

REPORT TO	DATE OF MEETING
Governance Committee	25 June 2014



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SUBJECT	PORTFOLIO	AUTHOR	ITEM
South Ribble Borough Council Budget Out-turn Report 2013/14	Finance & Resources	S Guinness/ J Blundell	4a)

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 2014 for the 2013/14 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 2014.

This report has been prepared to notify members of the 2013/14 Budget Out-turn position in relation to both Revenue and Capital expenditure. The core financial statements relating to this year-end position are also reported to this committee on the 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 2013/14 listed at Appendix A;
3. Approve that the budget items listed at Appendix D are carried forward to 2013/14;
4. Approve the financing of the capital programme for 2013/14 and the carry forward of capital re-phasing into 2014/15 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 actual net revenue expenditure of the Council for 2013/14 was £12.749 million, when compared against the Council's budget this gives a deficit to be funded from general reserves of £0.800 million. The expected financial position at year end previously reported to Members was an expected contribution from general reserves of £0.956 million. The net effect of a number of one-off items occurring in the financial year has positively impacted on the Council's out-turn position.

Revenue Service Budget

2. The actual net revenue expenditure for 2013/14 was £12.749 million. When this is compared against the Council's budget it gives a deficit to be transferred from general reserves of £0.800m. This is a favourable movement of £0.156m brought about predominantly as a result of a number of one-off items that positively impacted on this position. Budget variations are explained below and also listed in Appendix A attached:
 - Additional employee costs, including one-off severance and pensions costs.
 - Additional income from costs recovered as a result of an increase in Council Tax summons issued in 2013/14.
 - There is a net surplus of £168,000 in Housing Benefit costs and offsetting subsidy 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.
 - The impact of the new Business Rates Retention scheme implemented in April 2013.
 - A beneficial write back of Icelandic Investment impairments which were charged to the revenue account in previous years.
 - Additional recurring budgetary savings have also been achieved and these items will form the basis of the on-going Base Budget Review project which is part of the Council's Budget Efficiency Programme for 2014/15.
3. As above, it is important to note that the 2013/14 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. The Icelandic bank investment with Landsbanki was due to be recovered over several years, involving exchange rate losses on repayments and incurring legal fees. To minimise the risks associated with the claim recovery process, the Council decided to participate in the auction of Landsbanki claims and received auction proceeds of £1.313m. This brought the claim process to a successful conclusion. The total recovered was £3.069m which includes interest earned on the investment. Monies have also been received in respect of the investment with Heritable. These two events have resulted in impairment charges, which were previously made to the revenue account, being written back in 2013/14.
5. The final position for 2013/14 has also allowed for a revision of the contributions to specific reserves in line with the Council's financial strategy and this will have the effect of strengthening the medium term financial planning process for 2014/15 and subsequent years.
6. 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 2013/14, (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 the agenda for information.
7. 2013/14 is the third year whereby the council is required to submit an audited Whole of Government Accounts (WGA) return, this is due to be submitted in October 2014.

DETAILS AND REASONING

Background

8. 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 2013/14, (The Code), which is based on International Financial Reporting Standards.
9. 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
10. The Council's Annual Governance Statement is also reported to members on this agenda.
11. The complete Statement of Accounts will be available to Members in July after it has been approved by the Chief Finance Officer. This will provide members with the opportunity to inspect with whole statement with Officers in order for any issues or items of concern to be highlighted to the External Auditor for further scrutiny. This procedure is in line with best practice. The Council's External Auditor will conduct the inspection in August and present the Annual Audit Letter to members later in the financial year, following the conclusion of the audit.
12. The accounts will be available for public inspection from Monday 4th August 2014 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 2013/14 Statement of Accounts, has been designated as Monday 18th August 2014.

Summary of Financial Points within the Financial Statement of Accounts

REVENUE NET EXPENDITURE

13. Members will note that in setting the projected out-turn budget for 2013/14 it was anticipated that a net contribution of £0.956 million would be made from the general reserve to balance the Council's overall revenue budget. Taking into account the final actual out-turn position, it is now proposed that this amount is revised to a contribution from the general reserve of £0.800m. In addition to this, and in the light of the financial risks that face the Council, there are some proposed changes to the contributions to and from specific (earmarked) reserves.
14. An explanation of the items effecting the variance is shown at Appendix A.
15. With regard to the particular key income streams reported throughout the year the actual out-turn position achieved is as follows. Explanations of the main budgetary variations are also contained later in the report :-

