

REPORT TO	DATE OF MEETING
Governance Committee	28 June 2017

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
South Ribble Borough Council Budget Out-turn Report 2016/17	Finance & Resources	S Guinness/ J Blundell	6

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 2017 for the 2016/17 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 2016/17 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 2016/17 listed at Appendix A;
3. Approve that the budget items listed at Appendix D are carried forward to 2016/17;
4. Approve the financing of the capital programme for 2016/17 and the carry forward of capital re-phasing into 2017/18 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 a forecast contribution into general reserves of £0.245m forecast. The actual year end out-turn position when compared to the Council's budget gives a surplus to be transferred to the general reserve of £0.403 million being a net movement of £0.158m.

Revenue Service Budget

2. Budget variations are explained below and also listed in **Appendix A** attached:
 - Underspends in repair and maintenance of buildings mainly due to reduced staff resources during the year. Some works identified have been reprogrammed into 2017/18. Also a contingency budget was retained to address any potential snagging issues with the installation of the new lift but this wasn't required.
 - Additional income from Car Parking, Room Hire, Waste Collection and Land Charges.
 - Additional interest earned on cash invested.
 - Less income from Building Control and Investment Property
 - One-off out-turn variations including; increase in the provision for bad debts, reduction in the Housing Benefit debtor and funding variations.
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 2016/17 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 2016/17, (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 in July 2017. The Core Financial Statements in the SOA are set out in a separate report on this agenda for information.
6. The statutory deadline for signing off the SOA is being brought forward and will need to be signed off before the end of May instead of June. A revised timetable to achieve this was implemented and tested for the 2016/17 closure period and it is very pleasing to report that this deadline was successfully adhered to.
7. 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 2017.

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 2016/17, (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 a key annual statement and reported to members on this agenda.
11. The complete Statement of Accounts will be available to Members from June 2017 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 June 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 in July 2017 in preparation for the September SOAs approval process.
12. The accounts will be available for public inspection from Monday 3rd July 2017 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 Monday 3rd July 2017 onwards.

2016/17 Summary Budget Out-turn Contained within the Financial Statement of Accounts

REVENUE NET EXPENDITURE

13. Members will note that in setting the projected out-turn budget for 2016/17 it was anticipated that a contribution of £0.245m 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 £0.403m. An explanation of the items affecting the variance is shown at **Appendix A**.
14. This total budget variations assumes that all the recommendations for budget carry over into 2017/18 are approved within this reports as listed in **Appendix B**. It is expected that all carried over budgets will be fully spent in 2017/18 otherwise, in the absence of further approval, the balance will be transferred into the general reserve.

The key variations against the projected budget out-turn include:-

- a) Premises - There is an underspending against budget in respect of premises costs of £0.095m. The underspending of £95k includes £70k in respect of repairs and maintenance of buildings. This underspend is predominantly due to reduced staff resources this financial year which has resulted in a less proactive maintenance regime. The main areas that contribute towards the underspending are as follows:-
- i) Worden Arts and Crafts. Works had been identified (e.g. oil storage tank, chimneys, heating) that due to reduced staff resources have had to be delayed and will be programmed into 17/18
 - ii) Changing Accommodation. Two changing pavilions are reaching the end of their economic life and therefore there is an allowance for additional repair works / replacement which have not been required during 2016/17
 - iii) Lift maintenance costs. A contingency budget was retained to address any potential 'teething problems' with the installation of the new lift but this wasn't required.

In addition there are overall underspendings in utilities costs across the Council's buildings of £16,000 (gas £8,000 and electricity £8,000). Other minor variations in other premises costs (NNDR, water, fixtures and fittings and cleaning) total £9,000 (net underspend).

b) Supplies and Services - The £0.041m net saving includes the following:-

- i) £24k saving in the purchase and maintenance of equipment, materials and tools. These budgets allow for ad-hoc purchases which vary year on year and this element was less than the forecast.
- ii) £12k saving in Shared Financial Services costs largely due to staff vacancies during the year.
- iii) £18k net saving across all services in other supplies and services budget lines.
- iv) The above savings are partly offset by costs incurred in respect of external professional advice on planning matters (£13k).

