

REPORT TO	DATE OF MEETING
Governance Committee	29 June 2016

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
South Ribble Borough Council Budget Out-turn Report 2015/16	Finance & Resources	S Guinness/ J Blundell	9 (a)

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 2016 for the 2015/16 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 2016.

This report has been prepared to notify members of the 2015/16 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.

This report is directly linked to the Corporate Priority of:

Efficient, Effective and Exceptional Council.

RECOMMENDATIONS

That the Governance Committee:

1. Note the contents of the report and appendices;
2. Note the budget variances for 2015/16 listed at Appendix A;
3. Approve that the budget items listed at Appendix D are carried forward to 2015/16;
4. Approve the financing of the capital programme for 2015/16 and the carry forward of capital re-phasing into 2016/17 as outlined in this report;
5. Note 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 there was no contribution into or from general reserves forecast. The actual year end out-turn position, of £12.602m, when compared to the Council's budget gives a surplus to be transferred to the general reserve of £0.101 million being a net movement of £0.101m.

Revenue Service Budget

2. Budget variations are explained below and also listed in **Appendix A** attached:

- Variations in employee costs and other running expenses mainly attributable to unbudgeted costs resulting from providing a Licensing function, responding to incidents of flooding and income withdrawal from Lancashire County Council (LCC) for Public Realm works.
- Additional Planning fee income.
- Additional interest earned on cash invested.
- There is a net surplus 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.
- Additional costs incurred in relation to response to December floods.
- The achievement of additional budgetary savings.

3. This out-turn position assumes that all the recommended carry over budget provisions are approved within this report. These are listed in **Appendix B**.

4. As above, it is important to note that the 2015/16 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 is only sustainable if it contains budgetary efficiency savings that are recurring and therefore permanent in nature.

5. 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 2015/16, (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 be made available to members for comment during the period of audit and an informal briefing session will be presented to members on 14th July 2016. The Core Financial Statements in the SOA are set out in a separate report on this agenda for information.

6. 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 2016.

DETAILS AND REASONING

Background

7. 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 2015/16, (The Code), which is based on International Financial Reporting Standards.

8. 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

9. The Council's Annual Governance Statement is also a key annual statement and reported to members on this agenda.
10. The complete Statement of Accounts will be available to Members from July 2016 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. An informal briefing session will be presented to Governance Committee Members on 14th July 2016 in preparation for the September SOAs approval process.
11. The accounts will be available for public inspection from Friday 1st July 2016 for a period of 30 working days. Any objections need to be put in writing to the external auditors with a copy to the Council from Friday 1st July 2016 onwards.

2015/16 Summary Budget Out-turn Contained within the Financial Statement of Accounts

REVENUE NET EXPENDITURE

12. Members will note that in setting the projected out-turn budget for 2015/16 it was anticipated that a nil contribution 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 £0.101m. An explanation of the items affecting the variance is shown at **Appendix A**.
13. This total budget variations assumes that all the recommendations for budget carry over into 2016/17 are approved within this reports as listed in **Appendix B**. It is expected that all carried over budgets will be fully spent in 2016/17 otherwise, in the absence of further approval, the balance will be transferred into the general reserve.
14. The key variations against the projected budget out-turn include:-
 - a) Employees - There is an overall overspend in employee-related costs of £0.035m against the 2015/16 budget of £8.833m. Additional unbudgeted costs have been incurred in responding to the flooding incidents during the winter. This totalled (£27K) but was still under the de minimis level that could be reclaimed from Central Government under the Bellwin Scheme. Also additional costs have been incurred in providing the Licensing Function (£11k). The cost of the additional Licensing staff is continuing into 2016/17.
 - b) Premises - There is an underspending against budget in respect of premises costs of £0.034m. This variation is made up as follows:
 - i) £11k saving across the Council's repairs and maintenance budgets .As this budget provides for both planned and unplanned maintenance work variations can occur if the unplanned or 'reactive' element of the budget isn't required.
 - ii) £14k net saving in utilities costs. The utilities budget was reduced to reflect anticipated savings due to improvements to the heating and ventilation systems at the civic centre and increased energy-saving measures which have been undertaken. In 2015/16 further savings were achieved and these cost savings (£17k) are partly offset by increased surface water charges (£3k).
 - iii) Other savings include £6k in respect of building cleaning costs and £3k in other premises-related expenditure.

