

REPORT TO	DATE OF MEETING
Governance Committee	24 June 2015

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
South Ribble Borough Council Budget Out-turn Report 2014/15	Finance & Resources	S Guinness/ J Blundell	

SUMMARY AND LINK TO CORPORATE PRIORITIES

The Accounts and Audit Regulations require that:

1. The responsible financial officer of the Council must sign and date the unaudited Statement of Accounts (SOA) no later than 30th June 2015 for the 2014/15 financial year;
2. The Annual Governance Statement (AGS) accompanies the Statement of Accounts;
3. The audited Statement of Accounts, including the AGS, is approved by members by 30th September 2015.

This report has been prepared to notify members of the 2014/15 Budget Out-turn position in relation to both Revenue and Capital expenditure. The core financial statements relating to this year-end position including information on the balance sheet and are also reported to this committee on this agenda for completeness and in line with best practice.

RECOMMENDATIONS

That the Governance Committee:

1. Note the contents of the report and appendices;
2. Note the budget variances for 2014/15 listed at Appendix A;
3. Approve that the budget items listed at Appendix D are carried forward to 2014/15;
4. Approve the financing of the capital programme for 2014/15 and the carry forward of capital re-phasing into 2015/16 as outlined in this report;
5. Endorse the retention of reserves at Appendix C together with the proposed contributions to and withdrawals from these reserves as detailed within the Core Financial Statements and within this report.

EXECUTIVE SUMMARY

The main points arising from this report are:

1. The expected financial position at the end of the year was previously estimated and reported to members. At that time an estimated contribution into general reserves was forecasted at £0.249m. The actual year end out-turn position, of £11.899m, when compared to the Council's budget gives a surplus to be transferred to the general reserve of £0.516 million being a net movement of £0.267m.

Revenue Service Budget

2. Budget variations are explained below and also listed in Appendix A attached:
 - Reduction in employee costs and other running expenses.
 - Additional Planning fee income.
 - Additional income from costs recovered as a result of an increase in Council Tax summons cases issued in 2014/15.
 - There is a net surplus of £71,000 in Benefit costs and offsetting grant income as a result of both the reduction in overpayments to claimants and also improvements in the recovery of overpayments from previous claimants. A one-off increase in the provision for bad debts has also been made.
 - An increase in Central Government Levy liability due to the in-year impact of the Business Rates Retention scheme.
 - A one-off refund of VAT in respect of Trade Waste charges.
 - The achievement of additional budgetary savings.
3. As above, it is important to note that the 2014/15 budget out-turn position is impacted upon by one-off occurrences. Their temporary nature should be considered in context when assessing the impact on estimates within the Council's Medium Term Financial Strategy (MTFS) which can only rely on budgetary efficiency savings that are recurring and therefore sustainable.
4. With regard to the Council's statutory obligation to produce the year end Statement of Accounts (SOA), the statements have been produced in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, (The Code). The Code is now based on International Financial Reporting Standards (IFRS). The Chief Financial Officer approves the SOA prior to 30th June and the Governance Committee Members approve the document after the external audit by 30th September. The SOA will to be made available to members for comment during the period of audit. The Core Financial Statements in the SOA are set out in a separate report on this agenda for information.
5. The council is also required to submit an audited Whole of Government Accounts (WGA) return to Central Government, this is due to be submitted in October 2015.

DETAILS AND REASONING

Background

6. The Council's year end Core Financial Statements within the Statement of Accounts have been produced in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, (The Code), which is based on International Financial Reporting Standards.
7. The Core Financial Statements are reported to Members within another report on the agenda and consist of the following:-
 - Movement in Reserves Statement
 - Comprehensive Income and Expenditure Statement
 - The Balance Sheet
 - Cash Flow Statement
 - Collection Fund Account

8. The Council's Annual Governance Statement is also a key annual statement and reported to members on this agenda.
9. The complete Statement of Accounts will be available to Members from July 2015 onwards after it has been approved by the Chief Finance Officer. This will provide members with an opportunity to inspect the whole statement in order for any issues or items of concern to be highlighted to the External Auditor for further scrutiny. This procedure is considered to be in line with best practice. The Council's External Auditors will conduct their inspection between July and September and present the Annual Audit Letter to members later in the financial year, following the conclusion of the audit.
10. The accounts will be available for public inspection from Tuesday 21st July 2015 for a period of 20 working days. The appointed day, on which electors may meet and question the Council's External Auditors in connection with their audit of the 2014/15 Statement of Accounts, has been designated as Tuesday 18th August 2015.

