

EXECUTIVE

LEADER: Cllr Jeremy Christophers

PORTFOLIO HOLDER: Cllr Stuart Barker

DATE: 4 December 2018

REPORT OF: Chief Finance Officer

SUBJECT: BUDGET MONITORING – REVENUE & CAPITAL,
TREASURY MANAGEMENT LENDING LIST

PART I

RECOMMENDATIONS

The Executive is recommended to

Resolve

- (a) To approve the revenue budget variations as shown at appendix 1.
- (b) To approve the updated capital programme as shown at appendix 2.
- (c) To note the updated lending list as shown at appendix 3

The Executive recommends to Council

- (a) To note the mid-year review of treasury management at appendix 4

1. PURPOSE

- To identify the principal areas where there are likely to be departures from the approved 2018/19 budget and summarise the likely overall variation based on the information available to the end of October 2018. Also to inform Members of progress that has been made with achieving savings and efficiencies. All shown at Appendix 1.
- To update Members on progress with the capital programme and funding and bring the latest details for members' approval as shown in Appendix 2.
- To update Members on the lending list for treasury management purposes as shown in Appendix 3.
- To bring the mid-year treasury management review for information as shown at appendix 4.

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2. SUMMARY

- 2.1 Opening general reserves for the year are £1.9 million plus earmarked reserves of nearly £4.6 million for specific grants, contributions and carry forwards. The 2017/18 external audit is complete and no changes were made to the Teignbridge figures. There is a deficit of £16,370 forecast for 2018/19 arising from variations to the original budget.
- 2.2 A summary of revenue budget variations by service identified to date for the current year is shown below with favourable variations indicated by a minus sign as per the details shown in Appendix 1.

Service	Variance £
Development management	71,700
Corporate services	-44,300
Economy & assets	-24,750
Environment	37,350
Leisure	4,280
General	-27,910
TOTAL ADVERSE BUDGET VARIATION TO DATE	16,370

- 2.3 A contribution to capital of £0.55 million is assumed in the current year enabled through new homes bonus receipts but these reduce in later years. A further £0.36 million is anticipated towards specific IT, economic development and car parking schemes. Estimated rates retention above the baseline and pooling gain is assumed to grow until the end of 2019/20 however a reset of the baseline is due in 2020/21 which could eliminate a significant element of the gains made. The business rates retention reserve holds £1 million to assist with this eventuality in 2020/21. Likely shortfalls for future years after 2020/21 will need to be addressed as part of the budget setting and monitoring process this year and next year. The revenue contributions to capital reserve now holds £3.0 million towards current year and future years' capital projects.

3. BACKGROUND

- 3.1 A report on the variations to the 2018/19 budget as identified at the end of August was brought to members on 2 October 2018. At that time an updated capital programme was also approved and updated lending list noted. The external auditors are currently checking the £33 million housing benefits claim in time to certify it by the deadline of 30 November. Their findings will be reported to the next Audit Scrutiny Committee.

4. VARIATIONS BY SERVICE (revenue shown in appendix 1 and capital in appendix 2)

4.1 Building control

- At the end of October fee income is forecast to be 11% higher than the target budget of £361,000. Any surplus/shortfall at the year end will be charged to the building control reserve so will not affect Teignbridge's general reserve. Income received to date is also up on that at the same time last year.

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- Teignbridge became the Lead Authority fully hosting The Devon Building Control Partnership with South Hams and West Devon councils from 1 April 2017 and holds the partnership earmarked reserves on behalf of the partners.

4.2 Development management including land charges

- At the end of October planning application income is forecast to be £55,700 down on the original budget of £900,000 and significantly up on last year. Planning application numbers are 1% down at the end of October as compared with last year.
- The Executive of 30 May 2017 agreed the introduction of charges for pre-application planning advice from 1 July. At the end of October we were £9,000 up compared to the estimated income of £26,000 for the year.
- Planning public enquiry costs are likely to be in the region of £25,000 this year
- Land charges income is forecast to be marginally below the projected budget of £211,000. The number of searches is 9% down on last year. A search can be a full or part search or individual questions.

4.3 Corporate leadership team & corporate services

The corporate leadership team is currently under review. The deputy chief executive has been appointed head of paid service with a job title of Managing Director. The remaining Business Lead has ceased employment with the Council and an interim Strategic Leadership team is in place until a permanent restructure is confirmed and approved. It is anticipated that a new permanent structure can deliver significant savings for the council.

