

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	31st AUGUST 2017	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF FINANCE AND CORPORATE SERVICES	OPEN
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SUBJECT:	BUDGET and FINANCIAL MONITORING 2017/18	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendation

- 1.1 That the latest budget and financial position for 2017/18 as detailed in the report is considered and approved.
- 1.2 That the updated Counterparty List for short-term investments and bank deposits as detailed in **Appendix 2** is approved.
- 1.3 That restructuring in the UK banking sector and its potential affect upon the Council as detailed in the report is considered and noted.
- 1.4 That the application of the EU Directive on market regulation as detailed in the report and its potential effect on the Council's Treasury Management operations is kept under review.

2.0 Purpose of the Report

- 2.1 To provide progress on performance against budgets for the financial year 2017/18, together with an update on the Council's treasury management activities for the year.
- 2.2 Where applicable, the effects upon the Medium-Term Financial Plan (MTFP) are also noted.
- 2.3 The report details performance up to 30th June 2017 (unless stated otherwise) and is effectively the 1st quarter's update of income and expenditure for 2017/18.
- 2.4 Besides the normal budget monitoring and performance monitoring information, the report provides an update on future changes likely to affect treasury management, i.e. the restructuring of the UK banking sector, together with a new EU Directive on market regulation.
- 2.5 The report covers:
 - General Fund Income and Expenditure
 - Collection Fund
 - Housing Revenue Account

- Capital Expenditure and Financing
- Treasury Management
- Financial Performance Indicators

3.0 Detail

GENERAL FUND REVENUE ACCOUNT

3.1 Apart from Council Housing, day-to-day revenue income and expenditure on Council services is accounted for through the General Fund. The Net Expenditure is financed from the Council's Core Spending Power which contains:

- General Government Grant
- Retained Business Rates
- New Homes Bonus
- Council Tax

3.2 The Base Budget for 2017/18, which was approved by the Council in February 2017, estimated a budget surplus of £482,058 for 2017/18 as summarised in the following table.

Net Expenditure on Services	11,337,123
Reverse out Depreciation	-783,025
Minimum / Voluntary Revenue Provisions	345,428
Contingent Sums	556,899
Total Estimated Spend	11,456,425
Financing	-11,938,483
Estimated Surplus	-482,058

Position as at June 2017

3.3 A summary of the position to date and the projected position for the year compared to the Base Budget for each Policy Committee is shown in the following table.

Budget Monitoring - June					
Summary by Policy Committee					
COMMITTEE	ANNUAL			RESERVES	
	BUDGET	PROJECTED ACTUAL	PROJECTED VARIANCE	EARMARKED	NET EFFECT ON GF
	£	£	£	£	£
Environmental and Development	3,984,428	4,094,222	109,793	58,912	50,881
Housing & Community	2,221,336	1,931,667	(289,669)	(257,153)	(32,515)
Finance & Management	5,131,360	4,152,149	(979,211)	(574,845)	(404,367)
TOTAL	11,337,124	10,178,038	(1,159,086)	(773,085)	(386,001)

3.4 Although the above table shows that projected net expenditure is £1,159,086 lower than the base budget, approximately £773k is due to grant income, external contributions and receipts received from developers under Section 106 agreements, for on-going projects and capital schemes which stretch beyond the current year 2017/18. This funding is transferred to specific reserves and drawn-down to finance expenditure when it is incurred.

3.5 Excluding transfers to earmarked reserves, the above table shows that based on current spending, there is a projected decrease in overall net expenditure across General Fund Services of approximately £386k compared to the base budget for the year.

3.6 An analysis by main service area is shown in the following table.

Budget Monitoring - June					
Summary by Main Service Area					
MAIN SERVICE AREA	BUDGET			RESERVES	
	BUDGET	PROJECTED ACTUAL	PROJECTED VARIANCE	EARMARKED	NET EFFECT ON GF
	£	£	£	£	£
Economic Development	248,279	246,390	(1,889)	0	(1,889)
Environmental Services	509,228	506,662	(2,566)	0	(2,566)
Highways	24,468	24,468	(0)	0	(0)
Licensing and Land Charges	(16,576)	(32,887)	(16,311)	0	(16,311)
Planning	494,680	579,368	84,688	93,356	(8,668)
Town Centre	89,585	89,586	0	0	0
Waste Collection & Street Cleansing	1,859,273	1,940,002	80,729	0	80,729
Environmental Education	73,759	39,315	(34,444)	(34,444)	0
Central & Departmental Accounts	701,732	701,317	(414)	0	(414)
Community Development and Support	561,156	549,464	(11,691)	(15,770)	4,078
Leisure and Recreational Activities	178,952	177,493	(1,460)	(660)	(799)
Leisure Centres and Community Facilities	449,828	304,378	(145,449)	(144,717)	(733)
Parks and Open Spaces	644,956	611,992	(32,964)	0	(32,964)
Private Sector Housing	386,444	288,339	(98,105)	(96,007)	(2,098)
Central and Departmental Accounts	3,489,586	3,213,645	(275,941)	0	(275,941)
Revenues and Benefits	480,925	469,751	(11,174)	(1,029)	(10,145)
Electoral Registration	177,550	177,550	(0)	0	(0)
Corporate and Democratic Costs	610,903	530,059	(80,844)	0	(80,844)
Payments to Parish Councils	348,058	348,059	0	0	0
Concessionary Travel	0	(215)	(215)	0	(215)
Property and Estates	(205,191)	(239,141)	(33,949)	0	(33,949)
Pensions, Grants, Interest and Receipts	229,530	(347,559)	(577,088)	(573,816)	(3,273)
TOTAL	11,337,124	10,178,038	(1,159,086)	(773,085)	(386,001)

