

## **CORPORATE FINANCIAL REPORT**

### 1.0 INTRODUCTION

1.1 The purpose of this report is to: -

- (i) report on the Council's outturn figures (subject to audit) for 2017/18;
- (ii) report the latest reserves and balances position;
- (iii) restate the Council revenue budget for 2018/19 incorporating the effect of revised portfolios; carry forwards, and / or other issues arising from the outturn position for 2017/18, and
- (iv) provide the Treasury Management Outturn Report 2017/2018.

### 2.0 REPORT STRUCTURE

2.1 The main elements of the report are contained in the attached commentary on the Council's Financial Position.

<u>Section</u>	<u>Content</u>
1	Capital Programme Outturn 2017/18
2	Revenue Budget Outturn 2017/18
3	Reserves and Balances
4	Revenue Budget 2018/19
5	Treasury Management Outturn Report 2017/18

### 3.0 RECOMMENDATIONS

It is recommended that Cabinet recommends Council to:-

- (i) note the 2017/18 Capital Programme Outturn position (subject to audit) as summarised in Section 1 and detailed at Annex A;
- (ii) approve the 2017/18 creation of a Town Centre Reserve and Equal Pay Reserve as detailed in Sections 2.1.2 and 2.1.3;
- (iii) approve the 2018/19 creation of additional reserves as detailed in Section 3.1.2;
  - Business Attraction Fund
  - Community Improvement Reserve
  - Strategic Priorities Fund
  - Service Improvement Reserve
- (iv) approve the redesignation of the Insurance Fund and the earmarking of additional sums as detailed in Section 2.1.4;
- (v) note the Revenue Outturn position (subject to audit) for 2017/18 as detailed in Section 2.1.5;

- (vi) approve the carry forward and acceleration of budget provision for continuing earmarked reserve funded schemes, as detailed in Annex B;
- (vii) approve that there will be no reductions to any Directorate budgets in 2018/19 arising from the outturn position for 2017/18, as detailed in Section 2.2.3;
- (viii) approve the requests for carry forwards as outlined in Section 2.2.4;
- (ix) note the latest reserves and balances position as outlined in Section 3;
- (x) approve the revised Revenue Budget for 2018/19 as outlined in Section 4; and
- (xi) note the Treasury Management Outturn Report 2017/18 as included in Section 5.

Ian Roberts,  
Deputy Chief Executive and Strategic Director of Corporate Services.

The Contact Officer for this report is Mr. I. Roberts, Corporate Services Department, Town Hall, St. Helens, WA10 1HP,

Telephone 01744 673201

Background documents open to inspection in accordance with Section 100D of the Local Government Act 1972:-

Final Accounts working papers.

## COMMENTARY ON THE COUNCIL'S FINANCIAL POSITION

### SECTION 1: CAPITAL PROGRAMME OUTURN 2017/18

1.1.0 The outturn figures for 2017/18, subject to audit, are summarised in the table below. The table represents a summary of the movements in spending and funding since the Revenue and Capital Budget Report presented to Cabinet in March 2018. The table shows a net decrease of £1,013k from the previous forecast.

	Revised Estimate	Provisional Outturn	Variance
	2017/18 £000	2017/18 £000	2017/18 £000
<b>PORTFOLIO SPENDING:</b>			
Children, Families & Young People & Education	4,911	4,405	-506
Adult Social Care & Health	305	338	+33
Community Safety (including Housing Services)	2,925	2,497	-428
Green Smart & Sustainable Borough	9,559	9,637	+78
Growth (including Planning)	28,908	28,800	-108
Libraries & Leisure	110	39	-71
Corporate Services	516	505	-11
	<b>47,234</b>	<b>46,221</b>	<b>-1,013</b>
<b>FINANCED BY:</b>			
Grants and Other Contributions	14,166	13,368	-798
Capital Receipts	575	518	-57
Revenue Contribution	1,190	1,292	+102
Unsupported Borrowing	31,303	31,043	-260
	<b>47,234</b>	<b>46,221</b>	<b>-1,013</b>

1.1.1 The net variance since the last report arises from a combination of factors including:-

	£000
Rephasing of expenditure to 2018/19	-1,946
Rephasing from future years into 2017/18	+934
Other Variations	-1
	<b><u>-1,013</u></b>

Annex A details all the variations in the period. A summary of the main variations is detailed in the following table:

**Table 1**

<b>SLIPPAGE INTO 2018/19</b>	<b>DETAILS</b>
Eccleston Lane Ends DDA	£56k grant resources have been re-phased into 2018/19 to reflect the revised programme of works.
Basic Need Unallocated	Resources of £20k have been re-phased into 2018/19, and resources of £30k have been re-profiled across 2017/18 schemes to reflect programme commitments.
Lansbury Bridge MLD Provision	£102k grant resources have been re-phased into 2018/19 to reflect the revised programme of works.
Free Early Education Entitlement (FEEE) - Rainhill Nursery	£103k grant resources have been re-phased into 2018/19; the Department for Education agreed an extension for the utilisation of the grant.
Disabled Facilities Grants and Adaptations	Resources of £309k have been re-phased into 2018/19 to reflect commitments against the current grant programme, and resources of £47k have been re-profiled to the 2017/18 Brookfield scheme.
Carriageway Maintenance	£269k resources have been re-phased into 2018/19 for utilisation in year, and £24k resources have been re-profiled across 2017/18 schemes.
Additional Highway Maintenance - Pothole Funding	Resources of £145k have been re-phased into 2018/19 of which £129k relates to the additional funding awarded in March 2018, which was included in the programme, but will now be committed in 2018/19.
Windle Island Junction Development	The costs for statutory undertakings were less than originally estimated, and resources of £190k have been re-phased into 2018/19.
A58/A580/A572 Transport Connectivity (NPIF)	£167k grant resources have been re-phased into 2018/19 to reflect the programme of works.
Urban Skatepark	Resources of £65k have been re-phased into 2018/19 to reflect the revised programme due to a delay at consultation and the design stage.
Refurbishment of Selwyn Jones Sports Centre & Equipment	Resources of £71k have been re-phased into 2018/19 due to a delay in the scheme, as options for funding the additional costs identified for mechanical and electrical plant are considered.

