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|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Title: Reserves, Capital Expenditure and Debt                                                                                                             |
| Contains Confidential or Exempt Information: NO – Part I                                                                                                  |
| Member reporting: Councillor Saunders, Lead Member for Finance                                                                                            |
| Meeting and Date: Audit and Performance Review Panel - 14 December 2017                                                                                   |
| Responsible Officer(s): Russell O’Keefe, Strategic Director of Corporate and Community Services, 01628 796521. Rob Stubbs, Head of Finance, 01628 796341. |
| Wards affected: None                                                                                                                                      |

## REPORT SUMMARY

1. This report has been requested by The Chair of the Audit and Performance Review Panel.
2. It explains historic and, future estimates for reserves, capital expenditure, cash balances and borrowing.
3. The situation regarding our reducing cash balances has been shared with Members through the monthly Finance Update. The potential increase in corporately funded capital expenditure and reducing balances which will lead to an increase in borrowing was discussed at November Cabinet.
4. Reserves are based on an assessment of the minimum requirement to cover known risks. This is carried out on an annual basis when the budget is set and reviewed monthly through the Finance Update.

## 1. DETAILS OF RECOMMENDATION(S)

**RECOMMENDATION:** That Audit and Performance Review Panel notes the report and:

- i) Reviews the information provided on the various financial indicators.

## **2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED**

### **Cash Balances**

- 2.1. The Council's cash balances currently stand at around £50 million. Towards the end of this financial year a significant decrease in cash balances is expected which will result in a need to increase the Council's borrowing in the short term.
- 2.2. Longer term the Council's capital programme especially on regeneration projects will require an increase in the Council's longer term borrowing to fund the investments justified by subsequent and larger capital receipts and/or income annuities from the property assets created.
- 2.3. Over the last few years there has been a gradual decrease in the Council's cash balances. This is mainly due to the expanding capital programme which has been funded from existing cash balances rather than increasing the Council's external debt and cost of borrowing. This has resulted in significant savings for the Council as the cost of lost investment interest (typically 2%) is lower than interest on borrowing (typically 5%). The average saving would therefore be £150,000 on capital expenditure of £5,000,000 p.a.

### **Capital Expenditure**

- 2.4. The Council's annual capital programme is mostly funded from external sources such as grant and S106 contributions. There is an element of corporately funded expenditure for which no external funding available. This is typically £5,000,000 to £6,000,000 each year.
- 2.5. Corporately funded capital expenditure is funded from capital receipts, minimum revenue provision (a charge on revenue) and borrowing. As mentioned in paragraph 2.3 we have in recent years used cash balances as a short term and financially favourable substitute for additional borrowing.
- 2.6. A fifteen year cash flow forecast is held by Finance which seeks to estimate the timing and quantum of the larger flows which may arise from regeneration projects and other large capital projects such as secondary school expansion. It is clear that it will be necessary to fund a significant amount of capital expenditure before receiving the capital receipts that may result from some of them. These more speculative cash flows are not included in this report as no decision have been made as to the investment and financial strategies required, which will be subject to Panel scrutiny, Cabinet review and Council decisions, before commitments are made.

### **Borrowing**

- 2.7. In the coming financial year it is expected that the Council will reach the point where it cannot remain liquid without increasing its external borrowing. These increased levels of borrowing are expected to be maintained in the longer term until capital receipts are received as part of the regeneration programme. The Council's borrowing strategy may take these capital receipts into consideration so that the period that the Council borrows for is kept to a minimum.

## **Reserves**

- 2.8. Reserves are based on an assessment of the minimum requirement to cover known risks. This is carried out on an annual basis by the Head of Finance when the budget is set (£5,270,000 for 2016-17). The assessment considers known risks and their financial impact over an 18 month period. The reserves position is reviewed monthly through the Finance Update.
- 2.9. There are two reserves that are considered to form the Council's General Fund reserves. These consist of the General Fund itself and the Development Fund. Together they form a forecast balance of £6,490,000 at the year end. This is in excess of the minimum level.
- 2.10. The General Fund is used to fund the day to day activities of providing services to residents. Its expenditure is controlled through the budget and it is funded by Council Tax, Business Rates and Grant. Expenditure is monitored through the Finance Update.
- 2.11. The Development Fund is not an earmarked reserve and can be used to fund any expenditure regardless of whether it is revenue or capital. Typically the reserve is used to fund project work often in support of regeneration or development activities. Its use is controlled by consultation with the Lead Member for Finance and is replenished by a combination of service underspends and grant. Expenditure is monitored through the Finance Update.
- 2.12. Appendix A shows the recent history of each of the above finance categories. It also shows what the immediate future may hold, based on our current committed of cash flows.
- 2.13. The recommendation in the report is made in order to prompt the Audit and Performance review Panel to discuss the issues around treasury management and to make recommendations that the Head of Finance and Lead Member for Finance may find helpful.