Overview of Spending to date

3.7 The main reasons for the projected variance at this stage, is shown in the following table.

Main variances

	£'000
Corporate Services contract savings	-400
Salary savings (vacancies, maternity etc.) - F&M	-40
Lettings from Industrial and Commercial Units	-34
Salary savings (vacancies, maternity etc.) - E&D	-27
Increased income from Log Cabin Hire and Retail Sales	-19
Salary savings (vacancies, maternity etc.) - H&C	-13
Street Naming Increased Income	-10
Increased Personal Searches Fee Income	-9
Cemetery Fees	-3
Increased Interest on Cash Deposits	-3
Bank Charges	4
Unbudgeted Sacks for Street Cleansing	5
Markets - Potential Loss of Income	6
Increased Utility Costs	9
Building Control Reduced Income	10
Agency and Temporary Staff	24
Consultancy Support	40
Vehicle Hire	78
Other Variances (net)	-4
TOTAL - OVERALL PROJECTED VARIANCE	<u><u>-386</u></u>

3.8 The main variances relate firstly to the £400,000 saving from the ending of the Corporate Services contract which was reported to the Committee on 22nd June 2017.

3.9 Budget savings are currently being made from vacant posts although these savings are generally offset by agency and consultancy costs to support service areas.

3.10 Increases on Industrial Unit income is due to a reduction in void properties and will give a favorable variance by year-end.

3.11 The other main variance is the cost of vehicle hire which is due to growth of the District plus an aging vehicle fleet. Growth expenditure can be absorbed within contingent sums and a replacement programme for the aging fleet is currently progressing through Procurement after a review of options.

Contingent Sums

3.12 The following sums have been provided in the base budget but not allocated to specific budgets.

Pay and Grading on-going costs	55,000
Waste Collection and Recycling	100,000
Growth	200,000
Other Contingent Sums	108,245
Inflation	93,654
Total	<u>556,899</u>

3.13 The other contingent sums relate to:

- Restructure costs approved after the initial draft of the base budget
- Pension deficit which will be funded from earmarked reserves
- Provisions for the Apprenticeship Levy, implementation of the National Living Wage and potential "off-payroll" payments.

Provisions

3.14 The following provisions were made in the Council's accounts in 2016/17 for liabilities due in 2017/18.

Provision For	£
Refund of Personal Land Searches	13,000
Planning Appeals	102,000
TOTAL PROVISIONS	<u>115,000</u>

3.15 The provision for the refund of personal land searches is that remaining from the original provision of approximately £100,000 made several years ago. It is anticipated that this matter will be concluded in 2017/18 with the remaining provision in the above table, being utilised to meet outstanding claims.

Core Grants and Funding

3.16 The Council's central funding, besides Retained Business Rates, is fixed for the year as shown in the following table.

Core Grants and Funding 2017/18	£'000
Council Tax	4,942,217
Retained Business Rates (Est)	3,668,010
New Homes Bonus	2,601,787
Revenue Support Grant	668,239
Collection Fund Surplus	55,000
Transitional Grant	3,230
Total Core Funding 2017/18	<u>11,938,483</u>

3.17 The New Homes Bonus final settlement confirmation was received in February and is slightly higher than forecast by £11,853 taking the total receipt due to £2,613,640.

3.18 The final amount for Business Rates will depend upon income and expenditure during the year, including any return from the Derbyshire Pool. The latest projection regarding Business Rates is detailed below.

	Estimate £'000	Projection £'000
Approved Precept	9,508	9,922
Tariff paid to the Derbyshire Pool	-6,194	-6,194
S31 Grants - Business Rates Relief	354	456
Payment of Levy to Derbyshire Pool	-200	-999
Share of growth returned from the Pool	200	649
Business Rates Surplus 2017/18	0	37
Transitional Relief adjustment	0	0
Net amount received in retention system	3,668	3,871
Declared deficit 2016/17	0	-285
Reversal of surplus 2017/18	0	-37
Total Business Rates Retained	3,668	3,549

THE COLLECTION FUND

3.19 The Collection Fund is the statutory account that records the collection of Council Tax and Business Rates and shows how that income has been distributed to the Government and Preceptors on the Fund, including this Council.