- c) Supplies and Services - The £0.038m net saving includes the following:
- i) £22k saving in legal and court fees. Budget provision is made for external legal advice on planning matters and for the payment of court fees in relation to Council Tax summons. Expenditure is difficult to forecast with any certainty as it depends on what cases arise during the year. Council Tax court costs are recoverable and this underspend has resulted in an off-setting reduction in income.
 - ii) £22k outturn saving in ICT supplies and services costs. ICT contract costs are fixed and can be budgeted with some certainty, however this budget also provides for ad-hoc purchases which vary year on year and this element was less than the forecast.
 - iii) £25k saving in Shared Financial Services costs largely due to staff vacancies during the year.
 - iv) The above savings are partly offset by legal cost incurred in respect of the Licensing Function. The approved budget was £25,000 and total costs incurred totalled £47,331. These costs will continue into 2016/17 and to date a further £24.5k has been committed. As the legal support is currently ongoing this amount will increase, however, the final sum is not known.
- d) Transport Costs - Budget savings of £15k have been identified, as follows:
- i) Staff mileage (£7k) which ended the year at a lower level than anticipated. A new system was implemented during the year and costs were difficult to forecast accurately due to a backlog of claims. This backlog has been cleared and the base budget review exercise will identify any potential recurring saving.
 - ii) Vehicle hire costs saving (£6k). This budget provides for the ad-hoc hire of vehicles to ensure no disruption to services when fleet vehicles are off the road for maintenance and repairs.
- e) Key Income variations – the most significant budget variations occurred against Public Realm and Interest Earned on Cash Investments:-
- i) LCC funding for Public Realm works was reduced by £12k in 2015/16. The full year impact of this reduction in 2016/17 is forecast to be £65k.
 - ii) Increase in Interest earned on Cash Investments £51k (as per the Treasury Management Annual Report 2015/16 on this agenda).
 - iii) Other smaller variation occurred within the following budget heads:-
 - (1) There was a small upturn in Planning Fee income during the final quarter which resulted in an improvement against the revised budget forecasts.
 - (2) Additional take up of Trade Waste service in final quarter of year.
 - (3) The new car parking permit scheme has also generated additional income of £12k to the authority in 2015/16 from the sale of permits to businesses in the borough and to Runshaw College for students to use Worden Park car park.
 - (4) Conversely, there was a shortfall of £11k in total investment property income against the revised budget forecast. This is mainly due to a write-off of outstanding debt during the final quarter of the year which related to previous years.

15. 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 2015/16	Actual Out-turn 2015/16	Variation to Budget 2015/16
Investment property Income	(1,029,906)	(1,019,183)	(10,723)
Bulk Containers/Trade Waste	(440,343)	(446,518)	6,175
Planning Fee Income	(350,000)	(358,788)	8,788
Investment Interest	(120,000)	(171,345)	51,345
Building Control Income	(142,000)	(144,342)	2,342
Land Charges	(112,000)	(112,608)	608
Taxi Licensing Income	(78,800)	(76,144)	(2,656)
Car parking Income	(90,000)	(89,882)	(118)

THE SALIENT FINANCIAL ISSUES 2015/16

16. The Balance Sheet items are included within another 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

17. The Council's performance on income collection is a critical factor in respect of its financial matters. As per **Appendix C** the in-year collection statistics for Council Tax, Business Rates and general Sundry Debtor accounts have all improved.

