REPORT TO	ON
Governance Committee	**31st January 2018**

September 2017

SOUTH RIBBLE BOROUGH COUNCIL forward with South Ribble

TITLE	REPORT OF
Budget Projected Out-turn Statement as at 31 December 2017	**Deputy s151 Officer**

Is this report confidential?	No

1. PURPOSE OF THE REPORT

This report provides an update at the third quarter on the Council's overall financial position and a forecast of the projected outturn to 31st March 2018 and compares this to the budget approved back in February 2017.

2. RECOMMENDATIONS

That the Governance Committee note, review and comment on the report.

3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	√

4. BACKGROUND TO THE REPORT

The approved revenue budget set by the Council in February 2017 was £13.182m, with a budgeted transfer from general balances of £0.300m. This report compares the 2017/18 Original Budget to the forecast Projected Out-turn.

5. DETAILS

5.1 Revenue Summary

The table overleaf summarises the key revenue budget variations which have been identified at Quarter 3 which are expected will impact on the outturn position at 31 March 2018.

The Projected Outturn forecast at quarter 3 in respect of the full year 2017/18 is an underspending of £279,000. There are a number of factors that have impacted on the Council's financial performance when compared against the original budget set last year in February 2017. The main variation however, is that a greater value of planning application income was received in the year to December, and is forecast for the remainder of the year, than was originally forecast.

Summary of Projected Revenue Outturn Variations:

Details	Directorate	Projected Outturn Variances Under / (Over) spend	
Expenditure		**£000**	**£000**
Salaries underspends	All		(49)
Professional fees (Planning)	Development, Enterprise & Communities		35
Property Lease (backdated increase)	Neighbourhoods, Asset Man. & Environmental Health		56
Business rates costs reduction	Neighbourhoods, Asset Man. & Environmental Health		(27)
Sub Total - Expenditure			**15**
Income			
Planning fees	Development, Enterprise & Communities		(180)
Building Control Fees	Development, Enterprise & Communities		(20)
Short-term Investment Interest	Financing and Investment		(50)
Car Parking/PCN charges	Neighbourhoods, Asset Man. & Environmental Health		(50)
External Catering	Neighbourhoods, Asset Man. & Environmental Health		(29)
Investment Property income	Neighbourhoods, Asset Man. & Environmental Health		42
Sub Total - Income			**(287)**
Other Minor Variations			**(7)**
Business Rates Retention – s31 grant	Taxation and Non-Specific Grants	(222)	
Transfer to Business Rate Retention Equalisation Reserve	Earmarked and General Reserves	222	0
Projected Out-turn Budget Variation - underspend			**(279)**

5.2 <u>Revenue Expenditure</u>

5.2.1 Staffing
The revenue budget approved in the Medium Term Financial Strategy included an efficiency target of £261,000 in relation to: staff turnover (£100,000); and business transformation within the Neighbourhoods, Environmental Health and Revenues and Benefits services (£161,000). These targets have been achieved, in fact there is an additional overall saving of £49,000 forecast in respect of staffing budgets. This current forecast may of course vary as it is based on assumptions in relation to staff turnover during the final quarter of the year. Of the £261,000 saving, however, only £161,000 is on a recurring basis with the remainder met from staffing savings through vacancies, general turnover and reduced hours. Redundancy costs in relation to the two Directors who left the authority in December have been funded from the Earmarked reserve for one-off restructure costs.

5.2.2 Professional fees
The Council has incurred significant professional fee costs in relation to the Cuerden Development site and therefore the revised 2017/18 budget has been uplifted to reflect the forecast outturn cost.

5.2.3 Property Lease

The variation relates to an increase in the rent in relation to the lease of a property on Forward Industrial Estate following a rent review. As the increase was backdated there is a one-off charge in 2017/18 and the ongoing annual increase in rental is £9,000.

5.2.4 Business rates costs reduction
There is an annual budget provision for business rates on empty Council properties which has been reduced due to more properties being occupied. This budget is monitored closely with the investment property rental income budget as there is a direct correlation between the two.

5.3 Revenue income

With regard to managing risk in the budget management process, the main income streams are reported in detail as these budget heads are subject to variations caused by circumstances outside the direct control of the Council. At this stage in the year some of the Council's main income streams, such as planning fees, are performing extremely well and have in some cases exceeded the levels anticipated. These variations are reflected in the projected out-turn forecasts.