3.20 Any surplus or deficit on the Fund is transferred to the General Funds of the Preceptors, in proportion to precepts levied each year. The projected position on the Fund for 2017/18, based on transactions up to 31st July 2017, is detailed in **Appendix 1**.

3.21 This shows that the projected surplus balance on Council Tax is approximately £744k, with a projected deficit balance of approximately £535k on Business Rates. In both instances, this is currently more favorable than estimated.

Council Tax

3.22 The projected balance at the year-end is approximately £744k compared to the budget estimate of £440k. This is due to the continuing increase in the tax base (number of properties).

3.23 The budget was based on the Tax Base of 31,647 Band D equivalent properties (after exemptions and discounts) with the total number of dwellings on the valuation list numbering 42,131. At the end of July 2017, the actual Tax Base amounted to 32,186 (+ 539) with the overall number of properties at 42,808 (+ 677).

3.24 During the Budget Round for 2017/18, the Council declared a surplus on the Collection Fund of £500,000 and this is being paid to Preceptors in the current financial year as shown in Appendix 1. It is anticipated that income will continue to increase with further residential development, although some of this is likely to be offset by associated costs.

3.25 The Precepts are fixed payments for the year. The only other variable is the provision for bad debts which is calculated at the year-end. Even allowing for any further increase in the estimated amount, there will be a continuing surplus on Council Tax. The Council's share is approximately 11% and the amount available will be considered during the 2018/19 Budget Round.

Business Rates

3.26 As previously reported, due to a high level of appeals lodged by local businesses with the Valuation Office, large provisions were made in the accounts for 2015/16 and 2016/17. This has placed Business Rates into a deficit position. This deficit is being charged back to the General Funds of the Preceptors in 2017/18, although 50% is met by the Government.

3.27 As Appendix 1 shows, receipts are expected to rise in 2017/18 due to a growth in the Tax Base, together with increases arising from the 2017 Rating Valuation. Therefore, the deficit is now projected to reduce in 2017/18, although this will depend on the outcome of appeals and whether any further appeals will be lodged, arising from the latest Valuation.

3.28 The Government has provided funding to support local businesses most affected by the Valuation. The Council's proposed scheme for allocating this funding will be reported to the Committee in October for consideration.

3.29 The Council's share of the projected Fund deficit in 2017/18 (at 40%) is approximately £214k (£535k * 40%). An updated amount will be considered during the 2018/19 Budget Round.

HOUSING REVENUE ACCOUNT (HRA)

3.30 The Council is required to account separately for income and expenditure in providing Council Housing.

3.31 The approved HRA Budget for 2017/18 was set with an estimated deficit of £214,878, financed from the HRA General Reserve.

3.32 The position on the HRA as at June 2017 is summarised in the following table.

Summary HRA 2017/18	BUDGET £'000	PROJECTED £'000	VARIANCE £'000
Total Income	-12,883	-12,910	-27
Contribution to Capital & New Build	1,800	1,800	0
Contribution to Debt Repayment Reserve	3,550	3,550	0
Responsive & Planned Maintenance	3,244	3,244	0
Interest on Debt	1,777	1,777	0
Supervision & Management	1,785	1,753	-32
Supported Housing & Careline Services	830	818	-12
Provision for Bad Debts	44	44	0
Contingent Sums	68	68	0
Surplus (-) / Deficit	215	144	-71

3.33 The above table shows that overall the HRA is now projected to incur a deficit of approximately £144k which is £71k less than originally budgeted. The main variances are shown in the following table.

	£'000
Salary savings (vacancies, maternity etc.)	-75
Favourable Rental Income	-18
Leasehold Flat Insurance Income Unbudgeted	-8
Vehicle Hire	12
Agency and Consultancy Staff	18
TOTAL - OVERALL PROJECTED VARIANCE	-71

3.34 The main variances are due to vacant posts partially offset by agency and consultants to support services.

3.35 Rental income is forecast to be slightly higher than budget due to full occupation of new build and acquired properties which were originally budgeted to include some voids.

CAPITAL EXPENDITURE and FINANCING 2017/18

3.36 The Capital Programme for 2017/18 was approved by the Committee in February 2017. This has been updated following the budget out-turn in 2016/17 to reflect expenditure and funding carried forward from that year.