Democratic services

Portfolio holder decision 14 - 2018 was approved on 16 August to contribute just over £10,000 to the County Council elector fund. This has to come from reserves as it was unknown at the time of the budget whether county would be continuing with the scheme.

Finance

- Net interest is forecast to be up £64,700 on the base net income budget of £31,700 as we have not had to undertake long term borrowing. Base rates increased from 0.5% to 0.75% in August. Call account rates continue to be low because of the changes to bank regulations over the past few years. Our average lending rate to the end of September is 0.61% which is well above the average benchmark 7 day London Interbank Bid rate of 0.52% in the same period.

In April we arranged lending of -

£1 million to Close Brothers at 1.00% for 346 days to 15 March 2019

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£8 million to the Debt Management Office at 0.25% for 4 days to 20 April 2018
and we had £8.3 million lent out or in call accounts at the end of the month.

In May we arranged lending of -

£1 million to Nottingham BS at 0.55% for 87 days to 10 August 2018
£1 million to Coventry BS at 0.70% for 178 days to 9 November 2018
£1 million to the Debt Management Office at 0.25% for 6 days to 21 May 2018

and we had £5.5 million lent out or in call accounts at the end of the month.

In June we arranged lending of -

£1 million to the Debt Management Office at 0.25% for 4 days to 19 June 2018
and we had £12.9 million lent out or in call accounts at the end of the month.

In July we arranged lending of –

£1 million to the Debt Management Office at 0.25% for 2 days to 4 July 2018
£2 million to the Debt Management Office at 0.25% for 3 days to 19 July 2018
£1 million to Nationwide BS at 0.71% for 252 days to 25 March 2019
£1 million to Nationwide BS at 0.69% for 179 days to 11 January 2019

and we had £14.4 million lent out or in call accounts at the end of the month.

In August we arranged lending of –

£3 million to the Debt Management Office at 0.45% for 8 days to 9 August 2018
£1 million to Santander at 0.90% for 216 days to 19 March 2019
£2 million to the Debt Management Office at 0.5% for 5 days to 20 August 2018

and we had £15.0 million lent out or in call accounts at the end of the month.

In September we arranged lending of –

£1 million to the Debt Management Office at 0.5% for 14 days to 17 September 2018
£1 million to Thorrock Council at 0.9% for 193 days to 15 March 2019
£1 million to the Debt Management Office at 0.5% for 1 day to 7 September 2018
£1 million to the Debt Management Office at 0.5% for 10 days to 17 September 2018

and we had £11.8 million lent out or in call accounts at the end of the month.

In October we arranged lending of –

£1,000,000 to Santander at 0.85% for 163 days to 14 March 2019
£5,000,000 to the Debt Management Office at 0.5% for 7 days to 22 October 2019

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and we had £12.0 million lent out or in call accounts at the end of the month.

- Municipal Mutual Insurance (MMI) provided insurance for the Council until early 1993 when policies were transferred to Zurich Municipal. MMI experienced financial difficulties in 1992 and a scheme of arrangement was agreed by local authority creditors to facilitate the solvent run-off of the company. The scheme has been triggered and we have to pay a percentage of our potential liability of £341,000.

In 2013/14 a provision was made for the first levy notice of 15% or £51,000 which the administrator issued in April 2013 and was billed and paid early in 2014. A further reserve of 35% or £119,000 for likely claims in future years was also set up. Together these allowed for a total 50% of the potential liability as recommended by the broker. MMI's accounts to 30 June 2015 were published and we paid a second levy of 10% or £34,000 in April 2016.

We were not required to pay any more after publication of the accounts to 30 June 2017 and 2018. We still have £85,000 in reserve for the potential remaining 25%.

- **Human resources, legal and procurement**

The additional costs of providing GDPR officer support have been investigated. An interim arrangement is being implemented using officers within Internal Audit and back funding audit work with the Devon Audit Partnership. This is likely to be in the region of £15,000 per annum.

4.4 Economy & assets

- Repairs and maintenance are on target to be within the budget of £871,000. Actual spend to the end of October is £415,000.
- General rental income has seen some adverse variances due to renewed leases but some favourable variations offset this resulting in an overall adverse variance of £32,000. Market income is forecast to be down by £13,000. These variations are minor compared to the total property income budget of £2.7 million.
- There is a favourable variation in car parking income of £70,000 compared with the original budget of £3.5 million. The increase is due to higher visitor numbers and good weather experienced over the Summer.

Capital

- Council of 6 June 2016 resolved to commit funding to the Superfast Broadband Connecting Devon and Somerset phase 2 programme. An investment of £250,000 financed from capital receipts was confirmed and the collaboration agreement signed. This is now anticipated to be paid in 2019/20.