c) Transport Costs - Budget savings of £0.021m have been identified, as follows:-

- i) Staff mileage & travel costs (£11k) which ended the year at a lower level than anticipated. 2016/17 was the first full year with a new system for claiming staff expenses and now it is fully embedded, a review will be undertaken of these budgets to identify any potential, recurring budget savings.
- ii) Vehicle hire costs saving (£10k). 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.

d) Key Income variations – income variations totalled £65k (net increase in income). This includes:-

- i) Increase in Interest earned on Cash Investments £18k (as per the Treasury Management Annual Report 2016/17 on this agenda). This upturn is as a result of having higher cash balances than forecast and higher rates being achieved on the re-investment of funds during the last quarter of the year.

	Average balance	Average rate	Interest Earned
2015/16	£31.3m	0.55%	£171,345
2016/17	£35.7m	0.58%	£205,668

ii) Other variations occurred within the following budget heads:-

- 1) There was a small upturn in Planning Fee income (£5k), Land Charges income (£9k) and Special Collections (£7k) during the final quarter which resulted in an improvement against the revised budget forecasts.
- 2) Increase in car parking income (£10k).
- 3) Council Tax and Business rates court summons costs recovered exceeded the forecast (£28k).
- 4) Conversely, there was a shortfall of £13k in total investment property income against the revised budget forecast. This is mainly due to the write-off of income in the final quarter of the year where rental agreements were terminated.

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 2016/17 £	Actual Out-turn 2016/17 £	Variation to Budget 2016/17 £
Property Rental	(1,067,980)	(1,055,160)	(12,820)
Planning Application Fees	(630,000)	(635,347)	5,347
Trade Waste Income	(455,857)	(453,730)	(2,127)
Short Term Interest	(188,000)	(205,668)	17,668
Building Control Fees	(150,000)	(145,087)	(4,913)
Market Rents	(135,000)	(131,464)	(3,536)
Land Charges Income	(100,000)	(108,481)	8,481
Car Parking Charges	(92,512)	(102,548)	10,036
Taxi Licensing Income	(76,411)	(75,674)	(737)
Licensing - Premises	(63,000)	(57,690)	(5,310)
Licensing – Other	(30,125)	(32,807)	2,682
Licensing - Gambling	(11,500)	(13,000)	1,500
Waste - special collections	(32,000)	(38,788)	6,788
Pest Control Income	(27,000)	(30,363)	3,363
Civic Centre - room hire	(24,000)	(29,737)	5,737

THE SALIENT FINANCIAL ISSUES 2016/17

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 current 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 2016/17, the total net income at the end of the year was in line with the estimated budget of £4.3m.
21. A key element of the BRR 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 Revaluation and Appeals

22. The recent valuation of the tax base meant that the overall Rateable Value of the total tax base went down by 6.32% contrary to the national overall total that increased. Due to the national increase in rateable values, a compensatory decrease in the multiplier was also applied which exacerbated the decrease in Rates Payable, therefore the actual cash value for South Ribble decreased by £5.8m which equates to 11.63%.
23. The Collection Fund for BRR appears elsewhere on this agenda within Item 9, Appendix A, page 95 which shows that The Acting Chief Finance Officer (s151) is applying an increase to the provision for Bad Debts and also Provision for Appeals to a total value of circa. £0.300m.
24. 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 the Levy funds released from the arrangements (10% are passed to LCC). Outside of a Pooling arrangement only 50% of the Levy is retained by the Council. This equates to an additional income amount of circa. £0.800m and therefore the collapse of the current pooling arrangements poses a very great threat to the MTFs projected budget gap with effect from 2018/19 onwards.
25. The expected change to 100% BRR retention may reflect a similar arrangement to that of being a member of a BRR pool, however, pilot schemes have evidenced that an increase in overall income is not likely. Additionally, all the Levy payments paid over to Central Government are used to finance the Safety Net arrangements of the scheme. Safety Net payments from central Government are available if any one area is subjected to an unusually high downturn in income in any one year. Therefore if outward Levy payments are scrapped there will be no access to a compensatory Safety Net payment and the Council will need to make its own equalisation arrangements. The Reserve strategy for SRBC already takes account of this risk but will need to be re-assessed when the details of 100% BRR are known.