18. 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)

19. The introduction of the BRR regime in 2013/14 represented a transformational change in core funding of Local Government. 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. The BRR regime has been in existence since 2013/14. The rationale of this scheme being that the local retention of Business Rates income incentivises Local Authorities to generate additional income by growing the tax base. The scheme does indeed provide a vehicle to generate additional receipts, however, it also transfers the financial risk associated with maintaining and growing the tax base, and the collection of monies due, from Central Government to Local Government.

20. With regard to actual performance in 2015/16, the total net income at the end of the year was in line with the estimated budget of £4.100m.
21. 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. This may potentially lead to a 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.

BRR Appeals

22. The BRR tax base is invariably in constant decline due to the Valuation Office Agency (VOA) appeals process. The current status of the backlog waiting to be processed by the VOA is therefore very much worthy of mention and consideration in the approach to be followed to cover the negative impact as described above. As at 31/03/16 the total Rateable Value (RV) subject to appeal totalled £30.2m (circa £14.8m in actual annual gross cash terms). When the total tax base RV within the borough totals £91.15m the scale of potential risk is evident. Clearly a proportion of these appeals will be either withdrawn or dismissed and will not be successful in their challenge.
23. To cover this potential pending liability the Collection Fund contains a provision that must be maintained by either topping it up or releasing funds from it when it is considered appropriate. This assessment is carried out by taking into account the total RV subject to appeal and applying historical trends in past years' appeal outcomes in an attempt to place an estimated cash value on the risk exposure for the Council. This includes estimating the percentage of appeals that will be successful and also estimating the percentage reduction in RV.
24. It is the VOA's responsibility to assess appeals and ideally make sure that the total pending potential liability, and therefore risk profile, is kept to a minimum. Within 2015/16 the VOA's throughput of processed appeals was very much reduced when compared to previous years, (it has been reported that VOA resources are being assigned to the current national re-valuation exercise), and therefore in 2015/16 we have increased the provision for appeals within the Collection Fund. It should be noted, however, that a reassessment of outstanding appeals during 2016/17 may conclude that this top up could be reversed if the VOA clears some of the backlog from 2015/16.
25. With regard to the move into the Lancashire Pooling Arrangements in 2016/17 the impact of adjustments to the Collection Fund Provision for Appeals also changes. Within the pool arrangements, the Council will receive 90% of any funds released from the provision (10% are passed to LCC) which is an increase from the 50% receivable outside a pooling agreement.
26. In summary, 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

27. The major areas of capital expenditure and sources of funding in 2015/16 are as follows:-

CAPITAL EXPENDITURE & FINANCING 2015/16	
<u>Capital Expenditure</u>	<u>£000</u>
Asset Management	247
Housing Grants	359
Information Technology and communications	212
Playgrounds, Recreation Areas & Open Spaces	569
Regeneration	127
Vehicles, Plant and Equipment	1,300
Community Grants (Performance Reward Grant funded)	25
Total capital expenditure	<u>2,839</u>
<u>Financing</u>	<u>£000</u>
Borrowing	1,263
Capital receipts	0
City Deal	349
Fund balances & reserves	471
Government Grants	441
Other contributions	180
Revenue contributions	53
Section 106	82
Total financing of capital expenditure	<u>2,839</u>

28. The original capital allocation for 2015/16 was revised during the year from £3,831,441 to £3,499,522 in order to show the re-phasing of some capital projects. Two further additions to the programme were approved by Cabinet after the revised budget was set. The vehicle replacement programme was increased by £36,000 to enable the purchase of an additional refuse vehicle, and a new scheme for £7,000 was created to allow a contribution towards a new visitor centre at Cuerden Valley Park.

29. The capital expenditure final out-turn for 2015/16 is £2,839,084 against a Projected Out-turn Budget of £3,542,522. The main reasons for the variations are summarised below. The re-programmed expenditure will, on approval, be incorporated into the 2016/17 Capital Programme to reflect the re-phasing of work.