The table below provides a summary of the Council's main income streams:

Income Budgets	Annual Budget 2017/18 £	Income to 31 Dec 2017 £	Projected Outturn 2017/18 £	Variance (Over) / Under budget £
Investment Property Rentals	(1,122,756)	(972,472)	(1,080,386)	42,370
Planning Fees	(375,000)	(467,164)	(555,000)	(180,000)
Trade Waste Charges	(476,810)	(467,860)	(470,000)	6,810
Building Control Fees	(150,000)	(140,603)	(170,000)	(20,000)
Land Charges	(100,000)	(77,013)	(105,000)	(5,000)
Interest on Investments	(109,000)	(126,877)	(159,000)	(50,000)
Taxi Licensing Fees	(82,411)	(58,203)	(78,411)	4,000
Car Parking Charges/Permits	(92,512)	(106,904)	(136,720)	(44,208)
Car Parking PCN fines	(29,300)	(25,334)	(35,000)	(5,700)

These income targets are highlighted as they are affected by changes that can be out of the Council's control, for example the national economic climate and impact on bank rates and customer behaviours. Due to their scale any material variations against budget have the ability to impact significantly on our overall revenue budget position.

5.3.1 Investment Property Rental Income
Forecast rental income is £42,000 lower than the original budget forecast for the year. This is mainly attributable to the following factors: 2 units at the Momentum Business Park being vacant as anticipated leases did not proceed (£15k); a property at Station Rd, Bamber Bridge repossessed at the beginning of the year which is currently being marketed but is in need of refurbishment prior to being let (£20k); the termination of a lease at the end of September (the property on Clydesdale Place is vacant but being actively marketed) (£10k); offset by other minor differences in the letting of properties compared to the original forecasts.

5.3.2 Planning Application Fees
At this point in the financial year, an increase in fee income of at least £180,000 is forecast for the full year, however this is based on current assumptions in relation to when upcoming major applications will be received and is therefore not certain and subject to variation. At December, large applications had been received which include the Test Track site, Brindle Road, Wesley Street Mill, Daub Hall Lane and The Maltings.

The forecast increase in income against the profiled budget is also partly due to a 20% increase in lower value applications (up to £10k) compared to 2016/17.

Fluctuations in income can occur as although development sites are allocated in the Local Plan, in reality it can be very difficult to estimate accurately when those would translate into an application.

5.3.3 Trade Waste Charges

Income from Trade Waste charges is anticipated to be £7,000 (1.4%) lower than originally budgeted due to a slight reduction in take-up of the service compared to the forecast.

5.3.4 Building Control fees

The Building Control team have achieved higher income than forecast and it is anticipated that the budget will be exceeded by c£20,000 by the end of the financial year. Fee levels are set on the basis of achieving full recovery of the attributable costs of delivering the service. The relevant costs and income are charged to the Building Control Fee Earning account which had been in deficit in recent years, however following a review and restructure of the service, this account made a surplus in 2016/17.

5.3.5 Land Charges Income

The trend for land charges income received in 2017/18 is favourable, with a small increase against the original forecast. This is despite HMRC re-categorising the charges for property searches so that local authorities had to account for standard rate VAT on this income from April 2017. Other factors which impact on land charges income are; a slow-down in property sales and more purchasers undertaking their own searches (rather than via solicitors/conveyancers).

5.3.6 Interest on Investments

Short-term investment income is forecast to be in the region of £159,000 at the year-end which is £50,000 higher than budgeted due to a combination of both increased balances and better rates obtained following changes to the Treasury Strategy.

Returns on investments and comparatives for the previous reporting period are set out below:-

	Average Balance Periods 1 - 9	Average Rate Periods 1- 9	No of days	Interest Earned
2016/17	£31,701,090	0.61%	275/365	£159,054
2017/18	£32,842,813	0.48%	275/365	£126,877

A more detailed Treasury Management Update is provided as a separate item on this agenda.

5.3.7 Car Parking

Additional income of just under £50,000 is forecast to be achieved by the end of the financial year. This comprises £28,000 income from parking permits (Worden Park/Business Permits); £16,000 from pay & display charges and £6,000 from an increase in parking fines (PCNs).