Income Budgets	Projected Outturn Budget 2013/14	Actual Out-turn 2013/14	Variation to Budget 2013/14
Investment property Income	(953,948)	(982,445)	(28,497)
Bulk Containers/Trade Waste	(393,000)	(391,709)	1,291
Icelandic Investments - Impairment	(161,000)	(437,493)	(276,493)
Planning Fee Income	(400,000)	(374,048)	25,952
Building Control Income	(161,000)	(149,809)	11,191
Land Charges	(120,000)	(119,440)	560
Licensing Income	(175,820)	(189,873)	(14,053)
Car parking Income	(83,000)	(84,987)	(1,987)

CAPITAL EXPENDITURE & RECEIPTS

16. The major areas of capital expenditure and sources of funding in 2013/14 are as follows:-

CAPITAL EXPENDITURE & FINANCING 2013/14	
Capital Expenditure	£000
Playgrounds, Recreation Areas & Open Spaces	36
Housing Grants	415
Asset Management	603
Vehicles, Plant and Equipment	270
Information Technology and communications	254
Regeneration	115
Community Grants (Performance Reward Grant funded)	39
Total capital expenditure	1,732
Financing	£000
Government Grants	454
Developers' contributions	66
Fund balances & reserves	890
Capital receipts	56
Revenue contributions	12
Borrowing	254
Total Financing of capital expenditure	1,732

17. The original capital allocation for 2013/14 was revised during the year from £2,531,590 to £2,511,423 in order to show the re-phasing of some capital projects. The capital expenditure final out-turn for 2013/14 is £1,732,467 against a Projected Out-turn Budget of £2,511.423. The main reasons for the variations are summarised below. The re-programmed expenditure will, on approval, be incorporated into the 2014/15 Capital Programme.

CAPITAL EXPENDITURE 2013/14		£'000
Total Projected Outturn Budget 2013/14	<i>(a)</i>	2,511
LESS Programmed into 2014/15:		
Finance & Resources		
Asset Management - Re-programming of schemes, including Civic Centre improvement works £78k		(88)
Shared Services & Corporate Support		
IT Schemes - Expenditure programmed for 14-15 includes: Electronic Document Management System £11k, Financial Management System £10k, IT hardware replacement £16k		(46)
Strategic Planning & Housing		
Dangerous Structure – works in default		(10)
The Council delivered its Disabled Facilities Grant process through the Riverside Home Improvement Agency. This agreement was terminated at the end of March 2014 which temporarily impacted on delivery. A new in-house function has been introduced delivering a service which provides greater choice for the customer and improves process efficiency.		(384)
Regeneration, Leisure & Healthy Communities		
Regeneration schemes to be completed in 2014/15: Longton Village Improvements £38k, Higher Walton Regeneration £10k		(48)
Neighbourhoods & Street Scene		
Vehicles & plant replacements programmed for 2014/15		(120)
Parks, Play areas & open spaces - works due to be completed in 2014/15: Farington Park £6k, Open Space capital works £50k		(56)
Performance Related Grant		
Partnerships projects funded from Performance Related Grant		(3)
Total Programmed into 2014/15	<i>(b)</i>	(755)
PLUS Variations during the year:		
Finance & Resources		
Asset Management – savings in project costs		(7)
Shared Services & Corporate Support		
IT schemes – additional costs		2
Regeneration, Leisure & Healthy Communities		
Regeneration schemes savings in year		(1)
Neighbourhoods & Street Scene		
Parks, Play areas & open spaces saving		(4)
Vehicles and plant procurement savings		(14)
Total net underspending 2013/14	<i>(c)</i>	(24)
NET CAPITAL EXPENDITURE VARIATION	<i>(b) + (c)</i>	(779)
TOTAL CAPITAL EXPENDITURE 2013/14	<i>(a)+(b)+(c)</i>	1,732

THE MAIN ISSUES 2013/14

18. The financial year 2013/14 was a year of significant technical change which has greatly impacted on the Council's accounts. The detailed impact on the core statements is explained within another report on the agenda, however, these issues have also affected the out-turn position and reserves as described below:

Implementation of Business Rates Retention (BRR)

19. 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. The Council's NNDR allocation was not affected by the value collected.