30. The highest value category of capital financing is borrowing (£1.263m). This has been used to finance the Vehicle Replacement Programme only.

CAPITAL EXPENDITURE VARIATIONS 2015/16	£'000	£'000
Total Projected Outturn Budget 2015/16		3,543
<u>LESS Programmed into 2016/17:</u>		
<u>Shared Services & Corporate Support (IT schemes)</u>		
Call Centre system upgrade £4k, Electronic document & records management system £11k, HR system £2k, Finance system £9k, IT hardware £21k, Licensing system £7k, Revenues & Benefits system £28k, Intranet £8k, Business Continuity & Disaster Recovery (£8k) brought forward from 2016/17 to cover the increased costs of the CAPS system	(83)	
<u>Management of Assets</u>		
Civic centre windows £10k, Gregson Lane pavilion £30k, Bamber Bridge pavilion £7k, St Mary's churchyard wall repair £4k, Moss Side sports facility car park £50k	(101)	
<u>Neighbourhoods & Street Scene</u>		
Vehicles & plant replacements programmed for 2015/16	(214)	
Parks, Play areas & open spaces - Open Space capital works	(6)	
<u>Regeneration, Leisure & Healthy Communities</u>		
Regeneration schemes: Longton Village £38k, Leyland £20k, Leyland gateway features £9k, Penwortham £36k, Bamber Bridge initial spend (£26k) financed from City Deal	(75)	
Other schemes: St Catherine's Park £55k, Extension of track at Malt Kiln Fold £13k, Cuerden Valley Park visitor centre £4k	(71)	
<u>Strategic Planning and Housing</u>		
Disabled facilities grants	(106)	
<u>Performance Reward Grant</u>		
Partnerships projects funded from Performance Reward Grant	(25)	
Total Programmed into 2016/17		(681)
<u>Variations during the year:</u>		
<u>Shared Services & Corporate Support (IT schemes)</u>		
CAPS system £8k cost, funded by reduction in Business Continuity & Disaster Recovery budget of (£8k)	0	
<u>Management of Assets</u>		
Civic centre refurbishment (£3k) saving, 74-78 Towngate investment property (£6k saving), Moss Side sports facilities groundworks £7k additional cost, St Leonard's churchyard wall repair (£5k) saving, Penwortham leisure centre painting (£1k) saving	(8)	
<u>Regeneration, Leisure & Healthy Communities</u>		
Saving on overall design and development costs	(14)	
Total net over / (under) spending in 2015/16		(22)

Roundings

(1)

Total capital expenditure 2015/16

2,839

USABLE RESERVES

Revenue Reserves

31. 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 2016 and post external audit inspection by the Governance Committee in September 2016.
32. The following table shows the Council's overall level of revenue reserves as at 31st March 2015 and 31st March 2016, subject to the approval of the Statement of Accounts as drafted. This shows a General Fund balance of £4.221 million at 31st March 2016. The overall level of reserves has increased by £3.491 million, comprising of an increase in General Reserves of £0.772 million plus an increase of £2.719 million in Earmarked Reserves. The increase in Earmarked Reserves is mainly due to the set aside in year of the Council's proportion of the BRR collection fund surplus position and also due to funds earmarked in 2015/16 to fund investment in future years.

REVENUE RESERVES	31st March 2015 £'000	31st March 2016 £'000
General Fund Reserve	3,449	4,221
Earmarked Reserves	8,432	8,959
Earmarked Reserves – BRR Equalisation	433	2,625
Total	12,314	15,805