**Table 2**

<b>REPHASSED FROM 2018/19</b>	<b>DETAILS</b>
Bridge Strengthening and Maintenance	Resources of £75k have been accelerated from 2018/19 due to schemes completing earlier than originally anticipated.
Street Lighting Invest to Save Phase 2	Resources of £65k have been accelerated from 2018/19 due to the scheme progressing faster than the plan.
Better Bus Fund	Resources of £146k have been accelerated from 2018/19 due to an earlier completion of statutory undertakings at the end of March 2018.
Haydock Industrial Estate Access (STEP) Year 3-6	Grant funding of £375k has been brought forward from 2018/19 due to an accelerated programme of works.
A49 to M6 Junction 22 Link Road	Revenue funding of £100k has been accelerated from 2018/19 to reflect scheme commitments for the year 2017/18.

**Table 3**

OTHER VARIATIONS	DETAILS
Urban Traffic Schemes	The additional costs of unforeseen works have been funded via the acceleration of £48k resources from 2018/19 and re-profiling of £41k resources from across 2017/18 schemes.

## **SECTION 2 : REVENUE BUDGET OUTTURN 2017/18**

### **2.1 Revenue Budget Outturn 2017/18**

2.1.0 The outturn position, subject to audit, is summarised in the tables below. Table 1 shows the unadjusted outturn position and Table 3 shows the total variations against budget.

<b>Table 1 – Unadjusted outturn position 2017/18</b>	<b>Provisional Directorate Outturn 2017/18 £000</b>
Children, Families & Young People & Education	46,685
Adult Social Care & Health	41,418
Community Safety (including Housing Services)	7,457
Public Health & Wellbeing	1,195
<b>Total People’s Services Directorate</b>	<b>96,755</b>
Green Smart & Sustainable Borough	19,391
Growth (including Planning)	8,649
Libraries & Leisure	4,502
<b>Total Place Services Directorate</b>	<b>32,542</b>
Corporate Services	4,229
Leader’s	1,111
Liverpool City Region Engagement	0
<b>Total Corporate Services Directorate</b>	<b>5,340</b>
<b>OVERALL TOTAL</b>	<b>134,637</b>

2.1.1 Variances have been adjusted in relation to changes in accounting treatment and movements on “uncontrollable” budgets (e.g. support service charges, the effect of asset revaluations etc). They have also been adjusted to allow for:

- (i) the carry forward of unspent budget in relation to the Councillor Improvement Fund (£198k);
- (ii) the carry forward of unspent budget provision for any continuing earmarked reserve funded schemes (£937k) as detailed in Annex B;
- (iii) the acceleration of the usage of earmarked reserves from future years (£109k) as detailed in Annex B;

- (iv) the earmarking of unspent external resources for use in future years into the Children's Services Reserve (£169k) and Essential Equipment Fund (£45k) to support departmental priorities/objectives;
- (v) the creation of a Town Centre Development Reserve in accordance with the detail contained in Section 2.1.2 below;
- (vi) the creation of an Equal Pay Reserve from a transfer of resources from the Equal Pay Provision in accordance with the detail contained in Section 2.1.3 below;
- (vii) the earmarking of additional sums to the Insurance Fund, as detailed in Section 2.1.4 below; and
- (viii) the costs of any restructuring (in the form of redundancy or pensions capital strain costs) being charged to the corporate 'restructure costs' provision as detailed in Table 2 below.

<b>Table 2 – Charges to the corporate 'restructure costs' provision 2017/18</b>	<b>Charges 2017/18 £000</b>
Children, Families & Young People & Education	3
Adult Social Care & Health	657
Community Safety (including Housing Services)	9
Public Health & Wellbeing	17
<b>Total People's Services Directorate</b>	<b>686</b>
Green Smart & Sustainable Borough	111
Growth (including Planning)	46
Libraries & Leisure	69
<b>Total Place Services Directorate</b>	<b>226</b>
Corporate Services	171
Leader's	0
Liverpool City Region Engagement	0
<b>Total Corporate Services Directorate</b>	<b>171</b>
<b>OVERALL TOTAL</b>	<b>1,083</b>

2.1.2 Cabinet considered a report on the 25<sup>th</sup> October 2017 in relation to the acquisition of Church Square Shopping Centre, where it was noted that as part of the completion all pre-existing head rent payments were to be waived, with the funds to be subsequently used to support the overall income position of the Centre. To facilitate this it is proposed to create a new Town Centre Development Reserve, with funds accessed by way of Administrative / Delegated Executive Decision as appropriate.

2.1.3 Members will recall that a provision of £10.7m had been made to settle equal pay and equal value claims following the Employment Tribunal which settled in favour of the claimants. This provision represented a reasonable estimate of the sums due for which General Fund balances had been identified and members have been updated on the progress of the settlements through consecutive Corporate Financial Reports.

In accordance with proper accounting practice, provisions should be reviewed at each year end and adjusted accordingly. Based on information provided by the Council's Human Resources section, the provision has been reduced by £425k. However, it is recognised that there is still some uncertainty regarding the ultimate settled values and the potential for further claims, and it is proposed to create an Equal Pay Reserve of £425k that will provide resource cover should any further costs or claims arise.

2.1.4 Similarly, the Council commissioned an actuarial review of its insurance claims liability as at 31 March 2018. This review considered that a lower level of provision was necessary than the existing position based on data, methods, assumptions, limitations and techniques used. However, it must be recognised that additional and unforeseen future claims may emerge and / or settlements could deviate from the actuarial assumptions. It is widely accepted that the risk profile of Local Authorities is such that there may be exposure to long tail claims (claims that are as yet unreported that arise from previous year events), and the potential for these to be of a material value. It is therefore proposed to further earmark the sum of £1,939k into the Insurance Fund.

Furthermore, it is proposed that the use of this reserve is extended to provide some resource cover for additional financial risks that the Council may face in the form of current contingent liabilities – for example the NHS trust appeal seeking mandatory charitable business rate relief, as reported in successive Corporate Financial Reports. As such, it is proposed to rename the reserve the Insurance & Contingent Liability Reserve.