26. In summary, the financial impact of the BRR funding stream has the potential to fluctuate significantly across three separate consecutive 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 2016/17 are as follows:-

Capital Expenditure	£'000
Asset management	587
DFG and other housing grants	450
Parks, recreation areas & open spaces	420
Regeneration	382
Vehicles, plant and equipment	228
Information technology and communications	106
Community Grants (Performance Reward Grant funded)	23
Total capital expenditure	2,196

Financing	£'000
Fund balances & reserves	921
Government Grants	508
City Deal	329
Borrowing	216
Developers' Contributions - Section 106	143
Other contributions	46
Capital receipts	21
Revenue contributions	12
Total financing of capital expenditure	2,196

28. The original capital allocation for 2016/17 was revised during the year from £5,420,616 to £2,630,571. Several schemes were re-phased to reflect more realistic forecasting of spend across the next 3 years. The larger value schemes that were re-phased included:

Scheme Name	Re-phased Amount £'000
Affordable housing	1,345
Private sector home improvement grants	500
Leyland regeneration	285
Withy Grove Park	250
Worden Park conservatory	190
Worden Park toilet facilities	150
Lostock Hall football facility	150
IT Business continuity and disaster recovery	134
Vehicles replacement programme	109
Farrington lodges	100

29. The capital expenditure final out-turn for 2016/17 is £2,196,353 against the Projected Out-turn Budget of £2,630,571, which equates to 83.5%. The main reasons for the variations are summarised by Directors in the “commentary” in **Appendix G**. The re-programmed expenditure will, on approval, be incorporated into the 2017/18 Capital Programme to reflect the re-phasing of work.

30. The highest value category of capital financing is fund balances & reserves (£921k). This funding was used for the majority of ICT schemes in the Shared Services and Corporate Support spending area. Other areas include the purchase of the Momentum business units and the majority of schemes in Neighbourhoods and Streetscene with the notable exception of the Vehicle replacement programme which is financed by borrowing.

31. The table below provides a summary of delivery performance across areas. A common cause of slippage within Regeneration Projects is the fact that the City Deal Finance Model is being reviewed in the light of significant shifts in core grant funding, therefore additional approval steps are in place to ensure projects have guaranteed and certified refunding arrangements attached to them.

32. The approved capital budget for 2016/17 is £2.631m, including £20k approved since Cabinet approved the budget in February. The spend against budget is set out in the table below:

Capital Programme category	Revised Estimate £	Total Spend £	Variance £	% spend
1. Shared Services and Corporate Support	124,738	106,264	18,474	85.2
2. Management of Assets	587,935	587,417	518	99.9
3. Neighbourhoods and Streetscene	602,506	530,757	71,749	88.1
4. Regeneration, Leisure & Healthy Communities	644,711	499,252	145,459	77.4
5. Strategic Planning & Housing	646,431	449,469	196,962	69.5
6. South Ribble Partnership	24,250	23,194	1,056	95.6
Total	2,630,571	2,196,353	434,218	83.5
<i>LESS: Re-phasing of works into 2017/18</i>			427,948	
Variance in Year			6,270	

33. The main variations to budget for each of the programme categories are as set out below:

- Business Transformation – Customer Contact £23k, Financial Management Information Systems (£11k).
- No major variations.
- Open Spaces £14k, Refurbishment of Vine house £14k, Drainage Work at Hurst Grange Park £10k, Vehicles & Plant replacements £33k.
- Bamber Bridge Regeneration £127k, Leyland Gateway features £24k, Longton Village Regeneration £10k, less Walmer Bridge improvement works completed ahead of forecast £26k.
- Disabled Facilities Grants £178k, Empty Properties £15k.
- Performance reward grant funded projects £1k.

USABLE RESERVES

Revenue Reserves

34. 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) before 30th June 2017 and post external audit inspection by the Governance Committee in September 2017.

35. The following table shows the Council's overall level of revenue reserves as at 31st March 2016 and 31st March 2017, subject to the approval of the Statement of Accounts as drafted. This shows a General Fund balance of £4.597 million at 31st March 2017. The overall level of reserves has increased by £2.815 million, comprising of an increase in General Reserves of £0.403 million plus an increase of £2.412 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 2016/17 to fund investment in future years.