33. 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.
34. The amount held in reserve should be considered in the context of forecasted financial risk exposure having a potentially significant impact on the Council's budget in future years. The main threats to these forecasts are considered to be:
- The current projected budget deficit is forecasted to potentially reach £2.300m in 2018/19.
 - The next triennial review of the Pension Fund and its updated forecasts on the progress in bridging the Pension Fund Deficit.
 - Continuation of Central Government's austerity measures and as such further reductions to the public sector budget to be included in the Spending Review (SR) 2015 and applied to 2016/17 onwards.
 - The latest review introducing the concept of a negative Revenue Support Grant Adjustment to be applied to the Business Rates Retention income regime in the absence of the Revenue Support Grant (RSG) once it has been withdrawn as core funding in its entirety. With this adjustment entering into the negative spectrum it is very difficult to be able to assess if this adjustment has an absolute upper/(lower) limit. We have already lobbied government on this point and will continue to do so over the SR period.
 - A significant proportion of core funding now calculated and dependent upon annually fluctuating variable factors determined by a number of external factors. Within this overall core funding regime, the Business Rates Retention (BRR) regime, merits particular mention as it passes the risk of significant fluctuations in income from Central Government to Local Government. As a result changes in the tax base will have a direct and immediate impact on the Council's core funding, for example, uncertainty about the level of successful appeals by businesses against their rates poses a largely unknown

risk for the Council's finances and forward projection of income are potentially more uncertain.

- In addition BRR will undergo transformational change by 2019/20. By the end of the current Parliament it is intended that there will be a number of major reforms to local government finance and each could have a significant financial impact:-
 1. The reset of the business rates baseline could have the impact of reducing income from business rates for those as local authorities current retaining rate income above their current baseline.
 2. The potential financial impact of a future recession. Whilst it may not be possible for the council to readily model the potential financial consequences of recession locally, it is now a new additional financial risk to income received from both council tax and business rates.

35. Members are asked to note the retention of reserves at **Appendix D**.

Capital Reserves

36. With regard to reserves held to finance the Capital Programme, the table below provides the out-turn position and forecast capital receipts reserves for the period up to 31st March 2020. 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 2015/16. Capital Reserves were committed within the Capital Programme for 2016/17 to 2018/19 as approved in the Financial Strategy, Budget and Council Tax 2016/17 report.

Reserve	Outturn Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000	Projected Balance 31 March 2019 £000	Projected Balance 31 March 2020 £000
Capital Receipts Reserve	558	504	504	504	504
Earmarked Receipts	475	185	165	145	125
Preserved Right to Buy Receipts	1,056	0	0	0	0
Total	2,089	689	669	649	629

Building Control

37. 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. There was a small surplus in the Building Control Fee - Earning Account in 2015/16 which has been transferred into general reserves.

Building Control Fee - Earning Account - 2015/16 Out-turn

	Projected Outturn £'000	Actual £'000	Variation £'000
Expenditure	138	139	(1)
Income	(143)	(144)	1
(Surplus)/ Deficit for the year	(5)	(5)	0

38. The actual income for the year was £144,521, an increase of £1,700 against the revised forecast.

THE ANNUAL GOVERNANCE STATEMENT

39. 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.

40. 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.

41. 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.

42. 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

43. The current forecast budget gap within the Medium Term Financial Strategy is as follows and as summarised in **Appendix E**:-

	2016/17 £m	2017/18 £m	2018/19 £m
Budget Gap	0.516	1.294	2.840
Contribution from Reserves	-	-	-
Forecasted Budget Gap (prior to Budget Efficiency Activity)	0.516	1.294	2.840
Budget Efficiency programme 2016/17	(0.516)	(0.586)	(0.586)
Forecast Budget Shortfall MTFS	0	0.708	2.254

44. 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.

45. The Government's austerity measures and resulting Spending Review (SR) 2015 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 BRR regime is not insignificant.
46. SR 2015 also introduced the following funding scenarios and proposals:-
- A move to 100% BRR by 2019/20.
 - Proposed re-set of the BRR baseline in 2019/20.
 - Introduction of a negative Revenue Support Grant allocation to be applied within the BRR system.
 - Significant funding reduction within the New Homes Bonus grant allocation system which would see a reduction of the grant years from 6 to 4.
47. 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.
48. Another notable event with regard to BRR is the forthcoming national re-valuation exercise which is expected to take effect post 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.
49. 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.