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- The Forde House refurbishment works to relocate internal departments and accommodate the Department for Works and Pensions were completed within budget.
- The £2.1 million glass canopy and fascia redevelopment works at Market Walk were recently unveiled and progress continues on the remaining works.
- The £220,000 resurfacing and drainage works at Dawlish Warren car park, funded from capital receipts and revenue contribution have reached practical completion.
- Following Council on 25 April 2018, the Minerva Building on the Brunel Industrial Estate was purchased for £2 million plus £125,000 costs. Further works totalling £1.75 million are anticipated prior to the building being leased. Funding for this project is a combination of grant and prudential borrowing. To date, no long-term external borrowing has been required.
- At Executive on 4 September consideration was given to the alternative uses for the Brunswick Street site in Teignmouth including the ongoing provision of car parking. Resolutions in relation to the site will be brought to Full Council in due course.

Capital - coastal & drainage

The current year's programme is fully funded by budgeted grants of £1.7 million from the Environment Agency for regional coastal monitoring and flood alleviation and prevention. Of this £770,000 was received in the previous year, £402,000 has been received to date in 2018/19, with the remainder anticipated in the current financial year. Teignmouth sea defence wall construction works at the Point car park were completed in 2017/18.

4.5 Environment

- A waste savings sharing agreement with county was approved last year. An extra £26,000 is expected to be received this year and further contributions in future years which will cover the costs of implementing and on-going costs of extra waste and recycling rounds.
- Executive approved the adjustment to wage rates for waste on 30 October 2018. This will cost just under £9,000 this year but will amount to in excess of £90,000 for a full year after identified savings. Further savings will be explored as part of the annual budget process.
- The rural skip service is likely to continue to cost an extra £29,000 this year due to increases in contractors costs to deliver the service.

4.6 Housing

- Teignbridge has been allocated a flexible homelessness support grant of nearly £186,000 for the current year with just over £266,000 next year. This is to fund additional costs due to changes in homelessness legislation in 2017. Current rent

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support, young persons homeless prevention and money advice services continue. Also extra and improved staffing resources will be required long term to prevent and deal with homelessness and these will be funded by the grant.

- Teignbridge was also allocated a significant community housing fund grant of just over £581,000 towards the end of 2016/17. This is to enable local people to play a leading and lasting role in solving housing problems, creating genuinely affordable homes and strong communities in ways that are difficult to achieve through mainstream housing. Funds have been allocated to staffing and project costs and grant funding for communities. This allows communities to bid for funds towards community engagement, technical support and capital costs.

- **Capital**

We received £1.193 million of the government Better Care capital funding for 2018/19 towards statutory disabled facilities and other discretionary grants in July via Devon County Council. We also have £513,000 carried over from last year giving a total £1.706 million for the current year. £700,000 is now anticipated and budgeted each year for right to buy receipts towards the affordable housing programme. We received £630,000 for last year in April 2018 and were due £173,000 for 2018/19 as at 11 September. No previously paid renovation grants over the capital receipts de minimus of £10,000 have so far been recovered by Teignbridge this year. £27,000 of smaller repayments have been received in revenue.

4.7 Leisure

- Leisure has experienced growth in their membership income for a number of years. Actual numbers are slightly up on last year with a favourable variation of £10,000.
- Swimming lesson income is predicted to be down by £14,000 by the end of the year.
- There is a predicted staff saving in year of around £40,000. These savings have been used as part of the corporate vacancy management target of £200,000.
- We currently have £9.5 million available in S106 receipts to date. These are over many services and parishes but the majority is for leisure including open spaces, sports provision and play

4.8 Licensing

Licensing income looks to be on target to achieve the budget of £202,210. Income to date is slightly less than last year.

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4.9 Revenue & benefits plus customer services

- Universal Credit started for Teignbridge from 9 November 2015 for new single job seekers with the full service rolling out from September 2018. There has been some help from the department for work and pensions in connection with the transition but the specific funding received this year is relatively low at £24,682.
- The impact of Universal Credit is likely to make collection of housing benefit overpayments more difficult. There will be a greater number which will need to be recovered via a sundry debtor account rather than recovering from ongoing benefit as a gradual switchover of cases arises. This may impact on our bad debt provision going forward. These numbers will be monitored and adjustments made as evidence comes forward as part of our budgeting for the medium term financial plan.