3.37 Progress in 2017/18 across the main projects and schemes in the updated programme is shown in the following table.

Capital Spending 2017/18 (as at June 2017)	Approved Budget £	B/fwd 2016/17 £	Updated Budget 2017/18 £	Expenditure to-date £
Council House Capital Works	1,800,000	0	1,800,000	394,968
New Build Schemes	0	0	0	0
Private Sector Housing Works	448,000	592,957	1,040,957	56,623
Environmental and Heritage Schemes	155,165	113,783	268,948	50,119
S106 Project	20,000	0	20,000	13,500
Swadlincote Woodlands Nature Reserve	37,000	0	37,000	0
Rosliston Forestry Centre - Play Project	130,000	0	130,000	0
Community Partnership Scheme	100,000	-24,075	75,925	0
Table Tennis Tables	0	1,730	1,730	1,900
Eureka Park	0	0	0	7,864
Town Hall Windows	0	13,600	13,600	14,820
Melbourne Leisure Centre	65,000	-28,000	37,000	25,943
Melbourne Sporting Partnership	0	0	0	658
Vehicle Replacements	1,521,203	0	1,521,203	35,994
Depot Relocation	1,061,000	0	1,061,000	237,504
Property Maintenance, Development and Refurbishment	204,198	39,230	243,428	576
Total	5,541,566	709,225	6,250,791	840,469

Council House Capital Works and New Build Schemes

- 3.38 Major improvements works are set to be on budget by year-end.
- 3.39 The final New Build project at Lullington Road is still in the early stages and has a funding agreement in place with the Housing and Communities Agency. This project is to be picked up by the new Strategic Housing Manager over the coming months.

Private Sector Housing Works

- 3.40 The funding in place for Disabled Facilities has increased and there are works in the pipeline that can be completed within the allocated funds. Strategic Housing and Housing Operations are currently reviewing options and will update Members once clear proposals are evaluated to spend any residual balance.

Environmental and Heritage Schemes

- 3.41 This relates to the Swadlincote Town Centre Scheme following the award of funding in 2016/17.
- 3.42 The scheme is progressing well with a number of the grant projects being undertaken over the summer months. It is anticipated that the full budget of £269k will be utilised during the year.

Leisure and Community Schemes

- 3.43 Matched funding is still required for the Swadlincote Woodlands Nature Reserve project so this is not yet underway.
- 3.44 The Rosliston Play Project is to be conjoined with the new contract at Rosliston Forestry Centre which is currently out to tender. There will not be any spend during this financial year and so this budget will need to be carried forward into 2018/19.
- 3.45 Eureka Park capital project is now complete with final funding to be claimed from the HLF.
- 3.46 New windows for the Town Hall have been funded through revenue contributions and earmarked reserves alongside funding from the Swadlincote Heritage Town Centre Scheme.

Vehicle Replacements

- 3.47 No replacements have been made to-date, although a procurement exercise to replace a large proportion of the current fleet is now in progress.

Relocation of the Council Depot

- 3.48 The project is progressing as planned and the refurbishment works at the new site should be completed in September. Some additional items have been identified although the costs to-date have been contained within the contingency for provisional items.

Housing Capital Receipts

3.49 There have been 4 council house sales up to 30th June 2017 as shown in the following table. The net amount retained of £93,547 has been transferred to the New Build Reserve.

	Sales	Gross Receipts £	Less Pooled £	Retained £	% Retained
Quarter 1	4	117,800	-24,253	93,547	79%

3.50 There have been a further 3 sales since June making a total of 7 to-date in 2017/18.

General Capital Receipts

3.51 A receipt of £1m was received, as expected, in April 2017 from the final tranche of land sold as part of the development of William Nadin Way. This had previously been earmarked to partly finance the relocation of the Depot.

3.52 In addition, a sum of £650,000 has been received regarding an overage payment from the redevelopment of Chestnut Avenue, Midway. This amount has not yet been committed to any capital project or scheme.

TREASURY MANAGEMENT

3.53 An analysis of the Council's borrowing and bank deposits is summarised in the tables which follow below. These show the position at 30th June 2017.

3.54 Debt outstanding is split between the HRA and the General Fund and this represents the "two pool" approach adopted for debt management.

	As at 1/4/17 £'000	As at 30/6/17 £'000
Housing Revenue Account		
Debt Outstanding (Average Rate 2.7%)	57,423	57,423
Capital Financing Requirement (CFR)	61,584	61,584
Statutory Debt Cap	66,853	66,853
Borrowing Capacity (Cap Less Debt o/s)	9,430	9,430

	As at 1/4/17 £'000	As at 30/6/17 £'000
General Fund		
Debt Outstanding	0	0
Capital Financing Requirement (CFR)	5,999	5,999
Borrowing Capacity (CFR Less Debt o/s)	5,999	5,999

	As at 1/4/17 £'000	As at 30/6/17 £'000
Temporary Deposits and Short Term Borrowing		
Temporary Bank and other Deposits	10,000	18,000
Less Parish Council Deposits	-28	-28
Total - Short-term Cash Position	9,972	17,972

Average Interest Rate on Deposits	0.25%	0.23%
Average 7-Day Money Market Rate	0.36%	0.26%

Short-term Deposits

3.55 The money on deposit of £18m was spread over 9 deposits, 7 with other local authorities and 2 with the Government's Debt Management Office. The totals together with the average interest rate are shown in the following table.