REVENUE RESERVES	31/03/16 £000	31/03/17 £000
General Fund Balance	4,194	4,597
Earmarked and Other Reserves	11,584	13,996
Total General Fund Reserves	15,778	18,593

36. 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. A full review of the contributions into Reserves is a project within the current MTFS and will be completed and implemented during 2017/18.

37. 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 circa £3.4m in 2019/20.
- The triennial review of the Pension Fund and its updated forecasts on the progress in bridging the Pension Fund Deficit.
- Continuation of Central Government's public spending strategy and as such further reductions to the overall public sector budget.
- 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.
- 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 and as above, BRR will undergo transformational change by 2019/20. 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 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.

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

Capital Reserves

39. 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 2016/17. Capital Reserves were committed within the Capital Programme for 2017/18 to 2019/20 as approved in the MTFs, Budget and Council Tax 2017/18 report.

Reserve	Out-turn 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	596	530	530	530
Earmarked Receipts	454	160	140	120
Preserved Right to Buy Receipts	1,056	908	676	476
Total	2,106	1,598	1,346	1,126

Building Control

40. 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.

41. There was a £23k surplus in the Building Control Fee - Earning Account in 2016/17 which has been transferred into earmarked reserves. Although there was a shortfall of £6k against the revised Building Control fee income forecast, this was offset by reduced costs due to staff vacancies in the year, resulting in an improved surplus position of £23k, compared to the £8k forecast.

Building Control Fee - Earning Account - 2016/17 Out-turn

	Projected Outturn £'000	Actual £'000	Variation £'000
Expenditure	143	122	21
Income	(151)	(145)	(6)
(Surplus)/ Deficit for the year	(8)	(23)	15

FUTURE RISKS TO THE COUNCIL'S MEDIUM TERM FINANCIAL STRATEGY

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

	2017/18 £m	2018/19 £m	2019/20 £m
Forecast Budget Gap	0.888	3.002	3.386
Contribution from General Reserves	(0.300)	(0.261)	-
Forecasted Budget Gap (prior to approved MTFS)	0.588	2.741	3.386
Approved MTFS 2017-18 – already achieved	(0.874)	(0.504)	(0.504)
Approved Recurring New Growth	200	225	225
Approved Garden Waste Scheme	86	(450)	(540)
2017/18 MTFS Budget Efficiency Programme to be Achieved to balance 2018/19 and 2019/20	0	(2.012)	(2.567)
Forecast Budget Shortfall MTFS	Balanced Budget	0	0

43. The Council's Medium Term Financial Strategy is regularly reviewed by the cabinet member for Finance, Chief Executive and Acting Chief Finance Officer (s151) and the Senior Management Team. Overall progress is also monitored and scrutinised by the Improvement Reference Group which comprises of The Leader, Deputy Leader, Leader of the Labour Group, Deputy Leader of the Labour Group and representatives from the Local Government Association (LGA).

44. The budget monitoring process allows for issues to be highlighted and corrective action to be taken when necessary. The Council, however, still faces a number of significant pressures 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. Although Austerity Measures may be reviewed it is not guaranteed that the outcome will be applied consistently across the public sector (e.g. NHS) and other local government agencies (e.g. Police service).

45. The current MTFS also contains some significant budgetary assumptions, for example the outcome of the review into Leisure services will have a significant impact on the budget shortfall forecasts.

46. Spending Review (SR) 2015 also introduced the following funding scenarios and proposals all of which impact on the funding of the City Deal Finance Model:-

- A move to 100% BRR by 2019/20.
- Proposed re-set of the BRR baseline in 2019/20.
- Introduction of a so called '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.

GENERAL RESERVE

48. 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 2016/17 it was anticipated that a contribution of £0.245m 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 £0.403m.

49. 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.