4.10 Spatial planning

We received the first payments of community infrastructure levy (CIL) in 2015/16. The money is being coded by town/parish and any payments due to them are made half-yearly. Teignbridge has recognised £5.6 million of usable CIL to date after payments due to parishes. £2.8 million has been spent on infrastructure, with the remainder committed to existing approved projects including Suitable Alternative Natural Green Space (SANGS), green infrastructure and provisions for local transport, education and sports. As CIL may be paid in instalments, the actual cash balance after parish payments and expenditure is £0.5 million.

Capital

- Council approved the purchase of land at Dawlish on 4 July 2016 and following instatement works, the 65 acre countryside park was opened to the public on 3 September 2017. At Council on 25 September 2017, the acquisition of approximately 38 hectares of land at South West Exeter for the creation of SANGS was approved, which is likely to occur in phases. At Council on 2 October 2018, funding was approved for the establishment and ongoing maintenance of the South West Exeter SANGS.
- Council of 26 September 2016 approved that Teignbridge becomes a shareholder of the public sector Energy Services Company. This will involve providing up to £98,000 of revenue support towards procurement from an identified revenue carry forward. In the longer term capital investment of up to £177,000 is expected into the Joint Venture Company, currently anticipated in 2019/20 with net revenue returns expected from 2034/35.

4.11 General revenue

- Council tax support cost continues to go down and was just under £8.85 million at the end of October which is £334,000 below the original estimate of £9.2 million. Council tax support falls directly to Teignbridge including parishes (12.6% together), county, fire and police and is being monitored monthly.

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- Our business rateable value (RV) has increased slightly and stands at just over £85.1 million. The number of assessed businesses has increased from 5,294 to 5,303. These are the end of October 2018 figures as compared to the beginning of the current year. We still seem to be on target to achieve the total budget of £5.5 million business rates retention income for the year (including rolled in RSG). We are also producing more regular monitoring reports of our business rates income and reliefs to identify any variations on the predicted additional income as a result of being a business rate pilot for 2018/19.

4.12 General savings progress

- Following Executive of 22 July 2014, Council approved on 31 July 2014 the implementation of a shared ICT service between Exeter, Teignbridge and East Devon district councils. This is through a stand-alone limited company called Strata Service Solutions Ltd which was launched on 1 November.

The current year budget included a savings target of £90,000. This is expected to be at least £104,000 this year thus a favourable variance of £14,000 per annum.

- Salary vacancy savings at the end of October look to be in line with the required budget target of £200,000. We will continue to work towards this target. The changes in the management structure, departures and interim arrangements for the strategic leadership team and other staffing adjustments result in an adverse variance in 2018/19 £103,000. This is after allowing for the full costs of the pay award. There is a requirement to pay holiday pay on overtime and this will cost at least £18,000 this year and ongoing. We had already provided £17,000 in the current year for this. It is anticipated there will be significant ongoing savings in future years.
- Utility costs for gas, electricity and water are showing a small favourable variance of £23,000 as at the end of October. It is predicted this saving will be ongoing.
- The latest BEST 2020 review is being finalized in conjunction with the review of service business plans and any identified savings will be fed into the annual budget process.
- We have received confirmation that the grant received from Government in relation to council tax annex discounts is payable to the general fund. This amounts to £39,000 per annum.

4.13 Future years

- Council tax has been closed down and balanced for 2017/18 and a surplus of £1 million is available for sharing with county, fire and police in 2019/20. This has arisen mainly because of the reduction in council tax support. Teignbridge will get £126,000.
- The number of dwellings in Teignbridge on the valuation list is monitored monthly and the data feeds into the new homes bonus (NHB) calculation. At 10 September there were 62,406 dwellings which is 751 more towards the next NHB

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payment for 2019/20. We are therefore 131 above the target estimated 620 growth in homes. We have also reduced the number of empty homes by the 1 October deadline. The reduction was 23 over the same time last year. It is expected that government will amend the 0.4% baseline deduction as they have intimated such changes are likely in the forthcoming provisional settlement. It is not known at this stage what this will mean. As growth is around 1.2% that means new homes bonus is reduced by one third plus whatever changes are stated later in the year.