	As at 1/4/17		As at 30/6/17	
	£'000	%	£'000	%
Debt Management Office (DMO)	0	0.00%	3,000	0.10%
Other Local Authorities	10,000	0.38%	15,000	0.44%

3.56 Money on deposit with other local authorities tends to be for longer periods of up to 364 days. Deposits with the DMO are for shorter periods to manage cash flow.

Lending Policy and Counterparty List

3.57 The Committee agreed an updated list and associated lending policy as part of the Treasury Management Strategy for 2017/18 in February. Due to the planned restructuring of the UK banking sector (this is detailed later in the report) the Council's Treasury Advisors have recommended that the length of unsecured deposits with some named banks are reduced from 1 year to 6 months.

3.58 As regards the Council's Counterparty List, this potentially affects deposits with HSBC, Lloyds Bank and the Bank of Scotland. As the Council only uses instant access accounts and not fixed term facilities with these specific banks, there is unlikely to be any effect on policy and operations.

3.59 However, it is recommended that the advice of the Treasury Advisors is implemented and the updated Counterparty List is shown in **Appendix 2**.

Financial Markets - Update

3.60 Following the UK General Election in June, there has been no significant impact on the direction of the current UK economy. Negotiations for the UK to exit the EU have commenced and although this has created some uncertainty, the financial markets have not changed significantly.

3.61 Although the value of Sterling against the Euro and American Dollar has increased in recent months it continues to fluctuate and is much lower than a year ago following the result of the EU Referendum which has led to the so-called "Brexit".

3.62 The main issue is the rate of inflation which continues to rise due to the weakening of Sterling. This has generally increased the price of imports which has affected fuel (offset by a fall in the price per barrel) and certain food stuffs in particular.

3.63 Although the current rate of unemployment is at historically low levels nationally (4.4%) the average rate of pay increase continues to be lower than current rates of inflation. The average rate of pay increases as at July 2017 was 2.1%, which is below the rate of inflation as shown in the following table.

Inflation Measure	As at October 2016	As at May 2017	As at July 2017
Retail Price Index (RPI)	2.0%	3.7%	3.6%
Consumer Price Index (CPI)	0.9%	2.9%	2.6%
CPI + Housing (CPIH) – <i>see note</i>	1.3%	2.7%	2.6%

The CPIH is an additional measure of inflation which includes the cost of owner occupied housing. This is now the most favored and up-to-date method of measuring inflation.

- 3.64 The above table shows how inflation rose quickly between October 2016 and May 2017, although it fell back in July 2017. The Bank of England's Monetary Policy Committee (MPC) has resisted any increase in the Bank Base Rate from 0.25% as a means of curbing inflation.
- 3.65 The MPC have been mindful of the slow growth in the economy as measured by the Gross Domestic Product (GDP) which was 0.2% for the first quarter of 2017 and is expected to be 0.3% in the second quarter. However, if inflation continues to rise, then the MPC may have to review their Policy.

Potential Effects on the Council's Financial Position

- 3.66 The effect of rising prices on the Council is the impact on the cost of fuel and utilities. To mitigate the effect, the Council has contract arrangements in place for the purchase of fuel and uses an energy broker for utilities. The MTFP also includes provision for price increases.
- 3.67 In addition, increasing inflation could impact on the cost of wages, although the Government is resisting calls to remove the 1% cap on increases for public sector workers.
- 3.68 The main impact of an increase in interest rates is that it would increase the yield on deposits. Although much of the HRA debt is at fixed rates, £10m is at variable rate. This rate is currently at 0.43% with an allowance in the MTFP for it to increase to 2.5% in 2017/18 and 3% per year thereafter. Based on market analysis, the Council's Treasury Advisors do not consider that interest rates will rise to this level in the medium-term.

UK Bank Restructuring

- 3.69 Following global financial events in recent years, the Independent Commission on Banking published proposals to reform the structure of banking in the UK, by separating retail and investment banking activities through "ring-fencing". This will require large UK banks to separate their core retail banking activity from the rest of their business.
- 3.70 The aim is to protect the retail banking sector from unrelated risks originating elsewhere in the banking group. The Government has subsequently legislated to bring these changes about. The statutory deadline for implementation is 1st January 2019.
- 3.71 Activities which fall outside of retail banking must be ring-fenced in an "investment bank". Beyond the legislative requirements, banks will have a degree of flexibility when deciding how to treat some activities, including accepting deposits from local authorities.
- 3.72 Until banks' new structures are finally determined and published, the different credit risks of the retail and investment banks cannot be known for certain.

3.73 However, it is likely that the retail bank will undertake less risky activities and hold more capital than the investment bank, depending on the number of depositors within the retail bank. Overall however, it is anticipated that the retail bank will have a higher credit rating and be at less risk to a “bail-in” compared to the investment arm.