2.1.5 The adjusted outturn position is detailed in Table 3:

<b>Table 3 – Adjusted outturn variations against approved budget 2017/18</b>	<b>Variance 2017/18 £000</b>	<b>Reference Table</b>
Children, Families & Young People & Education	+3,424	A
Adult Social Care & Health	-2,267	B
Community Safety (including Housing Services)	-557	C
Public Health & Wellbeing	-100	D
<b>Total People's Services Directorate</b>	<b>+500</b>	
Green Smart & Sustainable Borough	+203	E
Growth (including Planning)	-514	F
Libraries & Leisure	+381	G
<b>Total Place Services Directorate</b>	<b>+70</b>	
Corporate Services	-1,810	H
Leader's	-111	H
Liverpool City Region Engagement	0	H
<b>Total Corporate Services Directorate</b>	<b>-1,921</b>	
<b>Total Directorate Variances</b>	<b>-1,351</b>	
'Corporate' Variations:		
Levies and Parish Precepts	-22	I (viii)
Investment Interest	-426	I (ii)
Servicing of Debt	-646	I (ii)
Restructure Costs	-702	I (i)
PFI (Interest) Grant	0	
Pension Fixed Cost Element	-341	I (iii)
Capital Charges	0	
Contribution to (+)/from (-) Earmarked Reserves	-1,103	I (vii)
Formula 'Top up'	-333	I (iv)
New Homes Bonus	+2	I (viii)
Retained Business Rates	0	
Council Tax	0	
Collection Fund Surplus	-1	I (viii)
Section 31 Grants	-1,482	I (v)
Mid- Mersey Business Rates Pool	-206	I (vi)
<b>Total Other Variations</b>	<b>-5,260</b>	
<b>Total Variances</b>	<b>-6,611</b>	

## Revenue Outturn 2017/18– Explanation of Variations

2.2.0 An analysis of the budget variations are detailed below:

**Table A**

<u>Children, Families &amp; Young People &amp; Education</u>	<u>£000</u>	<u>£000</u>
Staffing	-53	
Looked After Children - Residential placement costs	+1,538	
Looked After Children - Fostering placement costs	+213	
Looked After Children - Adoption & special guardianship orders	+562	
Looked After Children - Legal fees	+74	
Looked After Children - Other	+151	
Leaving Care Services	+1,060	
Direct Payments & Homecare Support	-53	
Regional Adoption Agency / WWISH	+98	
Home to School Transport	+151	
Public Health Funding	-412	
Supplies and Services - Portfolio Wide	+73	
Other Income - Portfolio Wide	+22	
		<b>+3,424</b>

**Table B**

<u>Adult Social Care &amp; Health</u>	<u>£000</u>	<u>£000</u>
Staffing	-516	
Physical Support - Residential, Nursing & Supported Living	+192	
Physical Support - Domiciliary Care	-1,296	
Physical Support - Direct Payments	-208	
Sensory Support - Residential, Nursing & Supported Living	-11	
Sensory Support - Domiciliary Care	+140	
Sensory Support - Direct Payments	-104	
Support with Memory & Cognition - Residential, Nursing & Supported Living	-797	
Support with Memory & Cognition - Domiciliary Care	-84	
Support with Memory & Cognition - Direct Payments	-73	
Learning Disability Support - Residential, Nursing & Supported Living	+381	
Learning Disability Support - Domiciliary Care	-186	
Learning Disability Support - Direct Payments	-460	
Mental Health Support - Residential, Nursing & Supported Living	+318	
Mental Health Support - Domiciliary Care	+30	
Mental Health Support - Direct Payments	+17	
Assistive Equipment & Technology - Equipment	-37	
Reablement & Intermediate Care - Residential, Nursing & Supported Living	-115	
Reablement & Intermediate Care - Domiciliary Care	-14	
Supplies and Services - Portfolio Wide	+91	
Public Health Funding	-35	
Staffing Sleep-in Provision *	+500	
		<b>-2,267</b>

\* A provision has been set aside following decisions in a number of legal cases that time spent sleeping by supported living workers should be taken into account when calculating compliance with the National Minimum Wage. The potential liability in respect of in-house services has been assessed as being circa £500k.



**Table C**

<b>Community Safety (including Housing Services)</b>	<b>£000</b>	<b>£000</b>
Staffing	-156	
Alleygates	+16	
Supporting People Programme	-397	
Supplies & Services - Portfolio Wide	+15	
Income - Portfolio Wide	-35	
		<b>-557</b>

**Table D**

<b>Public Health &amp; Wellbeing</b>	<b>£000</b>	<b>£000</b>
Staffing	-21	
Premises / Supplies & Services - Portfolio Wide	-35	
Income - Youth Service	-44	
		<b>-100</b>

**Table E**

<b>Green Smart &amp; Sustainable Borough</b>	<b>£000</b>	<b>£000</b>
Revenue Contribution to capital (see 2.2.4)	-2	
Staffing	-50	
Waste Collection	+137	
Grounds Maintenance	-114	
Supplies & Services - Portfolio Wide	-37	
Environmental Heath Income	+38	
Cemetery & Crematorium Fee Income	-65	
Waste Collection	+46	
School Meals Income	+104	
Parking Services Income	+70	
Asset Management and Building Design Fee Income	+86	
Engineering Services Income	-41	
Licensing and Land Charges Fee Income	+70	
Other Income - Portfolio Wide	-39	
		<b>+203</b>

**Table F**

<b>Growth (including Planning)</b>	<b>£000</b>	<b>£000</b>
Staffing	-83	
Public Buildings & Estates Premises /Other Costs	-508	
Events Service	-43	
Supplies and Services - Portfolio Wide	-136	
Estates Rental & Service Charge Income	+73	
Market Services Income	+115	
Building Control Fees	+30	
Other Income - Portfolio Wide	+38	
		<b>-514</b>

**Table G**

<b>Libraries &amp; Leisure</b>	<b>£000</b>	<b>£000</b>
Staffing	+5	
Supplies and Services - Portfolio Wide	-17	
Income - Leisure Services	+393	
		<b>+381</b>

**Table H**

<b>Corporate Services Leader's, &amp; Liverpool City Region Engagement</b>	<b>£000</b>	<b>£000</b>
Electoral Services - (Section 2.2.4)	-45	
Staffing	-410	
YPO Dividend	-347	
Local Welfare Assistance	-218	
Residual Pension Liabilities	-45	
Early Achievement of Savings	-461	
Premises / Supplies and Services - Portfolio Wide	-184	
Income - Portfolio Wide	-211	
		<b>-1,921</b>

**Table I**

<b>Other Budget Variations</b>	<b>£000</b>	<b>£000</b>
(i) Restructure Costs	-702	
(ii) Investment Interest/Servicing of Debt	-1,072	
(iii) Pensions Fixed Cost Element	-341	
(iv) Formula Top Up	-333	
(v) Section 31 Grants	-1,482	
(vi) Business Rates Pool	-206	
(vii) Earmarked Balances Budgeted contribution approved for use in 2017/18 and no longer required	-1,103	
(viii) Other	-21	
		<b>-5,260</b>

2.2.1 The main 'other budget variations' are explained as follows:

**(i) Restructure Costs**

The costs of redundancy and pension capital costs resulting from service reviews to achieve on-going efficiencies were less than originally budgeted for.