5.3.8 External Catering

The forecast net saving in external catering costs for the year is £29,000 which comprises external funding for room hire for the elections earlier in the year (£16,000) and anticipated savings in external catering costs (£13,000).

5.4 **Business Rates Retention - BRR**

Regular monitoring is being undertaken as increases or reductions in the tax base will impact on current and future years funding. The current trend is favourable, with the Council on target to achieve the growth target increase of £100,000. Additional s31 grant income is also expected in relation to 2017/18, due to a proposed change in the formula for calculating the grant payable in respect of Small Business Rate Relief (SBRR). However this additional income forecast is being treated with caution as this revision in basis is currently only part of a DCLG technical consultation and the change will only be notified in the guidance issued for NNDR3 (Business Rates Outturn) 2017/18, expected in several weeks' time. Therefore a corresponding transfer into the Business Rates Equalisation Reserve has been shown.

Please note that although this income would only be received in 2018/19, because it relates to SBRR given in 2017/18, it would be accrued in 2017/18 as part of year end closure.

Prior to the Council entering the Lancashire Pooling Agreement any growth against the government baseline would have resulted in an additional levy payment and therefore an in-year budget overspend. The pooling agreement for 2017/18 currently means that additional income generated by tax base growth is retained locally following a 10% contribution to Lancashire County Council. The impact of the Lancashire Pooling Agreement is very positive and resulted in an additional £0.788m being retained within South Ribble in 2017/18. This has a favourable impact on the risk profile of BRR and therefore on the budget planning assumptions provided that the borough's outstanding appeals profile does not experience an influx of additional appeals into the Valuation Office Agency (VOA).

A review of the risk profile of BRR is currently being undertaken as part of the strategic review of reserves and the Council's Medium Term Financial Strategy.

5.5 **Capital**

Details of the Council's capital spending by each project is contained in Appendix One.

The projected spend is compared to the full year budget accompanied by an explanatory note where applicable. The total full year budget is £4.852m with £2.307m spent and committed as at 31st December 2017. It is expected that the total spend at year end will be £3.131m with £1.627m being planned to be spent in future years* and other in-year reductions of £0.094m.

*The main capital projects which have currently been re-phased into 2018/19 are:
- Worden Park toilets – awaiting planning and Cabinet approval (£200k)
- Vehicle replacements – vehicles ordered but delivery expected after March (£718k)
- Worden Park Replacement conservatory / greenhouse – in progress but bespoke build and will therefore be completed by 2nd quarter of 18/19 (£143k)
- Lostock Hall Football facility (s106 funded) - work to take place during the closed season of 2018 (£145k)

Similarly to revenue budget monitoring, however, the statement set out in Appendix One contains assumptions and budget holder advice in respect of spending to the end of the year.

5.6 **City Deal**

The City Deal agreed with Government, accelerates the agreed Central Lancashire Site Allocation Local Development Framework to a ten year period in South Ribble and Preston. For South Ribble, it brings forward major highway improvements and town and district centre improvements as well as support for green spaces and leisure.

The housing and business rate growth on the City Deal sites in Preston and South Ribble results in additional business rates income, New Homes Bonus (NHB) and Community Infrastructure Levy (CIL) receipts to both districts. With the exception of business rates, as this income is received it is paid over to the City Deal Fund according to the terms agreed at the outset of the Deal by both district Councils. The payments to-date from South Ribble are shown on the left-hand side of the table below.

Please note that South Ribble's element of Council Tax income increases as a result of housing growth is excluded from City Deal and therefore retained by the Council in full. Due to the way these funding streams are distributed, the County Council itself also benefits from a proportion of business rates growth, plus Council Tax growth and NHB allocations resulting from new house building.

The two districts also receive an annual Community Provision payment (£492k for South Ribble) from the City Deal fund for a period of 10 years, the purpose of which is to help to mitigate against the potential risk to both councils in terms of ensuring financial sustainability, particularly when they are committing these significant income streams to the City Deal Fund for 10 to 15 years, depending on the phasing of build.

The City Deal expenditure budgets are managed and monitored by LCC. The majority of the expenditure is procured by LCC. There are two expenditure lines in the model where South Ribble can procure the works and subject to prior approval by the Executive, these costs can be reclaimed from the City Deal Fund. These are Community/Green Infrastructure and Public Transport Corridors & Local Centres.