Barclays Bank

3.74 As the Council’s bankers, Barclays are affected by these changes. During May 2017, they informed the Council that they will satisfy the regulations by setting up a new “ring-fenced” bank (Barclays UK) in the first half of 2018, which will be separate from Barclays Bank PLC.

3.75 The new ring-fenced bank will effectively be the retail arm, whilst the PLC will become the international and investment bank offering existing services to its larger corporate customers with an annual turnover greater than £6.5m. This will include the Council.

3.76 Potentially therefore, any deposits with Barclays will be in the riskier side of the business and the Council may therefore wish to review Barclays being on its Counterparty List, before 2019.

3.77 Currently, the Council has a reserve account facility with Barclays which it uses to transfer any internal balances on its current account. This will be kept under review with the Council’s Treasury Advisors.

3.78 Operationally, day-to-day banking will not be affected. Although no changes to account numbers are likely, it is likely to necessitate a change in the Council’s unique sort code. This will then have a knock-on effect to people who transact with the Council, for example, Council Tax payments.

3.79 The process and who funds the cost of undertaking this change, is still to be determined. Barclays are required to keep the Council updated as the process develops. Updates will be reported to the Committee over the next 12 months ahead of implementation.

Markets in Financial Instruments Directive (MIFID)

3.80 This is an EU directive due to be implemented from January 2018 and is designed to tighten regulation in financial markets. The existing directive allows local authorities to be classed as “*professional clients*” with wider market access, cheaper fees and potentially lower borrowing costs, compared to individuals and small businesses classed as “*retail clients*”.

3.81 The Directive will class all local authorities as retail clients, but with the ability to opt up to professional client status providing certain criteria is met. This criteria includes:

- A minimum investment balance (cash) of £10m.
- The person making investment decisions on behalf of the Council has at least one year’s experience of either providing or receiving financial services in a similar role, **OR** the Council has made 40 trades in the past year in similar investments to those for which services are to be provided.
- The Council’s staff is assessed as having the *expertise, experience and knowledge* to make investment decisions on behalf of the Council and understand the risks involved.

- The Council requests its Treasury Advisors to be treated as a professional client.

3.82 The LGA has been liaising with the Financial Conduct Authority (FCA) regarding concerns about potential costs, loss of value and restrictions on investment that could result from local authorities being reclassified. In response, the FCA have improved the opt-up process and in particular the minimum investment balance of £10m being reduced from an initial proposal of £15m.

Advice and Protection for Investors

3.83 Treasury Advisors to local authorities are not generally authorised by the FCA to serve retail clients. To do so, would increase costs in such areas as regulatory fees, staff training and administration, together with professional indemnity insurance.

3.84 This is because the EU Directive expects that local authorities will gain increased protection under a retail client basis similar to that afforded to individuals and small businesses. Advice for professional clients tends to be more generic, which is suited to their needs.

3.85 For retail clients, advisors would need to provide advice on specific day-to-day transactions and obtain certain information and carry out checks similar to that required for individuals. It is considered that this is impractical without incurring additional costs. It is also likely to increase the administration for local authorities.

3.86 Perhaps the main protection available to retail clients is the Financial Services Compensation Scheme, which reimburses certain losses up to £85,000 (deposits) and £50,000 (other investments). However, local authorities are excluded from this scheme unless they have an annual budget of less than £1/2m.

3.87 In addition, individuals and small businesses can gain support and raise matters with the Financial Ombudsman. However, the Ombudsman is not authorised to deal or receive complaints from local authorities. Therefore, it is being questioned whether local authorities will actually receive any further protection by being reclassified.

The Council's Position

3.88 The LGA are working with the FCA and representative organisations (CIPFA) in order to develop a standardised process for authorities to opt up.

3.89 Some takers of local authority deposits make it a condition that the local authority is a professional client. Together with the likelihood that there is very little added protection being reclassified as a retail client and that it could incur additional costs, it is recommended that the Council opts-up to professional status.

3.90 The Council's Treasury Advisors are currently reviewing their position as they are not authorised to serve retail clients. In doing so, they are consulting across their client base, which includes a large number of local authorities.

3.91 It is likely that the Council will meet the criteria for opting up. There is some uncertainty regarding the assessment of "*expertise, experience and knowledge*" and this is a matter that the LGA are pursuing nationally.

3.92 The position will be kept under review and the final outcome and recommendation will be reported to the Committee later in the year ahead of January 2018.

FINANCIAL and OTHER PERFORMANCE

- 3.93 In addition to the Corporate Plan, the Finance and Corporate Services Directorate also maintain a set of key performance indicators to monitor the progress of its services. These indicators, although more operational, also relate back to the main aims in the Corporate Plan and are contained in the Directorate's Service Plan.
- 3.94 The indicators are maintained to ensure that each service area meets its intended outcomes and is a measure of its success. Several of the indicators are governed by statute. The targets are based on current benchmarks and are designed to improve on previous year's performance.
- 3.95 The indicators for 2017/18, together with progress to June 2017, are detailed in **Appendix 3**. Two indicators are currently behind target, but they should be rectified over the remainder of the financial year.