20. A new method of allocating NNDR resources known as Business Rates Retention (BRR) was implemented during 2013/14. Before the start of the financial year, an estimate of the net rates yield (after reliefs, discounts, bad debts and appeals) was prepared. Of the total income, 50% was to be taken by Central Government, 9% by Lancashire County Council, 1% by Lancashire Combined Fire Authority, with the 40% balance remaining with South Ribble Council. This Council's 40% share of estimated net rates has been transferred from the Collection Fund.

21. Also in accordance with the regime's framework, as this amount of income still exceeds Central Government's estimate of how much South Ribble needs to spend, much of it has been paid to government as a tariff, for redistribution to other authorities as top-up payments.

22. With regard to actual performance within the regime described above, less income was collected than expected. As the amount of retained Business Rates was determined and fixed prior to 2013/14 based on estimates, the effect of this reduced income level will only impact on the revenue account in 2014/15. Therefore BRR income received from the Collection Fund remain higher than the original budgeted level of income approved within the budget.

23. For the first time South Ribble Council takes a share of the risk should net rates yield be less than the expected figure. As this was the case in 2013/14, the resulting deficit on the Collection Fund, being £3.649m, has to be repaid in 2014/15. South Ribble's share of the deficit i.e. 40% is £1.460m. To meet this commitment funds have been transferred temporarily into an earmarked reserve. Collection Fund rates income shortfalls may occur for various reasons, the main one in 2013/14 being the level of provision required for backdated appeals.

24. The technical calculations within the new system are very complex including the fact that the impact of performance in a particular year spans more than one financial year. The above deficit on the Collection Fund in 2013/14 was based on an estimate, as the actual out-turn position was £2.428m (with South Ribble's 40% share being £0.971m) the beneficial difference of £0.489m will be received in 2015/16.

25. Finally, as the rates income collected was below the total that Central Government thought would be collected, a safety net payment of £0.014m has been allocated to South Ribble in 2013/14.

26. 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 2014/15. This may potentially lead to a further deficit chargeable in 2015/16.

27. In summary, the financial impact of the new 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.

Section 31 Grant (Small Business Rate Relief)

28. Central Government is committed to refunding Local Authorities for any loss in income within the Business Rates Retention (BRR) scheme brought about by their Empty Property and Small Business Rate Relief (EP/SBRR). The refunds, based on the initial estimates reported through NNDR1 (name of BBR return), are to be made through a section 31 grant. The Council has received £0.393m as reimbursement for EP/SBRR. This is in addition to the income budgeted for from business rates in 2013/14.

Implementation of Council Tax Support Local Scheme

29. Up to 2012/13, support for those residents unable to pay full Council Tax was by means of Council Tax Benefit, the cost of which was substantially reimbursed by Central Government. Councils were required to implement local schemes for Council Tax Support discounts, to replace Council Tax Benefit. A report proposing this Council's local scheme was approved by Council on 23rd January 2013.

30. Rather than paying Council Tax Benefit, which was credited to the Collection Fund, support is now given by means of discounts, which means that Council Tax income has reduced. Funding from Central Government has changed from being a variable subsidy based on expenditure to a cash limited allocation at a level 10% lower than the forecast subsidy had there been no change.

31. The impact of this change on the Council's core financial statements within the Statement of Accounts is described within another report on this agenda.

Icelandic Bank Investments

32. In 2008, the Council had investments totalling £5.0m in the failed Icelandic Banks Landsbanki and Heritable. As the annual Statement of Accounts should continue to incorporate the financial implications of this situation CIPFA produce guidance on the assumptions that are recommended when calculating the value of the investments. This guidance provides estimates on the amounts expected to be recovered and the timescales over which the staged repayments will be made.

33. With regard to Landsbanki, last year we reported that unfortunately progress in redeeming the debt had been delayed pending a court hearing in Iceland. This matter was successfully concluded and a further £0.169m was received in 2013/14. The recovery of the remaining investment, however, was still expected to take several years and would involve incurring exchange rate losses on repayments and also legal fees. Therefore to minimise the risks associated with the claim recovery process, the Council decided to participate in the auction of the Landsbanki claim.

34. As a result, £1.313m was received bringing the claim process to a successful conclusion with the total recovered being £3.069m. As the value of the claim in the Balance Sheet was £1.322m after impairments applied in accordance with CIPFA guidance, the difference between this value and that received in year (being £0.160m) was transferred to the revenue account. This represents the write back of the impairment charges previously made.