2014/15 Summary Budget Out-turn Contained within the Financial Statement of Accounts

REVENUE NET EXPENDITURE

11. Members will note that in setting the projected out-turn budget for 2014/15 it was anticipated that a net contribution of £0.249 million would be made to the general reserve. Taking into account the final actual out-turn position, it is now proposed that this amount is revised to a contribution to the general reserve of £0.516m. An explanation of the items affecting the variance is shown at Appendix A.
12. The key variations against the projected budget out-turn include:-
 - Employees - There is an overall underspend in employees costs of £95,000 against the 2014/15 budget. This variance has been brought about mainly by staff vacancies however some savings have been achieved in respect of training costs and overtime.
 - Premises - There is an underspend in overall premises costs of £39,000 which includes an underspend on business rates on Council premises mainly due to more investment properties being let than anticipated. Savings on utilities costs (which are mainly due to improvements to the heating and ventilation systems at the civic centre as well as increased energy-saving measures) also contributed. These cost savings are partly offset by increased water charges which are caused by increased surface water charges.
 - Supplies and Services - The variation includes cost reductions in Publicity and Promotion, Waste contract savings (as a result of lower inflationary increases than expected) and consultancy fees in relation to the waste procurement exercise. These savings are offset by an increase in the cost of Government Connect security requirements.
 - Transport Costs - Budget savings have been identified in respect of staff mileage & travel costs which ending the year at a lower level than anticipated.
 - Both Trade Waste and Planning Fee income have exceeded the revised budget forecasts at the end of the year. Planning fee income is an income stream that has experienced some movement in recent years with an upward trend during this year. A major application was received in February and applications continued to increase during March which contributed to a favourable variation.

- A claim was submitted to HMRC back in 2011 in relation to VAT paid on Trade Waste Collection charges. The claim was submitted after HMRC revised their view of the VAT treatment of Local Authority commercial waste collection services in February 2011. The charges had previously been regarded as taxable and, following the review, were deemed to be outside the scope of VAT.
- Business Rates Retention (BRR) – An improved position at year end caused in the main a reduction in the anticipated impact of the Valuation Office Agency (VOA) appeals process has resulted in an unexpected additional liability in respect of the Levy payment due to be paid to Central Government. In 2014/15.

13. A key element of financial performance for the Council is the out-turn position achieved in respect of its higher value key income streams which are subject to external factors as well as being demand led. Due to the element of risk involved performance is specifically reported throughout the year. The actual out-turn position achieved is as follows:-

Income Budgets	Projected Outturn Budget 2014/15	Actual Out-turn 2014/15	Variation to Budget 2014/15
Investment property Income	(993,701)	(979,020)	(14,681)
Bulk Containers/Trade Waste	(400,000)	(411,200)	11,200
Planning Fee Income	(475,000)	(518,256)	43,256
Investment Interest	(100,000)	(110,365)	10,365
Building Control Income	(143,000)	(149,531)	6,531
Land Charges	(112,000)	(103,236)	(8,764)
Taxi Licensing Income	(92,800)	(90,703)	(2,097)
Car parking Income	(87,890)	(90,163)	2,273

THE MAIN ISSUES 2014/15

14. The Balance Sheet items are included within other report on the year end Statement of Accounts elsewhere on this agenda, however, some additional issues merit specific mention as they also impact on the financial standing of the organisation.

Core Income Collection

15. The Council's performance on income collection is a critical factor in respect of its financial matters. As per Appendix B the in-year collection statistics for Council Tax, Business Rates and general Sundry Debtor accounts have all improved.
16. The introduction of Council Tax Support has had a negative impact on Council Tax Arrears so far, however, performance is important to the Council and improved collection rates are a corporate priority and key performance indicator.

Business Rates Retention (BRR)

17. The financial year 2014/15 follows a year of significant technical change which greatly impacted on the Council's accounts on a permanent basis with the Business Rates Retention (BRR) scheme still being embedded into the total overall core funding regime.
18. To recap, prior to 2013/14, billing authorities such as South Ribble Council collected business rates, or National Non-Domestic Rates (NNDR), on behalf of Central Government. All NNDR collected was paid over to Central Government into the central pool. Councils then received an allocation of NNDR from the pool as part of each year's Local Government Finance Settlement. There was no direct link between the total collected and paid to the pool and the allocation received from it. Central Government bore the risk that rates collected would be less than estimated as the Council's NNDR allocation was not affected by the value collected. A new method of allocating NNDR resources known as Business Rates Retention (BRR) was implemented during 2013/14. This BRR regime is intended to incentivise local tax base growth as it now allows Councils to retain a proportion of any additional income generated. Conversely, however, the risk of collection and tax base decline is also therefore carried locally.
19. With regard to actual performance within the regime, the total net income at the end of the year was more than expected. As the amount of retained Business Rates was determined and fixed prior to 2014/15 based on estimates, the effect of this increased income level will only impact on the revenue account in 2015/16. Immediately, however, the Council needs to pay over Central Government's share of the additional income achieved prior to receiving the benefit into the general fund budget. This takes the form of an unplanned levy payment in the sum of £0.250m charged to 2014/15. As this upfront payment was not foreseen it was not incorporated into the budget and therefore results in an overspend liability. The financial risk of such negative budgetary variations and planned mitigating action against their potential impact on service provision is set out later in this report.
20. A key element of the new regime is the impact that appeals have on the level of income received. Should business rate payers be successful in appealing against the valuation placed on premises upon which the charge is based, this will reduce the subsequent rate yield in 2015/16. This may potentially lead to a further deficit chargeable in future years offsetting the proposed financial benefits achievable when the new scheme was implemented. It is very important to note that the Local Government Finance Settlement determines the financial parameters of the system and the application of annual inflation requires the Council to continually grow its tax base in order to merely maintain income at current levels.
21. In summary, as established, the financial impact of the BRR funding stream has the potential to fluctuate significantly across three separate financial years. This potential risk to effective financial planning is coupled with the risk of significantly reduced levels of income within a regime where the variable elements of the system are determined by Central Government and the Valuation Office Agency (VOA) outwith the Council's control.