- Consultation has taken place on future funding settlements. The New Homes Bonus baseline is anticipated to change as highlighted above and it is proposed to abolish New Homes Bonus from the end of 2019/20 and replace with an alternative form of housing delivery funding in 2020/21. This is significant for the Council as we receive over £2 million from this source of income. No details of the proposed changes are available at present. Business rates baseline funding will be reset in 2020/21. It had been considered likely that we will lose the majority of the business rate growth retention income we have received in recent years as a result of this reset. These losses will be significant for future budget setting and financial planning. We have recently been notified that the Local Government Funding Reform Steering Group are now favouring a partial or phased reset which, if followed through will be better news for us as it will mean less of our growth is taken away in 2020/21. We hold £1 million in the business rates earmarked reserve to help cushion the impact of any initial losses of income as a result of the baseline reset. Bids can be made to become a business rate pilot for 2019/20. The Devon pilot group has submitted a bid for 2019/20 however the Government have stated that they will need fewer pilots next year.
- The impact of the eventual Brexit deal between the UK and the EU is still unknown. Therefore drawing any conclusions about its impact for local government is not possible at this stage. We will continue to monitor any information we receive in relation to the draft deal which requires Parliamentary approval as part of our risk and financial management.
- The Chancellor presented his Autumn Budget 2018 statement on 29 October. The statement suggested no further significant cuts in funding however the changes already highlighted in this report in respect of business rates and New Homes Bonus are still to be clarified. The Budget statement provided some help for small businesses by reducing their business rates payable by one third together with a mandatory relief for public conveniences business rates which will be fully funded by grant. Savings will be costed into future budget planning. The statement also offered funding pots for which bids could be made towards housing, disabled facilities grants and future high street funding. Specific detail on the impact of our core funding for next years budget setting process will be provided in the provisional settlement which is due to be announced on 6 December.
- The medium term financial plan currently assumes a £5 council tax increase for 2019/20 and thereafter. A shortfall of £71,680 is currently estimated for that year from the original budget papers in February 2018. The current variations above suggest there will be savings of £104,880 to eliminate this deficit. Further work will be carried out to review other pressures – mainly in relation to the changes to

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New Homes Bonus and business rates baseline highlighted above as we progress the initial budget proposals for 2019/20, 2020/21 and 2021/22. Savings will need to be worked up and identified to offset the likely significant reductions in funding from Government in 2020/21 and thereafter through Business Plans and the BEST2020 process.

- The draft council tax base has been estimated for next year. This shows a volume increase of 1.3% for council tax income. These figures will be fed into the initial budget proposals for 2019/20 to be considered at Executive on 8 January 2019.

5. TREASURY MANAGEMENT

5.1 Lending list (appendix 3)

The authorised treasury management list was approved at the 2018 February budget meeting and updated at Executive on 17 July and 2 October. There have been no changes since then to the tiered ratings for UK banks and building societies.

The previous Standard Life sterling liquidity fund (money market fund) merged on 5 October 2018 into the Aberdeen Liquidity Fund under Aberdeen Standard Investments. This follows the merger between Standard Life plc and Aberdeen Asset Management in August 2017. The new fund operates on the same instant access principles as the Standard Life fund and has the same AAmmf rating. It is larger in size and scale than the previous fund. This continues to provide a good match with the Council's treasury management strategy.

5.2 Mid year review

The mid year review of performance which is required to be noted by Council is attached as appendix 4. This shows good returns of 0.61% being in excess of the benchmark London interbank bid rate of 0.52%. Interest earned to the end of September is £40,472, more than last year due to higher interest rates. The forecast for the year is £96,450, an increase of £56,610 compared to 2017/18. This reflects the base rate rise on 2 August 2018 to 0.75% and to a lesser extent, an increase in funds available for lending out.

6. MAIN IMPLICATION

The main implication members need to be aware of is as follows:

Resources

The report notes an overall adverse revenue variation of £16,370 identified this year to the end of October. Cash flow is forecast to be positive over the next twelve months apart from any borrowing for significant new projects. Revenue

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reserves are considered to be sufficient to sustain the council over the three year financial plan period. Capital is funded over the medium term.

7. TIME-SCALE

This report covers the year 2018/19 but also refers to the accounts for 2017/18 and the financial plan for 2018/19 to 2020/21.

8. JUSTIFICATION

Regular budget monitoring is required by the Council's Constitution and Financial Rules.

9. DATE OF IMPLEMENTATION (CONFIRMATION OF DECISION SUBJECT TO CALL-IN)

10.00 a.m. on 11 December 2018

Martin Flitcroft
Chief Finance Officer
Interim Head of Corporate Services

Wards affected	All
Contact for more information	Martin Flitcroft 01626 215246 or Claire Moors 01626 215242
Background Papers (For Part I reports only)	Current year budget monitoring files; Capital files; Latest year end files;
Key Decision	Yes
In Forward Plan	Yes
In O&S Work Programme	No
Appendices	App 1 – Revenue variations App 2 – Capital programme App 3 – Treasury management lending list App 4 - Treasury management mid year review