50. 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:

- New Homes Bonus grant and the outcome of the budget consultation to the City Deal Agreement.
- Business Rates Retention (BRR) and the resulting trends in respect of the rating list re-valuation including the impact on the City Deal Agreement.
- The Capital Programme and its revenue implications.
- Implementation costs of the Draft Corporate Improvement Plan.
- The need to maintain an adequate level of reserves.
- Impact of known budget decisions taken by partner organisations.
- Issues identified through the preparation of the draft risk register.

EARMARKED

51. 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.

52. A summary of each reserve is listed below:

Asset Management

53. 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;
- Civic Centre security system, CCTV, office & toilets refurbishment £0.111m
- Civic Centre Banqueting Suite £0.080m
- Improvement/refurbishment of Investment properties £0.725m;
- Moss Side Depot - Fire suppression works £0.050m
- Replacement/refurbishment of pavilions £0.080m.

54. 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

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

Business Rates Retention

56. 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.

57. Last year the Collection Fund in respect of BRR resulted in a year end surplus position of £0.662m South Ribble's share of the BRR local system is 40% and this equated to £0.265m income for the Council in 2016/17. In 2016/17 the Council finished the year broadly in line with the revised budget, with an overall variation of £0.026m (reduction in surplus compared to original forecast £0.040m; offset by reduction in levy payable £0.014m).

58. This reserve will be reviewed in detail during the next 2018/19 budget setting process when the impact of any BRR changes will be modelled.

Housing Needs Survey

59. 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 2016/17 and c£17,000 was released to fund the cost of Strategic Housing and Housing Needs surveys undertaken during the year.

ICT Strategy Reserve

60. The balance on the ICT Reserve at 31st March 2017 amounts to £0.988m out of which spending plans are in place for 2017/18 to 2019/20 totalling £0.737m (including re-phasing from 2016/17). 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.

Leisure Sites Repair & Maintenance

61. 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)

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

Performance Reward Grant

63. 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

64. 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

65. The balance on the My Neighbourhoods reserve as at the 31st March 2017 is £0.045m and this represents unspent core funding carried forward into 2017/18 to fund My Neighbourhoods expenditure.

Public Open Space Commuted Sums

66. 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

67. 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

68. 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 was transferred into the Borough Investment Account in 2016/17 in line with the Medium-Term Financial Strategy.

Vehicles & Plant Replacement

69. 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 brought forward was transferred into the Borough Investment Account in 2016/17 in line with the Medium-Term Financial Strategy.

Other Earmarked Reserves

70. 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 2016 was £1.622m.

71. The proposed amounts to be carried forward from 2016/17 will add £0.227m (see Appendix D) leaving a balance at 31 March 2016 of £1.733m, after releases to revenue during 2016/17. This balance is planned to be released to fund committed expenditure in future years.

BUDGET EFFICIENCY SAVINGS/ADDITIONAL INCOME

72. 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.

73. The original budget for 2016/17 included an efficiency target totalling £0.616m, as set out in **Appendix F**. There was a shortfall of just £0.008m during the year and savings of £0.201m have been established on a recurring basis, with a further annual target of £0.100m in relation to staff turnover savings.

74. Assumptions have been made for 2017/2018 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 2016/17 – Cabinet, 10th February 2016

APPENDICES

Appendix A	Significant Budget Variances in 2016/17
Appendix B	Budget Items listed for Carry Forward from 2016/17 into 17/18
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 2017/18 to 2019/20
Appendix F	Budget Efficiency Programme 2016/17
Appendix G	Capital Out-turn 2016/17

Significant Budget Variances in 2016/17

Details	Outturn Variances Under / (Over) spend	
	£000	£000
2016/17 REVISED ESTIMATE APPROVED FEBRUARY 2017 FORECAST UNDERSPENDING		245
OUTTURN VARIATIONS IDENTIFIED:		
Expenditure		
Employee Related Costs		(1)
Premises		95
Transport		21
Supplies and services		41
Other net variations		(14)
Sub Total - Expenditure		142
Income		
Building Control fees deficit		(5)
Car Parking income		10
Civic Centre Room Hire		6
Council Tax/NNDR court costs recovered		28
Domestic Waste special collections		7
Interest on Investments		18
Investment property income		(13)
Land Charges income		9
Planning application fees		5
Sub Total - Income		65
One-off Outturn variations		
Transfer to Building Control reserve	(23)	
Reduction in Housing Benefit Debtor	22	
Increase in capital financing charges	(15)	
Returned New Homes Bonus	5	
Increase in Bad Debt Provision	(24)	
Salary costs funded from revenue resources	20	
Write out of Community Charges balances	(34)	(49)
Projected Out-turn Budget Variation – General Fund (underspend)		158
Effect on Reserves:		
Transfer to/(from) General Reserves – Original Forecast		245
Transfer to General Reserve – Out-turn		403
MOVEMENT		158