CAPITAL EXPENDITURE & RECEIPTS

22. The major areas of capital expenditure and sources of funding in 2014/15 are as follows:-

CAPITAL EXPENDITURE & FINANCING 2014/15	
Capital Expenditure	£000
Playgrounds, Recreation Areas & Open Spaces	279
Housing Grants	563
Asset Management	124
Vehicles, Plant and Equipment	120
Information Technology and communications	263
Regeneration	225
Community Grants (Performance Reward Grant funded)	29
Total capital expenditure	1,603
Financing	£000
Government Grants	592
Developers' contributions	115
Other contributions	8
Fund balances & reserves	650
Capital receipts	86
Revenue contributions	32
Borrowing	120
Total Financing of capital expenditure	1,603

23. The original capital allocation for 2014/15 was revised during the year from £2,193,010 to £1,938,766 in order to show the re-phasing of some capital projects. The capital expenditure final out-turn for 2014/15 is £1,602,552 against a Projected Out-turn Budget of £1,938,766. The main reasons for the variations are summarised below. The re-programmed expenditure will, on approval, be incorporated into the 2015/16 Capital Programme to reflect the re-phasing of work.

CAPITAL EXPENDITURE 2014/15		
		£'000
Total Projected Outturn Budget 2014/15	<i>(a)</i>	1,939
LESS Programmed into 2015/16:		
Finance & Resources		
Asset Management – Residual works in 2015/16		(14)
Shared Services & Corporate Support		
IT Schemes - Expenditure programmed for 15-16 includes: Mobile Working Implementation £23k, Electronic Document Management System £11k, Financial Management System £10k, Call Centre System Upgrade £25k, Sorce Intranet £23k.		(106)
Strategic Planning & Housing		
Housing Strategy		(70)
Regeneration, Leisure & Healthy Communities		
Regeneration schemes to be completed in 2015/16; including Penwortham Regeneration £19k and Moss Side Sports Facilities £56k		(85)
Neighbourhoods & Street Scene		
Vehicles & plant replacements programmed for 2015/16		(26)
Parks, Play areas & open spaces - Open Space capital works		(1)
Performance Reward Grant		
Partnerships projects funded from Performance Reward Grant		(9)
Total Programmed into 2015/16	<i>(b)</i>	(311)
PLUS Variations during the year:		
Finance & Resources		
Asset Management – savings in project costs		(5)
Shared Services & Corporate Support		
IT schemes – saving in cost of replacing Licensing system through use of Firmstep		(20)
Total net underspending 2014/15	<i>(c)</i>	(25)
NET CAPITAL EXPENDITURE VARIATION	<i>(b) + (c)</i>	(336)
TOTAL CAPITAL EXPENDITURE 2014/15	<i>(a)+(b)+(c)</i>	1,603

USABLE RESERVES

Revenue Reserves

24. The Council's accounting policy on reserves will be included in the accounting policies contained in the Statement of Accounts which is due to be approved by the Chief Finance Officer (CFO) on 30th June 2015 and post external audit inspection by the Governance Committee in September 2015.
25. The following table shows the Council's overall level of revenue reserves as at 31st March 2014 and 31st March 2015, subject to the approval of the Statement of Accounts as drafted. This shows a General Fund balance of £3.449 million at 31st March 2015. The overall level of reserves has reduced by £1.964 million, comprising of a reduction in General Reserves of £0.643 million plus a reduction of £1.322 million in Earmarked reserves. The reduction in Earmarked Reserves is due mainly to the financing of the Capital Programme and also the repayment of the Council's proportion of the BRR collection fund deficit position which was caused predominantly by the BRR appeals process arrangements.

REVENUE RESERVES	31st March 2014 £'000	31st March 2015 £'000
General Fund Reserve	4,092	3,449
Earmarked and Other Reserves	8,897	8,432
Business Rates Retention	1,289	433
Total	14,278	12,314

26. In line with the recommendation of the Council's external auditors, strategic spending plans are maintained to support the reserves held by the Council. In setting the Medium Term Financial Strategy the Council has acknowledged the longer term demands on certain reserves and accommodated these within its MTFS to address future expenditure pressures and financial sustainability risks facing the Council over the medium term.
27. The amount held in reserve should be considered in the context of the following issues that will have a significant impact on the Council's budget in future years:-
- (1) The core funding reductions that will be passed onto Local Government as part of Central Government's austerity measures in the next Comprehensive Spending Review (CSR) bearing in mind that it may be planned that Revenue Support Grant, currently £1.767m may be eroded over time to zero.
 - (2) The budget pressures facing the Council over the period of the Medium Term Financial Strategy and the inherent uncertainty and risk of significant fluctuations in levels of grant income now included in the core funding regime.
 - (3) The Council was able to secure a recurring, annual budget saving of £0.115m by paying three years' Pension Contributions (covering the period 2014/15 to 2016/17) in one upfront payment in April 2014. The advanced payments made for 2015/16 and 2016/17 have been funded from contributions from the General Fund Reserve which reduces its balance.
 - (4) The current forecast budget gap within the Medium Term Financial Strategy is as follows:-