35. Recovery of the investments in Heritable have been more straightforward than Landsbanki as there has been no foreign exchange risk with the debt being recorded and repaid in sterling. To date, £1.894m has been returned, being 94.7% of the original investment amount.
36. The opening value on the balance sheet in 2013/14 was £0.204m as a result of previous year's impairment charges applied in accordance with CIPFA guidance. As £0.337m has been returned this year, the difference of £0.133m has been transferred back into the revenue account. As above for the Landsbanki claim, this represents the write back of the impairment charges that have been previously made.
37. The details of the amounts now received are set out in the Treasury Management Annual Report on this agenda.

OTHER BALANCE SHEET ITEMS

Fixed Asset revaluations

38. The Council is required to revalue all its land and property assets within a five year period. In addition, each year it reviews the values of any assets which have been improved or developed, and those the values of which have been impaired because of physical damage or defects, or significant changes in the property market. K. J. Property Consultancy was commissioned to undertake this work in 2013/14 and the Council's Estates Surveyor also carried out some valuations. In total 42 assets have been re-valued or adjusted during the year.

Debt Recovery

39. Council Tax in-year collection rates reduced from 97.60% in 2012/13 to 97.42% in 2013/14, a reduction of 0.18%. The collection rate has held up well given the fundamental changes that have been implemented, however, the reduction in collection experienced is a direct result of the welfare reform changes which replaced council tax benefit with council tax support. This change resulted in an additional £500k being added to our net collectable debit. This reduction in collection rates was less than anticipated due to improved collection from non council tax support cases.
40. There was also a reduction in the NNDR collection rate of 0.17% (97.79% to 97.62%). This was attributable to the late addition of Rutherford Point office development in Buckshaw Village in early March. This added £ 80,702 (0.22% of net collectable debit) to the amount we were due to collect.
41. A further analysis is shown in Appendix B attached to this report.

Debtors

42. Total debtors at the 31st March 2014 amount to £3.036m compared with £4.615m at 31st March 2013, which is an overall reduction of £1.579m. This is mainly due to an increase in the Provision for Bad Debts of £0.603m and a reduction in the amount from Council Tax preceptors of £0.556m with regard to the Collection Fund surplus adjustment.
43. As in previous years, the bad debt provision has been reviewed to take account of the period of time the debts have been outstanding and the likelihood of ultimate recovery.

Creditors

44. Total creditors as the 31st March 2014 amounted to £3.219m compared with £4.303m at 31st March 2013, a reduction of £1.084m. This is mainly due to a reduction in the NNDR Pool account of £1.242m. This follows changes in the accounting arrangements for business rates under the BRR scheme, which removed the previous arrangements for the pooling of business rate income from 1st April 2013.

Usable Reserves

45. 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 2014 and post external audit inspection by the Governance Committee in September 2014.

46. The following table shows the Council's overall level of revenue reserves as at 31st March 2013 and 31st March 2014, subject to the approval of the Statement of Accounts as drafted. This shows a General Fund balance of £4.092 million at 31st March 2014. The overall level of reserves has increased by £0.883 million, comprising of a reduction in General Reserves of £0.800 million plus an increase of £0.527 million in Earmarked reserves, as detailed in Appendix C. Earmarked Reserves have also been increased to accommodate the deficit on Collection brought about by the new BRR scheme.

REVENUE RESERVES	31st March 2013 £'000	31st March 2014 £'000
General Fund Reserve	4,892	4,092
Earmarked and Other Reserves	8,370	8,897
Business Rates Retention	150	1,289
Total	13,412	14,278

47. 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 risks facing the Council.

48. 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 budget pressures facing the Council in future years and the inherent uncertainty and risk of significant fluctuations in levels of income now included in the core grant regime.
- (2) 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 will be funded from contributions from the General Fund Reserve which will reduce its balance by £1.315m.
- (3) The current forecast budget gap within the Medium Term Financial Strategy is as follows:-

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Budget Gap	0.542	1.374	1.715	2.512
Contribution from Reserves	(0.132)	-	-	-
Budget Efficiency programme 2014/15	(0.410)	(0.360)	(0.410)	(0.410)
Budget (Surplus)/Deficit	0	1.014	1.305	2.102

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

Building Control

50. 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, when the regulations came into force. The deficit in 2013/14 has been wholly funded from general reserves.

Building Control Fee - Earning Account - 2013/14 Out-turn

	Projected Outturn £'000	Actual £'000	Variation £'000
Expenditure	198	208	10
Income	(154)	(137)	17
Deficit for the year	44	71	27

51. The actual income for the year was £137,000, a shortfall in income of £17,000. The extension of the partnership arrangement with other local authorities is currently being actively pursued.