**Table 1:** Options for the Audit and Performance Review Panel

| <b>Option</b>                                                                                  | <b>Comments</b> |
|------------------------------------------------------------------------------------------------|-----------------|
| Accept the current position and approach to treasury management.                               | None            |
| Through discussion make suggestions that could be helpful to the Treasury Management function. | None            |

## **3. KEY IMPLICATIONS**

- 3.1. The aim is make sure sufficient financing is available to allow the Council to deliver services and implement its capital programme and therefore achieve its objectives.
- 3.2. It is also to ensure that expenditure is kept within the limits defined by the medium term plan and the budget.

3.3. The outcomes in table 2 are indicators of success that are monitored in Finance.

**Table 2: Treasury Management indicators in 2016-17**

| <b>Outcome</b>                                                               | <b>Unmet</b> | <b>Met</b> | <b>Exceeded</b> | <b>Significantly Exceeded</b> | <b>Date of delivery</b> |
|------------------------------------------------------------------------------|--------------|------------|-----------------|-------------------------------|-------------------------|
| Reserves at year end relative to the minimum level assessed in budget papers | <-1%         | + / - 1%   | +1% to +5%      | >5%                           | 31 May 2017             |
| Capital financing (MRP and interest) relative to budget                      | <-1%         | + / - 1%   | +1% to +5%      | >5%                           | 31 May 2017             |

#### **4. FINANCIAL DETAILS / VALUE FOR MONEY**

4.1 New funds are not being sought at this time and this report is for information only. Table 3 has not therefore been completed. Past and future figures for reserves, capital expenditure and borrowing are detailed in appendix A.

**Table 3: Not used**

|            | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> |
|------------|----------------|----------------|----------------|
|            | Revenue        | Revenue        | Revenue        |
| Addition   | £0             | £0             | £0             |
| Reduction  | £0             | £0             | £0             |
| Net impact | £0             | £0             | £0             |

|            | <b>2016/17</b> | <b>2017/18</b> | <b>2018/19</b> |
|------------|----------------|----------------|----------------|
|            | Capital        | Capital        | Capital        |
| Addition   | £0             | £0             | £0             |
| Reduction  | £0             | £0             | £0             |
| Net impact | £0             | £0             | £0             |

#### **5. LEGAL IMPLICATIONS**

5.1 None

**6. RISK MANAGEMENT**

**Table 4: Risk Analysis**

| <b>Risks</b>                                                               | <b>Uncontrolled Risk</b> | <b>Controls</b>                                                                                                                                | <b>Controlled Risk</b> |
|----------------------------------------------------------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| That general fund reserves will be depleted by use of the development Fund | Medium                   | Discussions on the use of the fund take place between the Lead Member for Finance and Finance staff. Position is monitored by Cabinet monthly. | Low                    |

**7. POTENTIAL IMPACTS**

7.1 None.

**8. CONSULTATION**

8.1 Consultation has been internal (Officers and Members).

**9. TIMETABLE FOR IMPLEMENTATION**

9.1 A timetable for implementation is not relevant to this report.

**Table 5: Not Used**

| <b>Date</b> | <b>Details</b> |
|-------------|----------------|
|             |                |
|             |                |

9.2 Implementation date if not called in: N/A

**10. APPENDICES**

10.1 Appendix A: Reserves, Capital Expenditure cash balances and borrowing

**11. BACKGROUND DOCUMENTS**

11.1 Finance Update 24 November 2016 Cabinet.

## 12. CONSULTATION (MANDATORY)

| <b>Name of consultee</b> | <b>Post held</b>                                       | <b>Date sent</b> | <b>Commented &amp; returned</b> |
|--------------------------|--------------------------------------------------------|------------------|---------------------------------|
| Cllr Saunders            | Lead Member/ Principal Member/Deputy Lead Member       | 5-12-2016        | 6-12-2016                       |
| Russell O'Keefe          | Strategic Director of Corporate and Community Services | 6-12-2016        | 6-12-2016                       |
| Rob Stubbs               | Section 151 Officer                                    | 5-12-2016        | 5-12-2016                       |

### REPORT HISTORY

|                                                             |                            |
|-------------------------------------------------------------|----------------------------|
| <b>Decision type:</b><br>For information                    | <b>Urgency item?</b><br>No |
| Report Author: Richard Bunn, Chief Accountant, 01628 796510 |                            |