**(ii) Investment Interest / Servicing of Debt**

The variations in investment income / servicing of debt at Outturn were due to a combination of:

- (a) Increased interest receivable from third parties, including interest on regeneration loans;
- (b) deferred borrowings resulting in reduced interest repayments; and
- (c) a reduction in the charge for Minimum Revenue Provision, as a consequence of decisions made relating to the financing of the capital programme as reported to Cabinet on 24<sup>th</sup> May 2017.

**(iii) Pensions Fixed Cost Element**

The Pensions Fixed Cost contribution was less than the original budget resulting from changes in the staffing profile.

**(iv) Formula Top –Up**

The in-year surplus relates to the receipt of sums due as a consequence of Business Rate revaluations. This sum has been budgeted for receipt in 2018/19 and will result in a corresponding reduction in income for that financial year.

**(v) Section 31 Grants**

On 20 March 2018 the Ministry of Housing, Communities and Local Government (MHCLG) informed the Council of an error that MHCLG had applied when calculating its compensation for losses incurred by authorities as a result of previous Government policy decisions. The Council had previously interpreted that there was an error in the methodology and consequently had not budgeted for the sum, which equated to £309k. In the event, MHCLG recognised that seeking repayment was likely to cause difficulties at that point in the financial year and, exceptionally, would not be doing so.

As previously reported to Cabinet via the Budget and Performance Monitoring Report, income arising from Section 31 grants significantly exceeded the budget provision (£1,173k) following notification of additional Section 31 Grant funding to compensate the authority for the loss in Business Rates yield arising from the changes to Small Business Rates thresholds and other Government policy initiatives. Whilst the Council had anticipated entitlement to compensation, MHCLG only confirmed allocation methodologies in March 2018.

**(vi) Business Rates Pool**

As part of the Mid Mersey Business Rates pooling arrangement with Warrington and Halton Councils, St Helens received a proportionate share of the levy savings that would otherwise have been payable in relation to Warrington Business Rates growth. As previously reported to Cabinet via the Budget and Performance Monitoring Report, the Council received £206k during the year.

**(vii) Earmarked Balances**

The following table provides further details of the variances:

<b>Earmarked Balances – Budget Variations</b>	<b>£000</b>
<b><u>Liverpool City Region Business Rates Retention Pilot *</u></b>	
Under the terms of the Pilot Agreement negotiated with MHCLG, each authority's outturn position is dependant on the position of other pilot members. Consequently, the Council adopted a prudent approach in relation to its participation in the pilot scheme by budgeting to set aside any projected gains to cover the eventuality that these may not be realisable under the detailed terms of the pilot scheme. The unaudited 2017/18 outturn positions of each pilot member remove the need for this set aside.	<b>-1,584</b>
<b><u>Pension Lump Sum</u></b>	
Earmarked Balances Budgeted Contribution approved for use in 2017/18, but no longer required – pensions fixed cost element (See I iii)	<b>+341</b>
<b><u>Other</u></b>	
Contribution to budget saving requirement 2018/19.	<b>+140</b>
	<b>-1,103</b>

\* The total gains arising from participation in the pilot scheme during 2017/18 are £2.6m.

**(viii) Other**

The apprenticeship levy payable to HM Revenues and Customs was £22k less than budget.

2.2.2 The position after allowing for the carry forward of previously approved earmarked reserves (as detailed in Annex B) and Councillor Improvement Fund is as follows:

<b><u>Total Budget Variations</u></b>	<b>£000</b>	<b>£000</b>
Portfolio Variations (See Tables A to H)	-1,351	
Other Budget Variations (See Table I)	-5,260	
Total Budget Variation 2017/18		<b>-6,611</b>

2.2.3 The Council's Financial Procedure Rules and Budget Strategy determine that any overspends in one year are funded by a corresponding reduction in the Service Directorate's budget in the next year. Given the corporate position as detailed above, and the pressures on departmental budgets in the future, it is proposed that approval is given to waive this requirement for those Directorate budgets whose outturn position exceeded the adjusted budget.

2.2.4 There are two requests for a carry forward of 2017/18 underspends for specific service budgets, which remain unspent, but for which priority commitments continue into the following financial year. The requests are detailed in the following table

<b>Corporate Services Directorate - Corporate Services</b>	<b>£000</b>
<b>Elections</b>	
Unspent resources during the year committed to supporting the local election in 2018/19, and service modernisation.	<b>45</b>
<b>Place Services Directorate – Green Smart &amp; Sustainable Borough</b>	
<b>Parks</b>	
Revenue funding for continuation of capital scheme into 2018/19, and which is included in the capital programme.	<b>2</b>

### **SECTION 3: RESERVES AND BALANCES**

3.1.0 The movement in General Balances is summarised below assuming carry forward proposals as included in Section 2.2.4 are approved:

	<b>£000</b>
Variations as detailed in Section 2.2.2	6,611
Projected in-year movement included in the March 2018 Corporate Financial Report	-188
Net in-year movement 2017/18	6,423

3.1.1 The outturn position in relation to the Council's reserves and balances is detailed below.

	<b>Balance as at 1 April 2017</b>	<b>In year movements</b>	<b>Balance as at 31 March 2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Usable Capital Receipts	28,976	850	29,826
General Balances *	14,885	6,423	21,308
School Balances	9,147	-361	8,786
Earmarked Reserves	45,964	-14,222	31,742
Collection Fund	595	1,185	1,780

\* The general fund balance above is prior to the approval of any requests for carry forward and the proposal to create a new reserve (as detailed in 3.1.2).

3.1.2 The outturn position principally arises from a combination of non recurrent/guaranteed matters and affords the opportunity to create resource cover to support Council priorities moving forward; as outlined below;

(i) **Business Attraction Fund**

The creation of a £1.5m reserve to be used to attract new business into the Borough and support inward investment.

(ii) **Community Improvement Reserve**

The creation of a £2m reserve to support new community improvements, and allow for the retention of some community based services.

(iii) **Strategic Projects Fund**

The creation of a £600k reserve to support specific project initiatives.

(iv) Service Investment Reserve

The creation a Service Investment Reserve of £1.9m to support wider Council priorities in respect of highway infrastructure, regeneration, supporting the local economy, creating employment opportunities and improving safety in communities.

The use of these reserves would be subject to a formal decision making process supported by a specific business case and / or project appraisal in accordance with the Council's constitutional requirements.

3.1.3 The composition of the Council's Earmarked Balances at 31<sup>st</sup> March 2018 is detailed in the following table: It should be noted there are approved commitments on these reserves extending to 2020/21.