THE ANNUAL GOVERNANCE STATEMENT

52. 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.

53. 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.

54. 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.
55. 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

56. 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.
57. The Government's 2012 Comprehensive Spending Review (CSR) presented a number of financial challenges for the Council in significantly reduced levels of core funding in 2013/14 and 2014/15 but also uncertainty in future funding levels beyond 2014. Not least, as stated within this report, the additional potential risk posed by the new BRR regime is not insignificant. The Government's next CSR is due in the near future with previous statements revealing that the austerity measures will continue for a number of years to come.
58. 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.
59. As stated, the other major change is the implementation of BRR. Notably, the Council is now exposed to the risk of collection and potential year on year fluctuations that span three financial years. Many of the variable factors involved in the calculation of retained business rates are outside of the Council's control:-
- 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.
60. In addition, the localised Council Tax Support Scheme has replaced Council Tax Benefit from 2013/14. This change has meant a 10% reduction in Government grant (£600,000) of which South Ribble Borough Council's exposure in 2013/14 was circa £84,000. The Council's local scheme has been designed to recover this shortfall in funding whilst protecting pensioner claimants.
61. It is important that these issues are kept under constant review to take account of the latest available information and to ensure that contingency arrangements and/or reserves are adequate to manage the assessed risk. 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 those risks. The report contains within it details of the Council's reserves that are held to cover future expenditure.

62. These will be reassessed over the coming months, 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

63. 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 2013/14 it was anticipated that a contribution of £0.956m would be made from the general reserve. Taking into account the out-turn position it is now proposed to revise this to a contribution from the reserve of £0.800m.

64. 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. Recent years have seen the transition from a four year settlement period to a two year settlement period 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 has the potential to introduce further significant budgetary pressures in addition to the present budget funding gap. The new arrangements introduce new risk and volatility factors to the Councils' current Medium Term Financial Strategy, a summary of which is contained in Appendix E attached.

65. In addition to these new funding regimes and increased risk of volatility, the Comprehensive Spending Review 2010 also introduced annual variables with regard to the distribution mechanisms for 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.

66. The next Comprehensive Spending Review is due to take place in 2014, although its content are unknown at this stage, it is considered highly probable that the national requirement to reduce spending in the public sector will still exist. Thus, further reductions to the Council's Central Government core funding may be made which will result in an increased budget deficit position; this will need to be addressed by reducing net expenditure.

EARMARKED

67. 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

68. 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: Various works to Civic Centre (including lifts) £0.443m; Moss Side Depot fire suppression works £0.050m; Improvement/refurbishment of Investment properties £0.830m; Closed churchyards – wall repairs £0.091m; Refurbishment of vine house and replacement of conservatory/greenhouse at Worden Park £0.230m; and replacement/refurbishment of pavilions £0.158m. 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

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

Business Rates Retention

70. 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 and can be backdated for four years. The estimate is based on the number and value of outstanding appeals yet to be processed and also the number and value of appeals refunded during the year. The VOA has apparently been given to July 2015 to clear the backlog of appeals submitted to them for consideration.

71. South Ribble's share of the deficit is 40% and equates to £1.459m. This will be paid back into the collection fund in 2014/15. This amount was also based on estimates made before the year end position was known. The actual year end deficit is £2.428m, of which South Ribble's share is £0.971m. Therefore, if all factors with regard to estimated performance levels remain constant in 2014/15, the 2014/15 collection fund will end the year with a surplus of £1.221m. Hence, South Ribble will receive a 40% share equating to £0.488m in 2015/16.

72. In order to meet the collection fund deficit commitment in 2014/15, a sum of £1.289m has been reserved. The new system is being closely monitored together with its impact on the Collection Fund. The level of this reserve will be considered on a regular basis to mitigate the potential risk to the Council's MTFS.

Housing Needs Survey

73. This reserve is used to meet the costs of carrying out a detailed housing needs survey. Survey costs of £42,000 were funded from the reserve in 2013/14.

ICT Strategy Reserve

74. The balance on the ICT Reserve at 31st March 2014 amounts to £2.126m out of which spending plans are in place for 2014/15 to 2017/18 totalling £1.783m. 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.

75. Schemes currently programmed include: Revenues & Benefits software £0.250m, CAPS system replacement/or its equivalent £0.250m and EDRMS Fraud Case Management system £0.200m, Desktop replacement £0.200m, Telephony system replacement £0.200m, Intranet £0.250m and IT hardware renewal £0.160m.