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Budget Gap	0.775	1.298	2.250	2.461
Contribution from Reserves	(0.185)	(0.198)	-	-
Forecasted Budget Gap (prior to Budget Efficiency Activity)	0.590	1.100	2.250	2.461
Budget Efficiency programme 2015/16	(0.590)	(0.700)	(0.775)	(0.800)
Budget (Surplus)/Deficit 2015/16	0	0.400	1.475	1.661
Proposed Budget Efficiency Programme 2016/17		(0.400)	(0.400)	(0.400)
Forecast Budget Shortfall MTFS	0	0	1.075	1.261

28. Members are asked to endorse the retention of reserves at Appendix C.

Capital Reserves

With regard to reserves held to finance the Capital Programme, the table below provides the out-turn position and forecasted capital receipts reserves for the period up to 31st March 2019. Capital receipts are used to support the Council's Capital Programme and the figures below have been adjusted to take into consideration the funding of the Capital Programme including the proposed re-phasing of expenditure from 2014/15.

Reserve	Outturn Balance 31 March 2015 £000	Projected Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000	Projected Balance 31 March 2019 £000
Capital Receipts Reserve	486	122	122	122	122
Earmarked Receipts	475	126	26	26	26
Preserved Right to Buy Receipts	1,056	1,056	1,056	1,056	1,056
Total	2,017	1,304	1,204	1,204	1,204

Building Control

29. The Building (Local Authority) Charges Regulations 1998 gave local authorities the power to set their building control fees. As the Committee will be aware from in year monitoring reports, the regulations require that full recovery of the cost of providing the building control service should be achieved over a three year continuous accounting period with effect from April 1999. The surplus in 2014/15 has been transferred into general reserves.

Building Control Fee - Earning Account - 2014/15 Out-turn

	Projected Outturn £'000	Actual £'000	Variation £'000
Expenditure	136	132	4
Income	(143)	(150)	7
(Surplus)/ Deficit for the year	(7)	(18)	11

30. The actual income for the year was £149,500, an increase of £6,500 against the revised forecast.

THE ANNUAL GOVERNANCE STATEMENT

31. The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the delivery of its services, having regard to a combination of economy, efficiency and effectiveness. This requires the Council to put in place proper arrangements for the governance of its affairs to support the achievement of its objectives, including the management of risk.
32. There is also a statutory requirement for the Council to conduct a review (at least once in a year) of the effectiveness of the internal control environment and to publish a statement on the adequacy of the system with its annual accounts. This statement is referred to as the Annual Governance Statement (AGS) and replaces the Statement of Internal Control that was presented in previous years.
33. The Council has adopted a Local Code of Governance that is consistent with best practice principles for public services and in particular for local government. The AGS demonstrates our compliance with the Local Code and explains our governance arrangements, how these were evaluated and future plans to improve and strengthen the governance environment.
34. A detailed report on the Annual Governance Statement is contained elsewhere on the Committee's agenda.

FUTURE RISKS TO THE COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY

35. The Council's Medium Term Financial Strategy is regularly reviewed by the cabinet member for Finance & Resources, Cabinet, Chief Executive/Chief Finance Officer, and the Senior Management Team. The budget monitoring process allows for issues to be highlighted and corrective action to be taken when necessary. The Council, however, faces a number of significant issues that may represent a risk to the assumptions made in the development of the Medium Term Financial Strategy (MTFS), for example, the current national economic climate, future government funding/spending priorities and the efficiency agenda to meet the budget funding gap.
36. The Government's austerity measures and resulting Comprehensive Spending Review (CSR) presented a number of significant financial challenges for the Council in the form of large scale year

on year reductions in the level of annual core funding granted and also the introduction of uncertainty on a permanent basis in future funding levels. Not least, as stated within this report, the additional potential risk posed by the new BRR regime is also not insignificant. The Government's next CSR is now due in the near future with previous statements revealing that the austerity measures will continue for a number of years to come.