<b>Earmarked Reserve</b>	<b>Balance as at 1 April 2017 £000</b>	<b>In Year Movements £000</b>	<b>Balance as at 31 March 2018 £000</b>
Transformation Reserve*	21,954	-15,040	6,914
Growth Reserve	3,619	-1,534	2,085
Children's Services Reserve	8,689	-2,322	6,367
Essential Equipment Replacement Fund	2,573	-84	2,489
Councillor Improvement Fund	439	198	637
Insurance & Contingent Liability Reserve **	4,994	1,939	6,933
Waste Management Development Fund	3,696	-153	3,543
Inflation Reserve	0	1,000	1,000
Equal Pay Reserve	0	425	425
Town Centre Reserve	0	1,349	1,349
<b>Total</b>	<b>45,964</b>	<b>-14,222</b>	<b>31,742</b>

\* Includes payment of £13.737m to Merseyside Pension Fund in relation to Pensions Fixed Sum 2017/18, which is to be returned to the Transformation Reserve during 2018/19 and 2019/20.

\*\* Change in reserve name subject to approval as detailed in Section 2.1.4

3.1.4 The position on the Council's Collection Fund as at 31 March 2018 is as follows:

	<b>Surplus / (Deficit) 31 March 2018 £000</b>	<b>Used in Support of 2018/19 Budget £000</b>	<b>Surplus / (Deficit) to be Carried Forward £000</b>
Council Tax	682	-463	219
Business Rates	1,098	-981	117
<b>Total</b>	<b>1,780</b>	<b>-1,444</b>	<b>336</b>

## **SECTION 4: REVENUE BUDGET 2018/19**

4.1.0 The current year's Revised Estimate is shown below and has been updated since the last report to take account of the following issues:-

- (i) Provisional carry forward of unspent 2017/18 earmarked reserves (See Annex B);
- (ii) Acceleration of earmarked reserves for future years utilised in 2017/18 (See Annex B);
- (iii) Provisional carry forward of specific requests (See Section 2.2.4);
- (iv) The accelerated receipt of Formula Top-Up as detailed in Section 2.2.1 (iv); and
- (v) Provision for set aside of £496k gains arising from participation in the Business Rates Retention Pilot no longer being required due to the outturn position for 2017/18 (see Section 2.2.1 (vii)).

<b>DIRECTORATE</b>	<b>REVISED ESTIMATE 2018/19 £000</b>
Children, Families, & Young People & Education	42,818
Adult Social Care & Health	46,913
Community Safety (including Housing Services)	7,177
Public Health & Wellbeing	871
<b>Total People's Services Directorate</b>	<b>97,779</b>
Green Smart & Sustainable Borough	18,091
Growth (including Planning)	-410
Libraries & Leisure	4,033
<b>Total Place Services Directorate</b>	<b>21,714</b>
Corporate Services	5,849
Leader's	1,084
Liverpool City Region Engagement	0
<b>Total Corporate Services Directorate</b>	<b>6,933</b>
<b>TOTAL DIRECTORATE BUDGETS</b>	<b>126,426</b>
Levies	21,091
Investment Interest	-616
Servicing of Debt	11,459
Restructure Costs	2,033
Capital Charges	-13,374
Contribution to (+) /from (-) Earmarked Balances	-1,640
Pension Fixed Cost Element (Excluding Schools)	4,986
New Homes Bonus	-2,415
Section 31 Grants	-4,491
PFI (Interest) Grant	-2,363
Collection Fund Surplus	-1,444
Formula 'Top Up'	-22,391
Retained Business Rates	-46,383
Council Tax	-70,994
Contribution to General Fund Balances	116
<b>OVERALL POSITION</b>	<b>0</b>

Further details of the Service Directorate budgets can be found in Annex C, whilst they have been reproduced based on the new portfolio structure in Annex D.

## **SECTION 5: TREASURY MANAGEMENT OUTTURN REPORT 2017/18**

5.1.0 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

5.1.1 During 2017/18 the agreed reporting requirements were as follows:

- (i) An annual Treasury Management Strategy Statement (approved by Cabinet on 22 February 2017, by Council on 1 March 2017 and considered by Audit and Governance Committee on 22 March 2017);
- (ii) A mid-year treasury update report (Approved by Cabinet on 25 October 2017, by Council on 1 November 2017 and considered by Audit and Governance Committee on 13 November 2017);
- (iii) An annual review following the end of the year describing the activity compared to the strategy (this report); and
- (iv) In addition, the Cabinet and Council have received regular treasury management reports via each Corporate Financial Report.

5.1.2 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 policies previously approved by Members.

5.1.3 The Council confirms that it has complied with the requirement under the Code to give scrutiny to the relevant treasury management reports by the Cabinet before they were reported to the full Council.

5.1.4 The main contents of this report are:

- (i) Borrowing activity 2017/18;
- (ii) Investment activity 2017/18;
- (iii) Effects on the Council budget;
- (iv) The Council's treasury position at 31 March 2018;
- (v) Performance measurement; and
- (vi) Compliance with Treasury Limits and Prudential Indicators.

### **BORROWING ACTIVITY 2017/18**

5.2.0 The Treasury Management Strategy Statement for 2017/18 did not envisage any new borrowing being undertaken outside any prudential borrowing agreed within the capital programme. Whilst the Council's Capital Financing Requirement at that point indicated that the Council had an underlying need to borrow, the general strategy adopted by the Council has been to finance capital expenditure by running down reserves and balances in lieu of new borrowing. However, the Strategy Statement also acknowledged that there may be a benefit in locking in some certainty in borrowing rates at favourable terms and, as a result, lowering the external interest payments made by the Council.