GENERAL RESERVE

50. 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 2015/16 it was anticipated that no contribution 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 of £0.101m.
51. 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 as described earlier in this report and in the Strategic Assessment of General Reserves which is also included on this agenda.
52. It should also be noted that the MTFs forecasts also contain key assumptions 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 delivery profile of City Deal.

EARMARKED

53. 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 considering whether the reserves are appropriate.
54. A Strategic Assessment of Earmarked Reserves is also contained within this agenda. A summary of each reserve is listed below:

Asset Management

55. 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 is currently subject to a Strategic Asset Management Review by External Advisers. Schemes currently programmed include the following:-
- Civic Centre Car Park resurfacing £0.050m;
 - Moss Side Depot fire suppression works £0.050m;
 - Improvement/refurbishment of Investment properties £0.725;
 - Closed churchyards – wall repairs £0.073m;
 - Refurbishment of vine house and replacement of conservatory/greenhouse at Worden Park £0.150m; and
 - Replacement/refurbishment of pavilions £0.050m.
56. 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

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

Business Rates Retention

58. The equalisation reserve was created in order to meet potential collection fund deficit liabilities commitments, the forthcoming tax base re-valuation and also unplanned Central Government Levy payments. 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.
59. Last year the Collection Fund in respect of BRR resulted in a year end surplus position of £2.403m mainly due to the increase in business rate income during 2014/15. South Ribble's share of the BRR local system is 40% and this equated to £0.961m income for the Council in 2015/16. In 2015/16 the Council finished the year in line with the revised budget, with a minor variation in the Levy payable to Central Government.
60. This reserve will be reviewed in detail during the next 2017/18 budget setting process when the impact of the BRR changes due in 2019/20 will be modelled.

Housing Needs Survey

61. 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 2015/16.

ICT Strategy Reserve

62. The balance on the ICT Reserve at 31st March 2016 amounts to £1.977m out of which spending plans are in place for 2016/17 to 2018/19 totalling £0.540m (includes £0.087m proposed re-phasing from 2015/16). 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.
63. This reserve is currently under review to re-define its primary purpose and therefore appropriate level

Leisure Sites Repair & Maintenance

64. 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)

65. 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 2016 is £0.180m of which £0.100m is to be transferred into the Borough Investment Account in 2016/17 in line with the Medium-Term Financial Strategy.

Performance Reward Grant

66. 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.

New Burdens Funding

67. New Burdens grant income is received from Central Government to off-set additional implementation costs of government new initiatives. Previously these receipts were treated as Receipts in Advance and as such held on the Balance Sheet. Due to the fact that a balance continues to be held it is more appropriate that the accounting treatment is changed so this significant balance is listed and therefore transparent.

My Neighbourhoods

68. The balance on the My Neighbourhoods reserve as at the 31st March 2016 is £0.040m and this represents unspent core funding carried forward into 2016/17 to fund My Neighbourhoods expenditure.

Public Open Space Commuted Sums

69. 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

70. 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.

VAT Reserve

71. To assist in funding the cost of irrecoverable VAT if the Council was to exceed the Partial Exemption threshold for Local Authorities. The unallocated balance is to be transferred into the Borough Investment Account in 2016/17 in line with the Medium-Term Financial Strategy.

Vehicles & Plant Replacement

72. 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. The unallocated balance is to be transferred into the Borough Investment Account in 2016/17 in line with the Medium-Term Financial Strategy.

Other Earmarked Reserves

73. 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 2015 was £1.072m.

74. The proposed amounts to be carried forward from 2015/16 will add £0.131m (see Appendix D) leaving a balance at 31 March 2016 of £1.622m, after releases to revenue during 2015/16. This balance is planned to be released to fund committed expenditure between 2015/16 and 2019/20.