Leisure Sites Repair & Maintenance

76. 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)

77. The purpose of this reserve is to meet the predicted fluctuating expenditure requirements in relation to the LDF. The closing balance on this reserve at 31st March 2014 is £0.218m.

Performance Reward Grant

78. 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

79. The balance on the My Neighbourhoods reserve as at the 31st March 2014 is £0.038m and this represents unspent core funding carried forward into 2014/15 to fund My Neighbourhoods expenditure.

Public Open Space Commuted Sums

80. 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

81. 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.

Vehicles & Plant Replacement

82. 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

83. 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. It also includes funds set aside to ensure the Council can meet any liabilities which may arise following the receipt of claims from a group of Property Search companies for the refund of statutory fees paid to the Council to access land charges data since 2005. The opening balance for 'Other' reserves at 1st April 2013 was £1.039m. The proposed amounts to be carried forward from 2013/14 will add £0.127m (see Appendix D) leaving a balance at 31 March 2014 of £1.083m, after releases to revenue during 2013/14. This balance is planned to be released to fund committed expenditure between 2014/15 and 2017/18.

BUDGET EFFICIENCY SAVINGS/ADDITIONAL INCOME

84. A key element of the Council's Strategic Planning, Budgeting and Performance Monitoring processes is 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.

85. The original budget for 2013/14 included an efficiency target totalling £0.515m, as set out in Appendix F. This target was achieved during the year.

86. Assumptions have been made in 2014/2015 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 funding shortfall. It is therefore recognised that it is essential to convert the savings into specific targets and these are set out in the 2014/15 Budget Setting Report.

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 2013/14 – Cabinet, 6th February 2013
- Financial Strategy/Budget and Council Tax 2014/15 – Cabinet, 12th February 2014

APPENDICES

Appendix A	Significant Budget Variances in 2013/14
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 2013/14 into 2014/15
Appendix E	Medium Term Financial Strategy Revenue Budget Forecasts 2014/15 to 2017/18
Appendix F	Budget Efficiency Programme 2013/14

Significant Budget Variances in 2013/14

Details	(Under)/Over Spend £000	Sub Total £000	General Reserve £000
Projected Outturn : Contribution from General Reserve			956
<u>Revenue Service Budget - Expenditure</u>			
Employee Costs	86		
Premises - R & M Costs	(79)		
Premises - Other	(45)		
Supplies and Services	(115)		
Transport Costs	(21)		
Reduction in net contribution from Earmarked reserves	69	(105)	
<u>Revenue Service Budget - Income</u>			
Increases in income:			
Costs recovered	(66)		
Vehicle sales	(13)		
Property rental income	(12)		
Reductions in income:			
Planning Fees	26		
Building Control	11		
		(54)	
Other net movements		(27)	
Sub Total			(186)
<u>Effect of One off Items occurring in 2013/14 only</u>			
Housing/Council Tax Benefits		205	
Transfer to Business Rates Retention Reserve		101	
Write back of Icelandic Investment impairments made in previous years		(276)	
Sub Total			30
Year end deficit – transfer from General Reserve			800

Council Tax, Business Rates and Sundry Debtor Collection

The collection statistics for 2013/14 were as follows:-

(1) COUNCIL TAX

Council Tax In-Year Collection

Quarter	2010/2011 results %	2011/2012 results %	2012/2013 results %	2013/2014 results %
1	29.58	29.61	29.62	29.30
2	28.24	28.16	28.39	28.24
3	28.28	28.20	28.40	28.28
4	11.51	11.51	11.19	11.60
ANNUAL TOTAL	97.61	97.48	97.60	97.42

Council Tax collection was below last year's rates due to the replacement of council tax benefit with council tax support. This change saw in excess of 2,200 working age residents paying council tax for the first time.

Council Tax collection exceeded expectations for both non Council Tax Support cases and council tax support cases. It was anticipated when setting the council tax base that in year collection would be around 97%.

Value of Previous Year's Council Tax Collected by Quarter

Quarter	2010/2011 results £000	2011/2012 results £000	2012/2013 results £000	2013/2014 results £000
1	288	344	305	284
2	192	195	183	27
3	149	215	3	69
4	91	-88	19	-24
ANNUAL TOTAL	720	666	510	356

Collection of arrears is reduced due to the number of revaluations carried out by the Valuation Office Agency. This results in large credits being generated on previous years' debts, these were subsequently refunded.