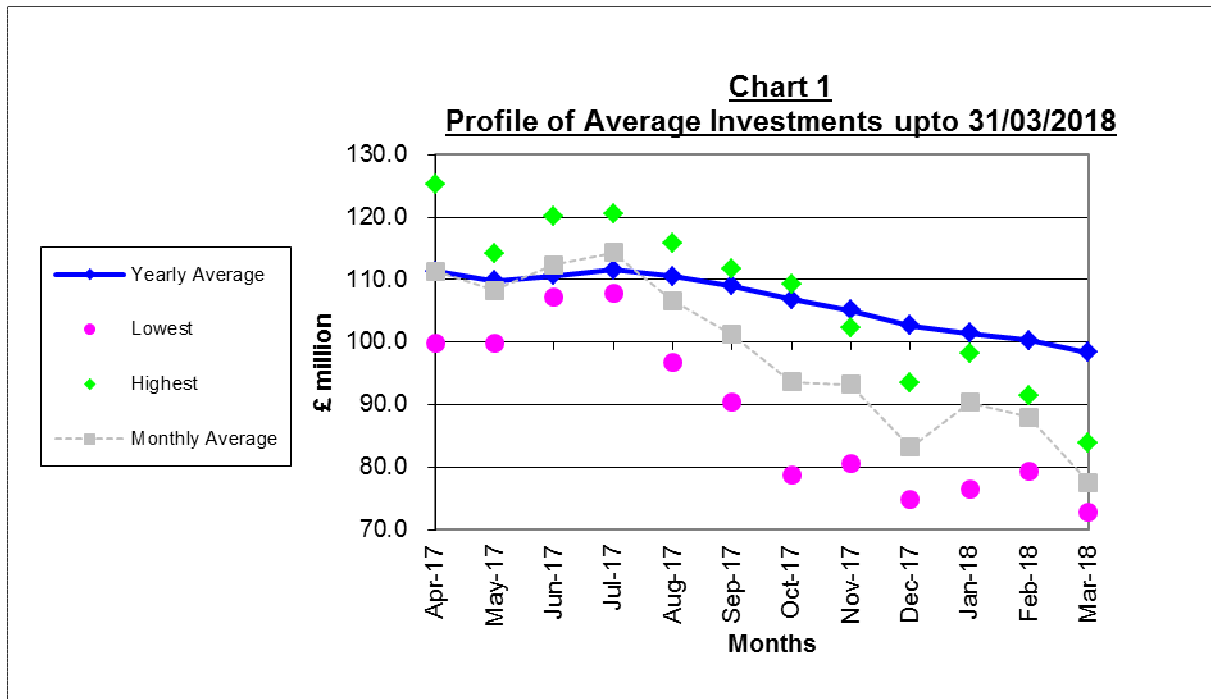
- 5.2.1 As previously reported within the Quarter 4 Corporate Financial Report, considered by Cabinet on 7<sup>th</sup> March 2018 and Council on 18<sup>th</sup> April 2018, £20million of borrowing was undertaken during the final quarter of 2017; a further loan of £10million was taken out on 23<sup>rd</sup> March 2018.
- 5.2.2 During the year, the Council monitored PWLB certainty rates. Table 1 below shows how rates have remained fairly subdued, although there has been volatility in rates during the year, with a rising trend for shorter rates during the second half of the year.

<b>Table 1 - PWLB borrowing rates 2017/18 for 1, 5, 10, 25 &amp; 50 years</b>					
	1 Year	5 Year	10 Year	25 Year	50 Year
1 April 2017	0.85%	1.25%	1.93%	2.62%	2.37%
31 March 2018	1.47%	1.85%	2.23%	2.57%	2.29%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

- 5.2.3 Despite PWLB borrowing attracting low rates of interest, no debt rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

#### INVESTMENT ACTIVITY 2017/18

- 5.3.0 Bank Rate started the year at its historic low of 0.25%, until a vote by the MPC in November 2017 to increase the rate to 0.50% and it remained at this level for the rest of the year. Economic forecasters' original expectations were that the Bank Rate would remain static until the early part of 2019. These forecasts were subsequently revised, with more increases forecast, at a steady rate, through to a peak of 1.25% in December 2020.
- 5.3.1 Although improvements within the economy have seen some of the counterparty risk reduce, investment returns have been largely unaffected and rates available within the market have remained low. Consequently, whilst the Council has had more flexibility with whom it places its money, the opportunity to improve on estimated returns was generally suppressed.
- 5.3.2 As detailed in the Annual Investment Strategy the general policy objective of the Council is the prudent investment of its surplus funds. The Council's investment priorities are the security of capital and liquidity of investments. The Council's investment dealings in the year have been undertaken in order to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity and having properly assessed all inherent risks. All investments made during the year have been made in accordance with this strategy.
- 5.3.3 The Council manages the cash position of Merseyside Recycling and Waste Authority (MRWA) as part of a service level agreement. Historically, this has involved investing the cash balance of MRWA in accordance with the Council's treasury strategy. During 2017/18, MRWA have been in an overdrawn cash position and, in accordance with the service level agreement, the Council has received interest of 2% above Bank Rate for this overdrawn amount. Regular meetings are held with MRWA to review the position and to consider the plans of MRWA to manage this in the short to medium term.
- 5.3.4 The Council maintained an average balance of £98.354m during the year; Chart 1 profiles the monthly average balances.



## EFFECTS ON THE COUNCIL BUDGET

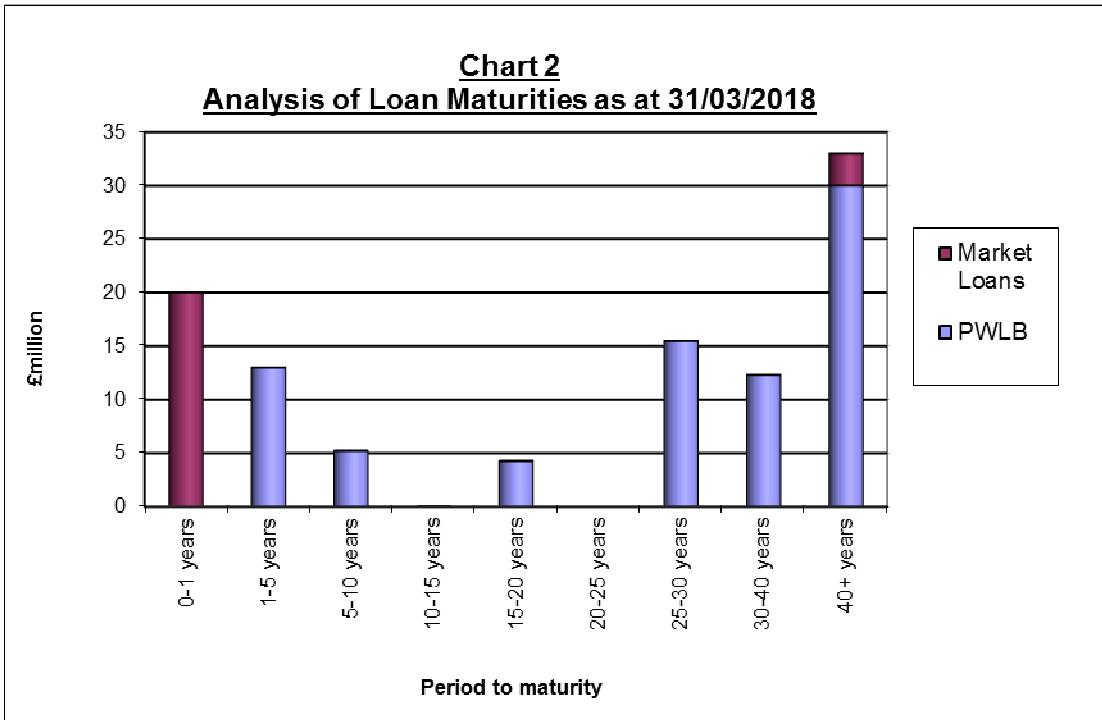
5.4.0 The overall effect on the Council's General Fund budget in 2017/18 was as follows:

<b>Table 2 - Treasury Allowed Estimate &amp; Outturn 2017/18</b>		
	Allowed Estimate £m	Outturn £m
Minimum Revenue Provision (MRP)	2.591	2.353
Debt Management Costs	7.923	7.515
<b><i>SUB-TOTAL</i></b>	<b><i>10.514</i></b>	<b><i>9.868</i></b>
Investment Income	(0.666)	(1.092)
<b>NET TREASURY COSTS</b>	<b>9.848</b>	<b>8.776</b>

5.4.1 The increase in investment income at outturn was due to interest received from third parties.

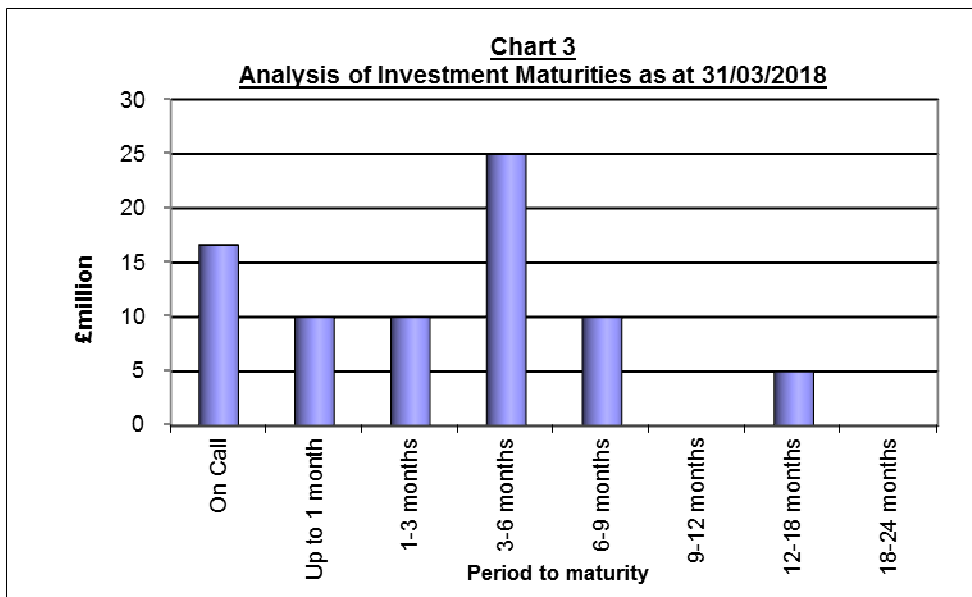
## COUNCIL'S TREASURY POSITION

5.5.0 As at 31 March 2018, the Council's debt portfolio comprised of PWLB and market debt totalling £103.344m. The maturity profile of the debt outstanding is highlighted in Chart 2.



In accordance with the revised Prudential Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender does have the right to increase the interest rate payable (as is the case with a Market Loan (LOBO – Lender Option Borrower Option loan), then this should be treated as a right to require payment. Due to this guidance the maturity dates of the Council’s LOBO loans have been profiled as the next call date for each. This has made the Council’s position look much more short-term when all of these loans have maturity dates of 30+ years. In the current interest climate, it is unlikely that these loans will be called imminently.

5.5.1 The investments held at 31 March 2018 amounted to £76.625m. The composition of these are shown in Chart 3 and includes those managed on behalf of Schools (balances of £8.786m) and is netted down by the overdraft of MRWA.



5.5.2 The detailed investment holdings as at 31 March 2018 are included at Annex (i).

**PERFORMANCE MEASUREMENT**

5.6.0 The performance measure for any new borrowing is to compare the average rate secured for the year compared to the average available for the year. The Council secured borrowing

over 50 years at an average rate of 2.38%, whereas the average rate for PWLB loans over 50 years, as reported in Table 1, was 2.41%.

- 5.6.1 When analysing performance of the Council's investment activity there are more readily identifiable indicators available to determine performance, as detailed in Table 3.

<b>Table 3 - Investment Returns 2017/18</b>									
<b>2017/18</b>	<u>Returns Achieved</u>			<u>Benchmark Returns</u>			<u>Performance relative to Benchmarks</u>		
Month	Fixed Term Investments	Call Accounts	<b>Combined Return</b>	1 Year LIBID	7 Day LIBID	<b>Combined LIBID</b>	Fixed Term - 1 Year	Call - 7 Day	<b>Overall +/- return</b>
April	0.87%	0.25%	<b>0.72%</b>	0.57%	0.11%	<b>0.46%</b>	0.30%	0.14%	<b>+0.26%</b>
May	0.84%	0.25%	<b>0.69%</b>	0.54%	0.11%	<b>0.43%</b>	0.30%	0.14%	<b>+0.26%</b>
June	0.79%	0.24%	<b>0.64%</b>	0.51%	0.11%	<b>0.41%</b>	0.28%	0.13%	<b>+0.23%</b>
July	0.76%	0.20%	<b>0.55%</b>	0.52%	0.11%	<b>0.37%</b>	0.24%	0.09%	<b>+0.18%</b>
August	0.72%	0.25%	<b>0.57%</b>	0.48%	0.11%	<b>0.36%</b>	0.24%	0.14%	<b>+0.21%</b>
September	0.72%	0.27%	<b>0.61%</b>	0.54%	0.11%	<b>0.44%</b>	0.18%	0.16%	<b>+0.17%</b>
October	0.72%	0.26%	<b>0.63%</b>	0.62%	0.12%	<b>0.53%</b>	0.10%	0.14%	<b>+0.10%</b>
November	0.73%	0.41%	<b>0.65%</b>	0.65%	0.36%	<b>0.58%</b>	0.08%	0.05%	<b>+0.07%</b>
December	0.76%	0.38%	<b>0.66%</b>	0.64%	0.36%	<b>0.56%</b>	0.12%	0.02%	<b>+0.10%</b>
January	0.75%	0.42%	<b>0.65%</b>	0.65%	0.36%	<b>0.57%</b>	0.10%	0.06%	<b>+0.08%</b>
February	0.73%	0.50%	<b>0.68%</b>	0.74%	0.36%	<b>0.65%</b>	-0.01%	0.14%	<b>+0.03%</b>
March	0.75%	0.53%	<b>0.71%</b>	0.82%	0.49%	<b>0.76%</b>	-0.07%	0.04%	<b>-0.05%</b>
Average rate of return *	0.76%	0.31%	<b>0.65%</b>	0.61%	0.22%	<b>0.50%</b>	0.15%	0.09%	<b>+0.14%</b>

\* Inclusive of treasury costs and exclusive of interest from third parties.