Payments to Suppliers

- 3.96 Under the Public Contracts Regulations 2015, the Council is required to publish its speed in processing payments to suppliers. Under the Regulations, the Council should pay all undisputed invoices within 30-days of receipt.
- 3.97 Although there is no specific penalty if this regulation is not complied with, individual suppliers have the right, under Late Payments Legislation, to claim interest on late payments. The rate of interest is 8% above the prevailing Bank of England Base Rate (currently 0.25%).
- 3.98 Overall performance against this indicator is shown in Appendix 3. The Council's detailed performance in 2016/17, together with that to-date in 2017/18, is shown in the following tables.

	<u>No of Invoices</u>	<u>No. Paid in 30 Days</u>	<u>% Paid with 30 days</u>	<u>No. Paid in 10 Days</u>	<u>% Paid with 10 days</u>
Apr-16	435	429	98.62%	373	85.75%
May-16	379	370	97.63%	299	78.89%
Jun-16	582	544	93.47%	428	73.54%
Jul-16	457	446	97.59%	365	79.87%
Aug-16	566	553	97.70%	408	72.08%
Sep-16	482	476	98.76%	402	83.40%
Oct-16	411	405	98.54%	333	81.02%
Nov-16	597	588	98.49%	494	82.75%
Dec-16	336	332	98.81%	295	87.80%
Jan-17	446	432	96.86%	304	68.16%
Feb-17	424	406	95.75%	310	73.11%
Mar-17	556	535	96.22%	385	69.24%
Total	5671	5516	97.27%	4396	77.52%

	<u>No of Invoices</u>	<u>No. Paid in 30 Days</u>	<u>% Paid with 30 days</u>	<u>No. Paid in 10 Days</u>	<u>% Paid with 10 days</u>
Apr-17	326	317	97.24%	223	68.40%
May-17	448	429	95.76%	313	69.87%
Jun-17	409	380	92.91%	289	70.66%
Total	1183	1126	95.18%	825	69.74%

3.99 Standard benchmarks are 97.5% for all invoices to be paid within 30 days and 65% for 10-day payments. The Council did not receive any claims or make any payments for late interest in 2016/17 or to-date in 2017/18.

4.0 Financial Implications

4.1 As detailed in the report

5.0 Corporate Implications

5.1 None directly

6.0 Community Implications

6.1 None directly

7.0 Background Papers

7.1 None

APPENDIX 1

COLLECTION FUND MONITORING 2017/18 (as at 31st July 2017)

	Actual 2016/17	Estimated 2017/18	1st Qtr Projection 2017/18	Notes
COUNCIL TAX - INCOME & EXPENDITURE	£'000	£'000	£'000	
INCOME				
Council Tax Collectable	50,265	52,778	53,084	Estimated Increase in Tax Base and Precepts of 5%; projection per report Ct6140c
EXPENDITURE				
County Council Precept	36,109	38,345	38,345	As approved by Full Council 1st March 2017
Police and Crime Commissioner Precept	5,487	5,715	5,715	As above
Fire and Rescue Authority Precept	2,206	2,297	2,297	As above
SDDC Precept	4,747	4,942	4,942	As above
SDDC Parish Precepts	679	756	756	As above
Increase in Bad Debts Provision	655	396	398	Estimated at 0.75% of income
Total Expenditure	49,883	52,451	52,453	
Surplus for the Year	382	327	631	
COUNCIL TAX BALANCE				
Opening Balance 1st April	407	613	613	Per Final Accounts 2016/17
Share of Previous Surplus to County Council	-128	-367	-367	As approved by Full Council 1st March 2017
Share of Previous Surplus to Police	-20	-56	-56	As above
Share of Previous Surplus to Fire Authority	-8	-22	-22	As above
Share of Previous Surplus to SDDC	-20	-55	-55	As above
Surplus for Year (as above)	382	327	631	
Closing Balance as at 31st March	613	440	744	

BUSINESS RATES - INCOME & EXPENDITURE**INCOME**

Business Rates Collectable	23,787	24,805	25,578
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Estimate as per NNDR1 Submission; projection per report NR7050 (as at 31st July)

EXPENDITURE

Central Government Precept	11,767	12,402	12,402
SDDC Precept	9,414	9,922	9,922
Derbyshire County Council Precept	2,118	2,232	2,232
Fire and Rescue Service Precept	235	248	248
Cost of Collection	91	91	91
Transitional Protection Payments	15	15	15
Increase in Bad Debts Provision	226	236	243
Provision for Appeals	312	322	333
Total Expenditure	24,178	25,468	25,486

