.

Contribution to Fylingdales Parish Council - £15k

The Council is currently undertaking a review of public convenience provision across the Borough. As part of that review local parish and town councils have been contacted to determine whether they would like to take over the responsibility for public conveniences within their area.

As part of this dialogue Fylingdales Parish Council has approached the Council and requested a £15k interest free loan from the Council to facilitate the refurbishment of public conveniences at Bank Top in Robin Hoods Bay and create office space at the facility for use by the Parish Council. The loan will be repaid over 3 years.