Project costs incurred by South Ribble in relation to approved City Deal schemes such Bamber Bridge regeneration works, Landmark schemes and St Catherine's Park are claimed quarterly and reimbursed from the City Deal Fund. Actual receipts from the Fund to-date are shown in the table below.

Net Payments and Receipts to / (from) the City Deal Fund

	Payments to City Deal Fund (£)				Receipts from City Deal Fund (£)		
Year	**Business rates**	**NHB**	**CIL**	**Total Payments**	**Community Provision**	**Project Expenditure Reimbursed**	**Total Receipts**
2014/15	42,431	0	0	**42,431**	(492,200)	0	**(492,200)**
2015/16	84,862	198,310	0	**283,172**	(492,200)	(299,372)	**(791,572)**
2016/17	0	770,327	241,724	**1,012,051**	(492,200)	(141,123)	**(633,323)**
2017/18 to Qtr. 3	0	965,719	706,453	**1,672,172**	(492,200)	(506,570)	**(998,770)**
Total	**127,293**	**1,934,356**	**948,177**	**3,009,826**	**(1,968,800)**	**(947,065)**	**(2,915,865)**
	Net City Deal payments / (receipts) to-date						**93,961**

City Deal is supported by a complex financial model whereby income generated from new development is matched against other sources of income to provide infrastructure. The model works on the basis of Lancashire County Council underwriting spend on the infrastructure in advance of the income being generated from development.

5.7 Summary

In summary, the financial position at the end of the third quarter 2017/18 shows the Council is forecast to underspend against the original budget and recurring budget savings have been achieved in 2017/18 which have contributed to reducing the budget gap. Please note, however, that this projection is based on a number of assumptions made in the budget with regard to expected spending patterns and levels of income received to the end of the year. The current position will be closely monitored during the final quarter with particular regard to budgets that are subject to fluctuation and therefore present a higher risk to the Council's financial sustainability over the medium to long term.

With regard to the wider context and the Council's financial position in the longer term it should be noted that although the budgetary savings achieved contribute towards achieving a balanced out-turn position there still remains a budget gap in future years, which is being addressed as part of the budget-setting process. 2017/18 is the last year the Council will receive Revenue Support Grant (RSG) funding, which was reduced from £1.007m in 2016/17 to £0.346m in 2017/18. From 2017/18, the financial settlement also introduced significant reductions in the amount of New Homes Bonus (NHB) awarded, by the introduction of a growth threshold and a reduction in the number of years NHB is paid from 6 years down to 4.

Consequently, from 2018/19 onwards, core funding is restricted to a basis of 100% locally sourced taxation in the form of Council Tax and Business Rates Retention (BRR). BRR presents an increased financial risk to the authority as it is subject to year on year, and also in year, variations and volatility outside the direct influence of the Council, for example as a result of appeals, revaluations and technical changes to the BRR scheme late in the year. Conversely, it is also an opportunity to benefit directly from growth in the business sector for which the City Deal programme is a key enabler.

The Capital Programme reported highlights a forecasted variation at the end of the year. Some capital resources will be rolled forward to allow the scheme to be completed in the next financial year. A review of ICT is in progress and the outcome of this review by SOCITM will help to determine future ICT capital projects which will be aligned to supporting service transformation and delivering more customer-focussed and efficient services.

6. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

6.1 Comments of the Statutory Finance Officer

The financial implications are contained within the report.

6.2 Comments of the Monitoring Officer

The purpose of the report is to provide detailed information to Governance committee on the council's overall financial position.There are no direct legal implications arising as such.

Other implications:	
▶ **Risk** ▶ **Equality & Diversity** ▶ **HR & Organisational Development** ▶ **Property & Asset Management** ▶ **ICT / Technology**	Risk is identified in the report. The main risk area is the inclusion of assumptions. Assumptions have been made with regard to estimating future costs and external influences that will affect projections in future months. Therefore any conclusions drawn from the contents of the report should be treated with some caution. This report is not considered to have any adverse impact on equality.

7. BACKGROUND DOCUMENTS

Budget Report and Medium Term Financial Strategy – February 2017

- Appendix A - Capital expenditure

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