BUDGET EFFICIENCY SAVINGS/ADDITIONAL INCOME

75. 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.

76. The original budget for 2015/16 included an efficiency target totalling £0.590m, as set out in **Appendix F**. It is pleasing to report that this target was exceeded by £0.016m during the year and savings have been established on a recurring basis.

77. Assumptions have been made for 2016/2017 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 2015/16 – Cabinet, 11th February 2015
- Financial Strategy/Budget and Council Tax 2016/17 – Cabinet, 10th February 2016

APPENDICES

Appendix A	Significant Budget Variances in 2015/16
Appendix B	Budget Items listed for Carry Forward from 2015/16 into 2016/17
Appendix C	Council Tax, Business Rates and Sundry Debtor Collection
Appendix D	Summary of Revenue Reserves and Balances
Appendix E	Medium Term Financial Strategy Revenue Budget Forecasts 2016/17 to 2018/19
Appendix F	Budget Efficiency Programme 2015/16

Significant Budget Variances in 2015/16

Details	Under/(Over) Spend £000	Sub Total £000	General Reserve £000
Projected Outturn : Contribution to General Reserve			0
<u>Revenue Service Budget - Expenditure</u>			
Employee Costs	(35)		
Premises	34		
Supplies and Services	38		
Transport Costs	15	52	
<u>Revenue Service Budget - Income</u>			
Increases in income:			
Parking Permits	12		
Planning Fees	9		
Environmental health	9		
Trade Waste & special collections	15		
Reductions in income:			
Public Realm funding reduction	(12)		
Investment Property Income	(11)		
Interest received and payable:			
Investment interest earned	51		
Interest payable	(27)		
Other variations	12	58	
Sub Total			110
<u>Effect of One off Items occurring in 2015/16 only</u>			
Housing Benefits (HB) increased overpayment recovery	56		
Former Council Tax Benefit recovery	29		
HB Debtors - Increase in provision for bad debts	(117)	(32)	
Sale of vehicles & equipment		23	
Sub Total			(9)
Year end surplus – transfer to General Reserve			101

Budget Items Listed for Carry Forward from 2015/16 into 2016/17

The following items relate to items of expenditure that were planned in 2015/16 but will now occur in 2016/17:-

Revenue Budget to be carried forward from 2015/16 to 2016/17		
£ 000		
Neighbourhoods, Environmental Health & Assets		
Parks Development	Goods ordered in 2015/16 but provider unable to supply until April 2016. Goods now received.	4
Grounds Maintenance	Underspend carried forward to fund cost of summer bedding which was ordered but not delivered by the end of the financial year.	6
Joined Up Services for Young People	External funding carried forward to be allocated in future years	39
Property Services	Underspend carried forward to fund Property Review costs in first quarter of 2016/17.	20
Corporate Governance and Business Transformation		
ICT	Underspend in IT supplies and services budget carried forward to fund committed expenditure on replacement of tape streamer and ground works for external generator.	15
Development, Enterprise & Communities		
Local Plans	Government funding awarded to Council for being successful in bidding to be a national pilot for Brownfield registers. Grant only received on 31/03/16 and therefore carried forward to fund expenditure in 2016/17.	10
Local Plans	Underspend in professional fees budget carried forward to contribute to the funding of significant requirements in 2016/17.	10
Economic Development	Budget carried forward relates to the provision of business support and is match funding for the Coastal Communities Project.	7
Community Involvement	Goods ordered in 2015/16 but provider unable to supply until April 2016. Goods now received (£7k). Delivery of newsletters deferred until 2016/17 (£1k).	8
My Neighbourhoods	External income to spent on projects in 2016/17: Lostock Hall market, Healthy Streets and Bicycle Rack Projects.	5
Shared Services		
Shared Financial Services	Underspend carried forward to fund Member and staff training towards self-service functionality	5
Shared Assurance Services	Carried forward to fund potential costs in relation to the bidding process for Insurance broker fees.	2
Total to be carried forward to 2016/17		131

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:-

	2014/15 Collection Rate %	2014/15 Amount Collected (£000)	2015/16 Collection Rate %	2015/16 Amount Collected (£000)
Council Tax	97.44	52,495	97.18	54,012
Business Rates	97.98	37,372	98.10	38,453
Sundry Debtors		5,172		7,973

The majority of the increase in the amount of Sundry Debts collected is due to Section 106 monies.