Appendix A (ii)

The projected outturn variances are also set out below categorised by Directorate. This complies with changes in accounting requirements and is consistent with the Statement of Accounts for 2016/17.

Directorate	Description	Under/(over) spend £000	Total £000	
Chief Executive	Employee related costs: - Pensions (£8k) - Recruitment advertising (-£13k)	(5)		
	Transport – travel costs	1		
	Supplies and Services: - Shared Services Contract - Fees (IDEA/licensing)	12 (17)		
	Sub-total		(9)	
Development Enterprise & Community	Transport – Staff mileage claims	6		
	Supplies and Services: - Fees - Equipment & Tools - Printing/Stationery - Microfilming	(13) 8 5 4		
	Building Control fees deficit	(5)		
	Planning application fees	5		
	Sub-total			10
Governance & Business Transformation	Employee related costs – Members allowances	2		
	Transport – travel costs	3		
	Supplies & Services: - Elections - Bank charges (Council tax Collection) - Equipment & Tools - Postages/stationery - Legal fees	(8) 5 3 7 7		
	Land Charges income	9		
	Council Tax/NNDR court costs recovered	28		
	Sub-total			56
	Neighbourhood Environment & Asset Management	Employee related costs		5
Premises		95		
Transport – vehicle hire costs		10		

	Supplies & Services:		
	- Waste Contract	4	
	- Kennelling fees	5	
	- Materials	5	
	- Maint. & Repair of equipment	8	
	Car Parking income	10	
	Civic Centre room hire	6	
	Domestic Waste collections	7	
	Investment property income	(13)	
	<i>Sub-total</i>		142
Financing and Investment	Interest on Investments	18	18
Other items	Other net variations		(10)
One-off items			(49)
TOTAL VARIANCE			158

Appendix B

Budget Items Listed for Carry Forward from 2016/17 into 2017/18

The following items relate to items of expenditure that were planned in 2016/17 but will now occur in 2017/18:-

		£ 000
Neighbourhoods, Environmental Health & Assets		
Land Drainage	Underspend carried forward to contribute to funding of approved Flood relief works at King George V playing fields	9
Grounds Maintenance	Underspend carried forward to fund cost of summer bedding which was ordered but not delivered by the end of the financial year.	9
Community Safety/Safer Communities	Carried forward to fund security system (£5k) & other equipment not received in March (£2k)	7
Property Services	Underspend carried forward to fund Markets publicity costs	1
Car Parking	Carried forward to fund car parking machine upgrade	2
Waste Management	Contingency budget retained to fund extension of contracts for Waste Monitoring Officers	53
Waste Management	Balance of retentions carried forward	36
Chief Executive		
Human Resources	Underspend on training carried forward to contribute to cost of Learning at Work week in May	9
Public Relations	Budget carried forward to fund IT costs in relation to new website	14
Corporate Governance and Business Transformation		
Corporate Support	Balance of approved additional capacity budget carried forward to fund support costs in 2017/18	60
Customer Contact	Underspend in supplies and services budget carried forward to fund purchase of uniforms and headsets	6
Homelessness	Carried forward to fund Landlord Incentive pilot scheme	5
Mayoral services	Budget carried forward to fund Mayoral at Home event held beginning of April and to purchase new mayoral badges	3
Development, Enterprise & Communities		
Regeneration - Events	Underspend carried forward to contribute to traffic management costs at Leyland Festival	1
Shared Services		
Shared Financial Services	Underspend carried forward to contribute to new corporate improvements including new website	12
Total to be carried forward to 2017/18		227

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:-

	2015/16 Collection Rate %	2015/16 Amount Collected (£000)	2016/17 Collection Rate %	2016/17 Amount Collected (£000)
Council Tax	97.18	54,012	97.43	56,448
Business Rates	98.10	38,453	98.30	39,336
Sundry Debtors		7,973		6,558

The majority of the decrease in the amount of Sundry Debts collected is due to there being an increase in Section 106 monies that were collected in 2015/16.