37. Medium term financial planning is very much impacted upon by the shortened period of known funding levels coupled with the fact that those funding levels are also subject to large scale annual variations. This is due to the fact that core funding is re-calculated each year on variable factors, for example, New Homes Bonus which is re-calculated each year using the number of new houses.
38. As stated, the another recent major change is the implementation of BRR. Notably, the Council is now exposed to the risk of collection and potential multi year and year on year fluctuations that span over three financial years. Many of the variable factors involved in the calculation of retained business rates are outside of the Council's control, for example:-
 - Central Government announcement on the Local Government Settlement determines: the tariff applied to business rates retained; the Levy rate; the safety net threshold and the baseline funding level.
 - Central Government set the business rates Rateable Value multiplier.
 - Valuation Office Agency set the Rateable Value.
 - Valuation Office Agency decisions on tax payers' appeals.
39. It is important that these issues are kept under constant review to take account of the latest available information and to also ensure that contingency arrangements and/or reserves are adequate to manage the associated financial risks. 2014/15 saw the deadline pass for the submission of appeals to the VOA in respect of the most recent rating list re-valuation. As a result the total number, and value, of outstanding appeals increased by a large proportion with no indication on how many will be successfully withheld and how many of successful appeals will be backdated for potentially up to 4 years. To this end the Council needs to adequately maintain its appeal's provision for the foreseeable future to protect the Council's base budget against the potential adverse effect caused by this increased tranche of appeals submissions.
40. In addition to the forthcoming significant events the vagaries of the BRR system means that the in year improved position achieved by South Ribble Council has resulted in a temporary financial liability over and above the budget in the sum of £0.250m. As South Ribble are expecting to increase its tax base significantly as part of the City Deal arrangements it is likely that the Council will enter a period of paying additional levy payments in advance of receiving the equivalent financial benefit.
41. Another notable event with regard to BRR is the forthcoming national re-valuation exercise which is expected to take effect from 2016/17. There are no indications what the expected outcome may be, but this exercise has the potential to re-value the whole tax base downwards. This re-valuation exercise will also open up another round of the appeals process where businesses may appeal against the re-valuation's outcome. Resolution of the appeals process can be drawn out as businesses are given a number of years in which to submit their claims with can then be backdated thus negative tax base movements can be accumulating without prior notification to the Council for inclusion and accommodation in the financial planning process.
42. Taking into account all of the above and the payments that are required to be made into City Deal budgetary uplifts in respect of BRR have been limited in recent years and City Deal receipts have been accommodated into an equalisation earmarked reserve to effectively smooth out any potentially high value liabilities thus protecting front line services. It is important to note that new information is being sought out by officers on an ongoing basis so that any change to the potential risks posed, either upwards or downwards, can be reflected in our updated MTFs and the reserve set aside.
43. The following section of the report reviews the risks to the financial strategy and makes proposals on the levels of reserves needed to mitigate the impact of critical financial risk. The report contains

within it details of the Council's reserves that are held to cover future expenditure.

44. These will be reassessed over the coming months as we review our MTFS, especially in the light of the publication of the details of the Government's next Comprehensive Spending Review and the impact of BRR, to ensure they remain adequate and/or whether there is an opportunity to release some funds to invest in one-off projects that support our corporate priorities or will deliver efficiencies to help bridge the current forecasted budget deficit on a more sustainable basis.

GENERAL RESERVE

45. The general reserve is needed to deal with unplanned/unforeseen expenditure or losses in income. As outlined earlier in the report, in setting the revised budget for 2014/15 it was anticipated that a contribution of £0.249m would be made to the general reserve. Taking into account the out-turn position it is now proposed to revise this to a contribution to the reserve to £0.516m. Despite this year end increase in contribution, the overall level of the General Reserve has reduced by £0.643m.
46. The General Fund Balance should be viewed in context with reference to the degree of uncertainty facing the Council in respect of the financial environment in which it operates. During the last CSR period the previous four year settlement period has reduced to two year and one year settlement periods with a number of significant changes in respect of core Central Government funding. The medium to long term implications and their impact on the Council's Medium Term Financial Strategy (MTFS) has the potential to introduce further significant budgetary pressures in addition to the present budget funding gap. The arrangements introduce new risks and volatility factors to the current Medium Term Financial Strategy on a permanent basis.
47. In addition to local funding regimes and increased risk of volatility, the Comprehensive Spending Review 2010 also introduced annual variables with regard to the distribution mechanisms for other core funding, for example, New Homes Bonus. The elements of which result in funding being re-calculated using annual variable data each year. This reduces the number of years within the MTFS that are based on actual, known funding levels and increases the risk of estimating significantly large elements of Central Government's core funding.
48. The next Comprehensive Spending Review is due very shortly and although its content are not known at this stage, it is known that the national requirement to reduce spending in the public sector still exists. Thus, further reductions to the Council's Central Government core funding are highly probable which will result in an increased budget deficit position; this will need to be addressed by reducing net expenditure.
49. It should also be noted that the MTFS forecasts also contain key assumption that will also impact on the budget deficit estimates in future years, such as:
- the impact of the triennial review of the pension fund, its financial performance and the deficit recovery contributions required over the next 19 years;
 - the implications of the expiry of the 'Cost Sharing' arrangements with Lancashire County Council; and
 - the delivery profile of City Deal.

EARMARKED

50. Earmarked reserves have been established to meet 'known or predicted liabilities' where the impact of the expenditure would otherwise cause a significant variation to the Council's annual expenditure. As regards the individual earmarked reserves the Committee should take into consideration the specific comments set out below in deciding whether the reserves are appropriate.