Previous Years Collection and Arrears Information

	2014/15 Previous Years Amount Collected (£000)	2015/16 Previous Years Amount Collected (£000)	Arrears at 31 st March 2015 (£000)	Arrears at 31 st March 2016 (including 2015/16 arrears) (£000)	Change to Arrears (£000)
Council Tax	547	821	3,334	3,583	249
Business Rates	154	29	1,125	1,237	112
Sundry Debtors			1,701	1,182	(519)

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 2016 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.

£1,080,602 of the Sundry Debtors arrears relates to invoices issued after 23rd March 2016.

Summary of Revenue Reserves & Balances

Revenue Reserves	Actual Balance 31 March 2016 £'000	Projected Balance 31 March 2017 £'000	Projected Balance 31 March 2018 £'000	Projected Balance 31 March 2019 £'000	Projected Balance 31 March 2020 £'000
Total General Fund Reserves	4,194	2,009	2,709	3,409	4,109
Earmarked Reserves:					
Asset Management	2,194	1,228	878	1,228	1,628
Borough Council Elections	52	82	112	142	52
Borough Investment Account	0	3,732	3,732	3,732	3,732
Business Rates Retention	2,625	3,417	3,597	3,797	3,987
Housing Needs Survey	85	105	125	145	165
ICT Strategy	1,977	751	971	1,199	1,239
Leisure Sites Repair & Maintenance	260	160	160	160	160
Local Development Framework	180	80	80	80	80
Performance Reward Grant	95	59	58	58	58
New Burdens Funding	259	259	259	259	259
My Neighbourhoods	40	40	40	40	40
Public Open Space funds	1,594	1,535	1,476	1,417	1,358
Organisational Restructure costs	385	385	385	385	385
VAT reserve	105	0	0	0	0
Vehicles & Plant Replacement	111	0	0	0	0
Other Earmarked Reserves	1,622	837	684	532	410
Total Earmarked Reserves	11,584	12,670	12,557	13,174	13,553
Total Reserves	15,778	14,679	15,266	16,583	17,662

Appendix E

	2016/17 £'000	2017/18 £'000	2018/19 £'000
Net Expenditure (after efficiencies)	13,551	13,141	14,183
<i>Financed By:</i>			
Revenue Support Grant	1,007	345	0
Business Rates	4,003	3,643	3,643
Tariff adjustment	0	0	(50)
Council Tax	7,246	7,315	7,375
Parish/Town Council Precepts	320	320	320
New Homes Bonus	975	810	641
General Reserve (contribution from)	0	0	0
Total Funding	13,551	12,433	11,929
Forecast Funding Gap	0	708	2,254

Budget Efficiency Programme 2015/16

Budget Efficiency Programme <i>Column</i>	2015/16 Part Year Effect			Future Years' Full Year Effect £000 <i>(d)</i>	Budget Target compared to Actual (a) – (d) £000 <i>(e)</i>
	Original Budget Target	Actual Achieved	Over / (Under) Achieved (b) – (a)		
	£000 <i>(a)</i>	£000 <i>(b)</i>	£000 <i>(c)</i>		
Completed Projects					
Waste Contract savings	490	490	0	600	110
2015/16 Budget savings target – Core Managers	200	173	(27)	112	(88)
	690	663	(27)	712	22
Offsetting Transitional Costs					
Waste Contract Management – transition fund	(100)	(57)	43	(100)	-
Net Saving	590	606	16	612	22