COUNCIL TAX ARREARS ANALYSES

Analysis of arrears predating 1st April 2013:-

Arrears at 31st March 2013 were: £ 2,633,984

Arrears at 31st March 2014 were: £1,537,269

Arrears are reduced by: £1,096,715

Of the £2,633,984 arrears outstanding as at 31st March 2013, £1,537,269 remains outstanding as at 31st March 2014. This is a reduction of 41.64%. In 2012/13 the reduction in arrears predating 1st April 2012 was 47.83%.

Arrears analysis including 2013/14:-

Arrears at 31 st March 2013 were:	£2,633,984
Arrears at 31 st March 2014 (including those relating to 13/14):	£2,987,507
Arrears have increased by :	£353,523

This is an increase in arrears of 13.42%. In 2012/13 the arrears including those relating to 2012/13 increased by 0.99%. This increase is due to the implementation of a council tax support scheme which aimed to recoup the reduction in grant provided by central government.

(2) BUSINESS RATES (NNDR)

NNDR In-Year Collection

Quarter	2010/2011 results %	2011/2012 results %	2012/2013 results %	2013/2014 results %
1	31.15	31.85	32.39	30.83
2	28.62	29.48	29.24	28.85
3	28.03	26.44	26.63	26.89
4	8.94	9.40	9.53	11.05
ANNUAL TOTAL	97.76	97.17	97.79	97.62

The NNDR collection figures for 2013/14 were adversely affected by two large outstanding amounts which were billed late in the financial year due to the timing of information from the Valuation Office. These two accounts, accounted for an additional 0.22% on collection.

2013/14 Collection Rates continue to be in line with previous years' performance excluding the special items mentioned

Value of Previous Year's NNDR Collected by Quarter

Quarter	2010/2011 results £000	2011/2012 results £000	2012/2013 results £000	2013/2014 results £000
1	263	(132)	197	141
2	(201)	(119)	(136)	90
3	(31)	147	(16)	(755)
4	(1)	(170)	(80)	(355)
ANNUAL TOTAL	30	(274)	(35)	(879)

There were a number of very large refunds issued in December and January as a result of revaluations processed by the Valuation Office Agency (VOA) on a number of the council's largest assessments. The value of these refunds far exceeded the amounts collected. We refunded in nearly of £1.7m (Previous year £ 0.677m) to Business Ratepayers in South Ribble last year.

NNDR ARREARS ANALYSES

Analysis of arrears predating 1st April 2013

Arrears @ 31 st March 2013 were:	£1,070,784
Arrears @ 31 st March 2014 were:	£358,147
Arrears have reduced by:	£ 712,637

Of the £1,070,784 arrears outstanding as at 31st March 2013 £358,147 remains outstanding as at 31st March 2014. The arrears have reduced for debt predating 1st April 2013 by 66.55%, this compares to a reduction the previous year of 86.34%.

Arrears analysis including 2013/2014:-

Arrears at 31 st March 2013 were:	£1,070,784
Arrears at 31 st March 2014 (including those relating to 13/14)	£1,207,246
Arrears have increased by:	£136,462

This is an increase in arrears outstanding of 12.74% where 2012/13 saw an increase in arrears outstanding of 3.77%. These figures include the inclusion of two large assessments worth £ 80k for Rutherford Court.

(3) SUNDRY DEBTORS

Number of outstanding sundry debtor accounts at quarter end (net of instalment/direct debit invoices)

Quarter	2010/2011 results	2011/2012 results	2012/2013 results	2013/2014 results
1	135	226	250	251
2	161	231	199	301
3	179	235	217	264
4	232	191	248	244

Sundry Debtors

The cash value of outstanding sundry debtor invoices at 31st March 2014 was £1.637m which is a decrease of £0.673m on the previous year. The number of outstanding non-instalment invoices decreased from 248 to 244 between 31st March 2013 and 31st March 2014. This amount included a Section 106 agreement for in excess of £340K which is now paid in full. The level of arrears in 2013/14 is, therefore lower than in comparable to those of previous financial years.

Sundry debtor write offs in 2013/14 amounted to £9,871.79 compared with £11,055.85 in 2012/13.