Asset Management

51. The Council owns a significant property portfolio. All property requires on-going maintenance to ensure its long term viability as an asset and to protect income generation. The Council has an Asset Management Plan which sets out the programme of maintenance and this is supported by detailed spending plans. Schemes currently programmed include the following:-

- Various works to Civic Centre (including lifts) £0.298m;
- Moss Side Depot fire suppression works £0.050m;
- Improvement/refurbishment of Investment properties £0.760m;
- Closed churchyards – wall repairs £0.089m;
- Refurbishment of vine house and replacement of conservatory/greenhouse at Worden Park £0.230m; and
- replacement/refurbishment of pavilions £0.108m.

52. As with any property portfolio, there is always the potential for unplanned/urgent repairs and maintenance. This has been taken into consideration in the review of the spending plans.

Borough Council Elections

53. This reserve is used to meet the costs associated with the Council's elections held once every four years.

Business Rates Retention

54. Last year the Collection Fund in respect of BRR resulted in a year end deficit position of £3.649m mainly due to the impact of providing for a provision to cover estimated future appeals which may be awarded in the future and backdated for up to four years. South Ribble's share of the BRR local system is 40% and the deficit recovery payment equated to £1.459m in 2014/15. In 2014/15 the Council finished the year in an improved overall position than expected. The vagaries of the system have resulted in a temporary penalty payment, i.e. Levy, being paid in the sum of £0.250m in 2014/15.

55. In order to meet potential collection fund deficit liabilities commitments, the forthcoming tax base re-valuation and also unplanned Levy payments an equalisation reserve has been created. This reserve should mitigate the potential risk to the Council's MTFs by providing funds to smooth out the inherent fluctuations that will occur as the three year time period characteristic of the system overlays and offsets each other in future years.

Housing Needs Survey

56. This reserve is used to meet the costs of carrying out a detailed housing needs survey. A contribution of £20,000 was made into the reserve in 2014/15.

ICT Strategy Reserve

57. The balance on the ICT Reserve at 31st March 2015 amounts to £2.013m out of which spending plans are in place for 2015/16 to 2018/19 totalling £1.176m (includes £0.106 proposed rephasing from 2014/15). The Council's Medium-Term Financial Strategy includes annual contributions into the reserve from revenue to ensure sufficient resources are available to fund the on-going programme.

58. Schemes currently programmed include: Revenues & Benefits software £0.250m, CAPS system replacement/or its equivalent £0.100m and EDRMS Fraud Case Management system £0.100m, Telephony system replacement £0.200m, and IT hardware and server renewal £0.210m.

Leisure Sites Repair & Maintenance

59. This reserve was set up to allow the carry forward of unspent repair and maintenance budgets for the Leisure sites managed by the Council's leisure partner (South Ribble Community Leisure Ltd). This will be used to fund any future repair costs for which the Council is committed to under the contract with the leisure trust.

Local Development Framework (LDF)

60. The purpose of this reserve is to meet the predicted fluctuating expenditure requirements in relation to the LDF. After funding Central park masterplanning costs in 2014/15, the closing balance on this reserve at 31st March 2015 is £0.180m.

Performance Reward Grant

61. As the accountable body, the Council received Performance Reward Grant on behalf of the South Ribble Partnership. The funding is for both capital and revenue projects. The balance in the reserve represents the revenue grant which has been set aside to be spent in future years. The capital element is shown in the balance sheet as a capital grant unapplied.

My Neighbourhoods

62. The balance on the My Neighbourhoods reserve as at the 31st March 2015 is £0.048m and this represents unspent core funding carried forward into 2015/16 to fund My Neighbourhoods expenditure.

Public Open Space Commuted Sums

63. Substantially this reserve represents the cash endowment received for maintaining assets transferred to the Council from the Commission for New Towns. Therefore funding is drawn down from the reserve annually as a contribution to grounds maintenance costs.

Organisational Restructure costs

64. Funding from this reserve is taken to revenue to fund any one-off costs in relation to service reviews designed to improve the efficiency of the Council. In 2014/15, £0.137m was transferred to revenue to fund the one-off employee costs as a result of service restructures.

Vehicles & Plant Replacement

65. This is a relatively small reserve which is generally utilised to fund vehicle and plant acquisitions that are not funded from other sources of finance.

Other Earmarked Reserves

66. The balances on 'Other' earmarked reserves represent amounts carried forward from one financial year to the next, mainly where the timing of spending has been later than planned and it needs to be matched, for example, monies are specifically raised to fund the Sport Development Team and therefore unspent receipts need to be carried forward into future years in order that the function has continued funding. It also includes funds set aside to ensure the Council can meet any liabilities which may arise. The opening balance for 'Other' reserves at 1st April 2014 was £1.083m.

67. The proposed amounts to be carried forward from 2014/15 will add £0.052m (see Appendix D) leaving a balance at 31 March 2015 of £1.072m, after releases to revenue during 2014/15. This balance is planned to be released to fund committed expenditure between 2015/16 and 2018/19.

BUDGET EFFICIENCY SAVINGS/ADDITIONAL INCOME

68. Bearing in mind the forecasted cost pressures over the longer term a critical part of the Council's financial strategy is its strategic planning, budgeting and performance monitoring processes and in particular the identification, approval and achievement of budgetary savings. These are important to help achieve the Council's corporate aspirations and to ensure that resources are committed towards the highest priority service areas.