Previous Years Collection and Arrears Information

	2015/16 Previous Years Amount Collected (£000)	2016/17 Previous Years Amount Collected (£000)	Arrears at 31 st March 2016 (£000)	Arrears at 31 st March 2017 (including 2016/17 arrears) (£000)	Change to Arrears (£000)
Council Tax	821	1,069	3,583	3,785	202
Business Rates	29	29	1,237	1,138	(99)
Sundry Debtors			1,182	698	(484)

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 2017 have increased due to the implementation of the localised Council Tax Support scheme in April 2013 and the increased charges in respect of empty properties effective from April 2014.

Summary of Revenue Reserves & Balances

Revenue Reserves	Actual Balance 31 March 2017 £'000	Projected Balance 31 March 2018 £'000	Projected Balance 31 March 2019 £'000	Projected Balance 31 March 2020 £'000
Total General Fund Reserves	4,597	4,297	4,036	4,436
Earmarked Reserves:				
Asset Management	1,494	689	19	219
Borough Council Elections	82	112	142	52
Borough Investment Account	3,824	0	0	0
Building Control	22	22	22	22
Business Rates Retention	3,250	3,674	3,938	4,015
Housing Needs Survey	87	62	52	72
ICT Strategy	988	617	510	400
Leisure Sites Repair & Maintenance	160	160	160	160
Local Development Framework	80	80	80	80
Performance Reward Grant	68	48	42	42
New Burdens Funding	222	222	147	147
My Neighbourhoods	45	45	45	45
Public Open Space funds	1,535	1,476	1,417	1,358
Organisational Restructure costs	385	385	385	385
Vehicles & Plant Replacement	21	21	21	21
Other Earmarked Reserves	1,733	1,350	1,222	988
Total Earmarked Reserves	13,996	8,963	8,203	8,006
Total Reserves	18,593	13,260	12,239	12,442

Medium Term Financial Strategy Revenue Budget Forecasts 2017/18 to 2019/20

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Budget requirement	14,070	14,846	14,527
<i>Financed By:</i>			
Revenue Support Grant/(Tariff adj.)	346	0	(490)
Business Rates	4,167	3,643	3,643
Transition Grant	92	0	0
Council Tax	7,353	7,413	7,473
Council Tax – 16/17 surplus	145	0	0
Parish/Town Council Precepts	398	398	398
New Homes Bonus	681	390	117
Total Funding	13,182	11,844	11,141
Forecast Funding Gap	888	3,002	3,386
One – Off Contributions from General Reserves	(300)	(261)	-
2017/18 Budget Efficiencies Achieved	(874)	(504)	(504)
2017/18 Budget Approval – Garden Waste	-	(450)	(540)
2017/18 MTFS Approved New Growth	286	225	225
Approved MTFS Total Efficiency Programme 2018/19 and 2019/20		(2,012)	(2,567)
Forecast Budget Shortfall MTFS	0	0	0

2016/17 Budget Efficiency Programme

Budget Efficiency Targets	Budget Efficiency Savings Targets (FY)	Outturn	Target Exceeded/ (Shortfall)	Recurring Budget Efficiency Savings
	2016/17	2016/17	2016/17	
	£000	£000	£000	£000
Business Transformation:				
Neighbourhood, Environment & Asset Management Directorate	(150)	-	*(150)	-
Print and Post Review	(30)	(55)	25	(85)
Shared Assurance Services Restructure	(20)	(20)	-	(20)
Review of Vacant Posts	(216)	(16)	** (200)	(16)
Base Budget Review	(100)	(80)	*(20)	(80)
Sub-Total	(516)	(171)	(345)	(201)
Staff Turnover Savings	(100)	(437)	337	(100) annual target
Total – Full year	(616)	(608)	(8)	(301)

* to be delivered in 2017/18

** will not be delivered in 2016/17 or 2017/18