Per NNDR1 Submission

As above

As above

As above

As above

Nominal

Estimated at 0.95% of income

Estimated at 1.3% of income

Surplus / Deficit (-)

-391 -663 92

BUSINESS RATES BALANCE

Opening Balance 1st April	-400	-1,339	-1,339
Transfer of Previous Year's Surplus (-) / Deficit	-274	356	356
Transfer of Previous Year's Surplus (-) / Deficit	-49	285	285
Transfer of Previous Year's Surplus (-) / Deficit	-5	64	64
Transfer of Previous Year's Surplus (-) / Deficit	-220	7	7
Surplus / Deficit (-) for the Year as above	-391	-663	92
Closing Balance as at 31st March	-1,339	-1,290	-535

Per Final Accounts 2016/17

Per NNDR1 Submission

As above

As above

As above

COUNTERPARTY LIST 2017/18

(As at August 2017)

Institution	Limit	Maximum Term
<u>Specified Investments</u>		
<ul style="list-style-type: none"> UK Debt Management Office (DMO) 	£15m	364 Days
<ul style="list-style-type: none"> Local, Police, Fire and Parish Authorities 	£5m with any one Authority	364 Days
<i>Named Counterparties</i>		
<ul style="list-style-type: none"> HSBC 	£2m with any one Bank	6 months
<u>Non Specified Investments</u>		
<i>Named Counterparties</i>		
<ul style="list-style-type: none"> Lloyds Bank Bank of Scotland 	£2m with any one Bank	6 months
<ul style="list-style-type: none"> Close Brothers Santander UK / Abbey National Treasury Services 	£2m with any one Bank	6 months
<ul style="list-style-type: none"> Barclays Bank Goldman Sachs International 	£2m with any one Bank	100 days
<ul style="list-style-type: none"> Royal Bank of Scotland /National Westminster Bank 	£1m with any one Bank	35 days
<ul style="list-style-type: none"> Nationwide Building Society Coventry Building Society 	5% of total deposits	6 months
<ul style="list-style-type: none"> Leeds Building Society 	5% of total deposits	100 days
<i>Foreign Counterparties</i>		
<ul style="list-style-type: none"> AAA rated institutions (<i>subject to</i> 		1 month

Corporate Plan Aim	Measure	Annual target 2017/18	Progress as at June 2017
Maintain financial health	Deliver a balanced budget in accordance with the statutory timetable	Balanced budget agreed by the Council on 26 th February 2018	Not due until 2018
Maintain financial health	Produce regular budget monitoring information	Performance against budget reported to the Council on a quarterly basis	Completed
Maintain financial health	Through better procurement, generate budget savings directly or through supporting other services	Total cashable savings meet salary costs of £80,000	£32,000 to-date Heating Replacement and Servicing Contract for Council Housing (net of price and volume differentials)
Maintain financial health	Collection of Council Tax	In-year Collection Rate of at least 98%	30% in line with the profiled target
Maintain financial health	Collection of Business Rates	In-year Collection Rate of at least 98%	27.5%, which is above the profiled target of 27%
Maintain financial health	Arrears for Council Tax, Business Rates and Housing Benefit Overpayments	Reduction in the annual Provision for Bad Debts	Not due until 2018
Maintain financial health	Identification of Fraud	Value of fraud identified meets service costs of £35,000	£6,000 to-date identified and recovered from the Council Tax Support Scheme
Maintain financial health	Lettings of Industrial and Commercial Properties	Achieve 90% occupancy of all units and less than 10% of properties with rent arrears less than 3 months	66 out of 67 units occupied (98.5%) with no tenants having rent arrears greater than 3 months

Maintain financial health	Income from Land Searches	Service breaks-even	Due to additional income, the service is currently running at a surplus of £8,000.
Good Governance	Produce a draft set of Accounts and Financial Statements for Annual Audit and Inspection	30 th June 2017	Completed
Good Governance	Completion of Approved Internal Audit Plan and outcomes reported to the Audit Sub-Committee	At least 90% completed (<i>this is monitored by the Audit Sub-Committee</i>)	As at May 2017, 8% of the plan had been completed against a profiled target of 12%. Some one-off investigation work temporarily diverted resources during the first quarter. The shortfall should be made-up during the remainder of the year.
Customer Focus	Minimise downtime of IT	Downtime is less than 1% over the year	April 2017 - Nil May 2017 - 5% (cash machine software problem) June 2017 - 1% July 2017 - 2% (ID card system failure)
Customer Focus	Prompt payment of invoices for goods and services	97% of undisputed invoices paid within 30-days	Cumulatively, 95% paid to-date (1,126 invoices out of 1,183)
Customer Focus	Prompt payment of invoices for goods and services	65% paid within 10-days for local suppliers	70% - 825 invoices
Customer Focus	Freedom of Information requests answered within the statutory time limit	98% of requests satisfactorily answered with 20-days	6 month report due in December 2017