- 5.6.2 Throughout most of the year, the Council has outperformed the accepted benchmark levels even though these fluctuated throughout the year. Higher returns have been achieved at the start of the year, with average returns slipping just below benchmark targets at year end as a result of a rise in the LIBID rates in February and March. Any sudden changes in rates will impact upon performance against benchmarks as investment decisions need to be made based upon both the desire to maximise interest returns and, more importantly, managing the liquidity of the authorities investments for cashflow purposes. For a number of years, where possible, the Council has taken advantage of favourable rates and locked into investment deals for longer periods.

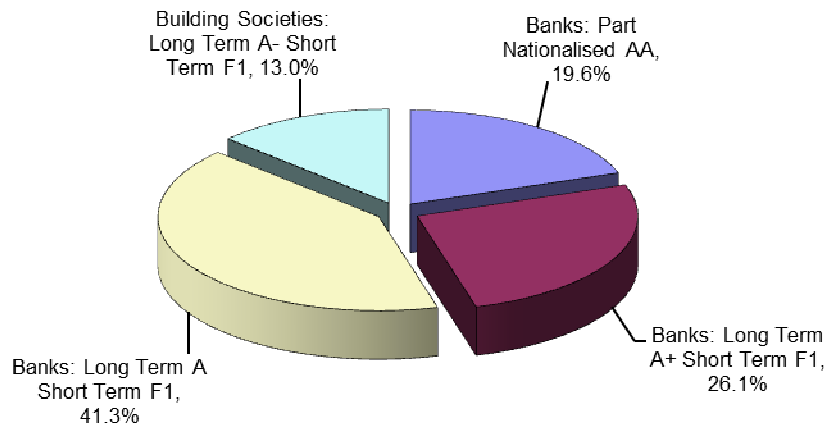
### COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

- 5.7.0 During 2017/18 the Council complied with its legislative and regulatory requirements. The revised Treasury Limits and Prudential Indicators are included at Annex (ii) and, where appropriate, outturn figures for the indicators have been produced by analysis.

**Annex (i)**

<b>Investments held as at 31 March 2018</b>			
Counterparty	Sum Invested £m	Maturity Date	Interest Rate %
<b><u>Banks</u></b>			
Bank of Scotland	5.000	15/08/2018	0.65%
Close Brothers	5.000	18/04/2018	0.85%
Close Brothers	5.000	10/04/2018	0.80%
Close Brothers	5.000	17/09/2018	0.80%
Danske	15.000	Call	0.55%
Lloyds	5.000	15/06/2018	0.80%
Lloyds	5.000	23/07/2018	0.65%
Lloyds	5.000	10/08/2018	0.65%
Royal Bank of Scotland	5.000	22/10/2018	0.80%
Royal Bank of Scotland	5.000	05/10/2018	0.85%
Royal Bank of Scotland	5.000	05/04/2019	0.90%
Santander	1.625	Call	0.40%
<b><u>Building Societies</u></b>			
Skipton BS	5.000	13/06/2018	0.77%
Skipton BS	5.000	14/09/2018	0.78%

**Chart 4**  
**Analysis of Investments by Credit Ratings as at 31/03/2018**



**Key to Credit Ratings**

Sovereign (part nationalised banks)	AA+ AA AA-	Very high credit quality
Long Term	AA+ AA AA- A+ A A-	Very high credit quality High credit quality
Short Term	F1+ F1	Highest short-term credit quality

**Annex (ii)**

<b>Treasury Limits and Prudential Indicators 2017/18</b>			2017/18 Estimates	2017/18 Outturn
1(i)	Proposed capital expenditure that the Council plans to commit to during the forthcoming and subsequent two financial years.	<b>Capital Expenditure (£m)</b>	47.074	46.221
1(ii)	Additional in-year borrowing requirement for capital expenditure.	<b>In Year Capital Financing Requirement (CFR) (£m)</b>	28.950	28.690
2	The CFR is an aggregation of historic and cumulative capital expenditure, which has yet been paid for by either revenue or capital resources.	<b>Capital Financing Requirement as at 31 March (£m)</b>	178.856	177.276
3	The "net borrowing" position represents the net of the Authority's gross external borrowing and investments sums held.	<b>Net Borrowing Requirement:</b>  External Borrowing (£m)  Investments Held (£m)  Net Requirement (£m)	93.349  <u>(90.000)</u>  3.349	103.344  <u>(90.930)</u>  12.414
4	Identifies the impact and trend of the revenue costs of capital financing decisions will have on the General Fund Budget over time.	<b>Ratio of financing cost to net revenue stream</b>	6.80%	6.40%
5	The Council's Budget Strategy with regards to unsupported borrowing is such that there is no incremental impact to Council Tax.	<b>Incremental impact of capital investment decisions (increase in Council Tax Band D equivalent)</b>	Nil	Nil
6	This represents an absolute limit of borrowing at any one point in time. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.	<b>Authorised Limit for External Debt (£m)</b>	151.383	Complied within limit
7	This is the limit beyond which external debt is not normally expected to exceed.	<b>Operational Limit for External Debt (£m)</b>	134.298	Complied within limit

8	These limits seek to ensure that the authority does not expose itself to an inappropriate level of interest rate risk, and has a suitable proportion of debt.	<b>Upper Limit for Fixed Interest Rate Exposure</b>	100%	Complied within limit
		<b>Upper Limit for Variable Interest Rate Exposure</b>	50%	Complied within limit
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk.	<b>Upper Limit for Sums Invested over 365 Days</b>	60%	Complied within limit
10	This indicator is used to highlight where an authority may be borrowing in advance of need	<b>Gross Debt and the CFR (£m)</b>	(61.613)	(50.037)