Summary of Revenue Reserves & Balances

Revenue Reserves	Actual Balance 31 March 2014 £'000	Projected Balance 31 March 2015 £'000	Projected Balance 31 March 2016 £'000	Projected Balance 31 March 2017 £'000	Projected Balance 31 March 2018 £'000
Total General Fund Reserves	4,092	2,663	2,663	2,663	2,663
Earmarked Reserves:					
Asset Management	2,365	1,686	1,587	737	1,087
Borough Council Elections	104	134	44	74	104
Business Rates Retention	1,289	270	270	270	270
Housing Needs Survey	45	65	85	105	125
ICT Strategy	2,126	1,863	1,673	1,268	1,018
Leisure Sites Repair & Maintenance	260	260	260	260	260
Local Development Framework	218	178	178	178	178
Performance Reward Grant	207	140	71	3	3
My Neighbourhoods	38	0	0	0	0
Public Open Space funds	1,712	1,653	1,594	1,535	1,476
Organisational Restructure costs	522	522	522	522	522
VAT reserve	105	105	105	105	105
Vehicles & Plant Replacement	112	112	112	112	112
Other Earmarked Reserves	1,083	968	938	904	866
Total Earmarked Reserves	10,186	7,956	7,439	6,073	6,126
Total Reserves	14,278	10,619	10,102	8,736	8,789

Budget Items Listed for Carry Forward from 2013/14 into 2014/15

The following items relate to items of expenditure that were planned in 2013/14 but will now occur in 2014/15:-

Revenue Budget to be carried forward from 2013/14 to 2014/15		
		£ 000
Chief Executives		
Human Resources	Coaching training delayed due to change of provider from NWE0 to LCC. New provider to supply service in 2014/15 at a lower cost per candidate which will allow more employees to participate.	10.0
Planning & Housing		
Housing	Homelessness Priority Needs - carry forward of externally-funded budget.	52.9
Property Services	Budget carried forward to fund property valuations in 2014/15.	7.0
Neighbourhoods		
Car Parking	Car park signs and lining works planned for 2013/14 to be undertaken in 2014/15.	7.2
Grounds Maintenance	Summer bedding ordered in old year & not delivered at year end.	4.4
Safer Communities	Required to fund contribution to CAN (Community Alcohol Network).	2.0
Safer Communities	Budget committed to contribute to IDVA costs.	5.1
Cleansing	Weed killer was ordered in old year and not delivered until new year.	3.0
Parks Development	Underspend required for additional refurbishment works to Worden courtyard.	12.2
Regeneration and Healthy Communities		
Community Works	Carry forward of Community Works budget to fund World War One project.	5.0
Land Drainage	Budget required to fund potential remediation works.	15.8
Health & Safety	Remaining budget carried forward to part-fund Core Managers H&S training.	1.3
Business Transformation		
Customer Contact	Staff uniform orders vary year on year. Unspent budget carried forward to fund larger order in 2014/15.	1.2
Total to be carried forward to 2014/15		127.1

Medium Term Financial Strategy				
Revenue Budget Forecasts 2014/15 to 2017/18				
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Net Expenditure (after efficiencies)	12,826	12,552	12,041	12,778
<i>Financed By:</i>				
Revenue Support Grant/Business Rates	4,392	3,704	3,704	3,704
Council Tax	7,032	6,994	7,098	7,204
Parish/Town Council Precepts	253	253	253	253
Council Tax Freeze Grant	336	406	0	0
New Homes Bonus	625	625	625	459
Homelessness Prevention Grant	56	56	56	56
General Reserve (contribution from)	132	0	0	0
Total Funding	12,826	12,038	11,736	11,676
Forecast Funding Gap	0	514	305	1,102

BUDGET EFFICIENCY PROGRAMME 2013/14

Directorate	Service	FYE of Savings Target £000	Notes
Regeneration and Healthy Communities	Catering Services	110	Transformational review of the Catering service provided from the Civic Centre.
	Health & Safety Contract	34	Savings have been realised through bringing the service back in-house and delivering it on a partnership basis.
Chief Executive	Chief Finance Officer	110	Deletion of vacant post for a further two year period as the role is currently being covered by the Chief Executive as a combined role.
Neighbourhoods	Neighbourhoods Services	176	A phased full service review which ensures the protection of front line service delivery.
Planning and Housing	Property Services	20	Savings achieved by taking a shared service approach.
	Forward Planning	20	Savings achieved by taking a shared service approach.
Shared Services	Shared Financial Services	30	Transformational review to achieve efficiencies in service delivery.
	Shared Assurance Services	15	Transformational review to achieve efficiencies in service delivery.
Total savings achieved		515	