69. The original budget for 2014/15 included an efficiency target totalling £0.410m, as set out in Appendix F. It is pleasing to report that this target was exceeded by £0.056m during the year and savings have been established on a recurring basis.

70. Assumptions have been made in 2015/2016 and future years to ensure that the Council achieves the efficiency targets that have been set, whilst balancing the overall impact on the budget and the inherent risks associated with such targets. Any failure to deliver the savings assumed would, in isolation, lead to a significant funding shortfall.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. The table shows the implications in respect of each of these.

FINANCIAL	As set out in the report.
LEGAL	This report is required in line with the Accounts and Audit Regulations 2011.
RISK	Risks are as identified within the report.
OTHER (see below)	

Asset Management	Corporate Plans and Policies	Crime and Disorder Act 1998 – Section 17	Data Protection
Fair Access	Freedom of Information Act 2000	Health and Safety	Human Rights Act 1998
Implementing Electronic Government	Staffing	Sustainability	Training and Development

BACKGROUND DOCUMENTS

- Regulation 8 of the Accounts and Audit Regulations 2011
- The Local Government and Housing Act 1989, Section 56(5)

- Financial Strategy/Budget and Council Tax 2014/15 – Cabinet, 12th February 2014
- Financial Strategy/Budget and Council Tax 2015/16 – Cabinet, 11th February 2015

APPENDICES

Appendix A	Significant Budget Variances in 2014/15
Appendix B	Council Tax, Business Rates and Sundry Debtor Collection
Appendix C	Summary of revenue Reserves and Balances
Appendix D	Budget Items listed for Carry Forward from 2014/15 into 2015/16
Appendix E	Medium Term Financial Strategy Revenue Budget Forecasts 2015/16 to 2018/19
Appendix F	Budget Efficiency Programme 2014/15

Significant Budget Variances in 2014/15

Details	Under/(Over) Spend £000	Sub Total £000	General Reserve £000
Projected Outturn : Contribution to General Reserve			249
<u>Revenue Service Budget - Expenditure</u>			
Employee Costs	95		
Premises	39		
Supplies and Services	79		
Transport Costs	14	227	
<u>Revenue Service Budget - Income</u>			
Increases in income:			
Costs recovered	22		
Planning Fees	43		
Building Control fees	7		
New Homes Bonus	7		
Trade Waste charges	11		
Investment interest	10		
Rental income - land	8		
Reductions in income:			
Property rentals	(15)		
Land Charges income	(9)	84	
Other variations		35	
Sub Total			346
<u>Effect of One off Items occurring in 2014/15 only</u>			
VAT refund		43	
Housing Benefits (HB) increased overpayment recovery	38		
Former Council Tax Benefit recovery	76		
HB Debtors - Increase in provision for bad debts	(43)	71	
Business Rates Retention levy increase		(250)	
Savings achieved above the efficiency target		57	
Sub Total			(79)
Year end surplus – transfer to General Reserve			516

Council Tax, Business Rates and Sundry Debtor Collection

In-Year Collection

The in-year collection statistics for Council Tax and Business Rates were as follows:-

	2013/14 Collection Rate %	2013/14 Amount Collected (£000)	2014/15 Collection Rate %	2014/15 Amount Collected (£000)
Council Tax	97.42	50,422	97.44	52,495
Business Rates	97.62	35,238	97.98	37,372
Sundry Debtors		5,158		5,172

2014/15 was the first year that the council exercised its discretion to increase the amount of council tax payable in respect of properties that had been unoccupied and unfurnished for more than six months. These properties had previously paid 50% council tax but are now liable to pay 100%, with properties that have been empty for two years or more being liable to an additional premium of 50%, meaning that they are effectively liable for council tax of 150%.

Previous Years Collection and Arrears Information

	2013/14 Previous Years Amount Collected (£000)	2014/15 Previous Years Amount Collected (£000)	Arrears at 31st March 2014 (£000)	Arrears at 31st March 2015 (including 2014/15 arrears) (£000)	Change to Arrears (£000)
Council Tax	356	547	2,988	3,334	346
Business Rates	(879)	154	1,207	1,125	(82)
Sundry Debtors			1,637	1,701	64

The arrears collected figures take account of council tax and business rates that have been refunded following changes to liabilities. The Valuation Office are continuing to reduce council tax bands and rateable values, which results in charges being reduced for previous years and refunds being issued, which then reduces the Previous Years Amount Collected figures.

The council tax arrears figures outstanding at 31st March 2015 have increased due to the implementation of the localised Council Tax Support scheme in April 2013 and the increased charges in respect of empty properties effective from April 2014.

Summary of Revenue Reserves & Balances

Revenue Reserves	Actual Balance 31 March 2015 £'000	Projected Balance 31 March 2016 £'000	Projected Balance 31 March 2017 £'000	Projected Balance 31 March 2018 £'000	Projected Balance 31 March 2019 £'000
Total General Fund Reserves	3,449	3,907	4,225	4,225	4,225
Earmarked Reserves:					
Asset Management	2,228	1,703	1,346	1,146	1,596
Borough Council Elections	134	44	74	104	134
Business Rates Retention	433	1,983	1,000	1,000	1,000
Housing Needs Survey	65	85	105	125	145
ICT Strategy	2,013	1,807	1,752	1,652	1,662
Leisure Sites Repair & Maintenance	260	260	260	260	260
Local Development Framework	180	180	180	180	180
Performance Reward Grant	177	120	62	62	62
My Neighbourhoods	48	0	0	0	0
Public Open Space funds	1,653	1,594	1,535	1,476	1,417
Organisational Restructure costs	385	385	385	385	385
VAT reserve	105	105	105	105	105
Vehicles & Plant Replacement	112	112	112	112	112
Other Earmarked Reserves	1,072	827	720	663	603
Total Earmarked Reserves	8,865	9,205	7,636	7,270	7,661
Total Reserves	12,314	13,112	11,861	11,495	11,886

Appendix D

Budget Items Listed for Carry Forward from 2014/15 into 2015/16

The following items relate to items of expenditure that were planned in 2014/15 but will now occur in 2015/16:-

Revenue Budget to be carried forward from 2014/15 to 2015/16		
£ 000		
Neighbourhoods		
Highways Non Agency	Design of boundary signs approved in 2014/15. Signs ordered and expenditure to be incurred in 2015/16.	1.7
Grounds Maintenance	Grounds maintenance equipment ordered in 2014/15 but provider unable to supply until 2015/16. Goods now received.	19.0
Grounds Maintenance	Underspend carried forward to fund cost of summer bedding which was ordered but not delivered by the end of the financial year.	3.5
Safer Communities	Planned upgrade of CCTV delayed pending outcome of review of current system and consideration of alternative systems. Review complete and procurement to be undertaken in 2015/16.	7.0
Cleansing	Training commissioned in year but provider unable to provide training until April 2015.	4.6
Cleansing	Playground cleaning ordered in March and 2 sites rolled over to 2015/16. Work completed in May 2015.	1.5
Regeneration and Healthy Communities		
Environmental Health	Underspend carried forward to fund planned food inspections not undertaken in year due to vacancy in team.	5.0
Land Drainage	Budget required to fund land drainage works at Cumberland Avenue, Worden Park after investigations resulted in a change in the works planned.	7.0
Enterprise	Match funding for Penwortham Neighbourhood Forum Project (Shout Network).	2.5
Total to be carried forward to 2015/16		51.8

Medium Term Financial Strategy				
Revenue Budget Forecasts 2015/16 to 2018/19				
	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
Net Expenditure (after efficiencies)	12,604	11,760	12,780	12,908
<i>Financed By:</i>				
Revenue Support Grant/Business Rates	4,041	3,514	3,514	3,514
Council Tax	7,364	7,309	7,419	7,530
Parish/Town Council Precepts	256	256	256	256
Council Tax Freeze Grant 15/16	77	0	0	0
New Homes Bonus	625	625	460	291
Homelessness Prevention Grant	56	56	56	56
General Reserve (contribution from)	185	0	0	0
Total Funding	12,604	11,760	11,705	11,647
Forecast Funding Gap	0	0	1,075	1,261

BUDGET EFFICIENCY PROGRAMME 2014/15

Budget Efficiency Targets	Full Year Target £000	2014/15 Part Year Effect		Future Years' Full Year Effect		
		Full Year Outturn Forecast £000	Over/(Under) Achieved £000	Full Year Target £000	Full Year Forecast £000	Over/(Under) Achieved £000
COMPLETED PROJECTS:						
Senior Management Review	(160)	(165)	5	(160)	(166)	6
Neighbourhoods Management and technical officer support review	(100)	(80)	(20)	(100)	(162)	62
Legal and Democratic	(50)	(30)	(20)	(50)	(30)	(20)
Housing and Planning (50) Plus Contingency to address skills capacity following senior management review 100 Building Control vacancy freeze pending completion of service review (2014/15 only) (50)						
Sub-total	0	(98)	98	50	71	(21)
SUB TOTAL - COMPLETED PROJECTS	(310)	(373)	63	(260)	(287)	27
PROJECTS TO BE COMPLETED 2014/15:						
Administrative Support	(50)	(13)	(37)	(50)	(22)	(28)
ICT	(30)	0	(30)	(30)	0	(30)
Base Budget Review	(80)	(62)	(18)	(80)	(54)	(26)
SUB TOTAL - UNCOMPLETED PROJECTS	(160)	(75)	(85)	(160)	(76)	(84)
OFFSETTING ADDITIONAL COSTS:						
Temporary resource to deliver programme (2014/15 & 2015/16)	50	49	1	50	50	0
Supplement to lower graded posts – subject to consideration	10	21	(11)	10	21	(11)
Net Savings	(410)	(378)	(32)	(360)	(292)	(68)
Plus transitional employee budget savings	0	(88)	88	0	0	0
Total	(410)	(466)	56	(360)	(292)	(68)