

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

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PROVISIONAL REVENUE OUTTURN 2015/16

PURPOSE OF REPORT

1. This report is provided to inform the Executive of the provisional outturn position on the Council's General Fund Revenue Budget for 2015/16.

RECOMMENDATIONS

2. The Executive is recommended to:-
 - a) note the outturn on the Council's Revenue Budget for 2015/16;
 - b) approve the proposals for budget slippage from 2015/16 to 2016/17, for those items exceeding £10,000 (as shown at [Appendix B](#));
 - c) approve an additional contribution in 2015/16 to the Business Rates Volatility Reserve of £600,000 to support the development of the Council's budget for 2017/18;
 - d) agree the return of £40,000 to Area Committees which was withheld in 2015/16 pending progress on the implementation of service/asset transfers.

REASONS FOR RECOMMENDATION

3. To inform the Executive of the Council's outturn position on revenue budgets for 2015/16 and mitigate future budgetary impacts of reduced income from business rates.

ISSUE

Provisional Outturn 2015/16

4. In setting the original budget for 2015/16, we planned to use £1.605m from the Budget Support Reserve to support the revenue budget. Following the review of the budget as part of the budget setting process for 2016/17, and taking into account virements/supplementary estimates since then, this was subsequently revised to a contribution from the reserve of £1.260m.

5. On the basis of the provisional outturn figures, and taking into account proposed slippage and contributions to and from reserves, an amount of £937k is expected to be drawn from the Budget Support Reserve in 2015/16 giving rise to an overall underspend of £323k. This is shown in Table 1 below:

Table 1: Provisional Outturn 2015/16 (After budget slippage)

	Approved Budget (Post Slippage)	Provisional Actual	Variance
	£000	£000	£000
Net Cost of Services	17,026	16,352	(674)
Corporate Income and Expenditure	(1,457)	(1,731)	(274)
Cont to/(from) Reserves	(1,119)	(519)	600
Funding (Council Tax/Govt Grant)	(13,190)	(13,165)	25
Cont (to)/from Budget Support Reserve	1,260	937	323

Source: Appendix C

6. The Executive should note that the position shown in Table 1 above is *after* taking account of proposed budget slippage required to provide funding for future/ongoing commitments. More details on this are provided below.

Provisional Outturn 2015/16 (Before budget slippage)

7. Table 2 below provides a summary of the provisional outturn position for the year whilst a more detailed analysis is provided at [Appendix A](#). This position is *before* budget slippage has been taken into account:

Table 2: Provisional Outturn Position 2015/16 (Before slippage)

	Approved Budget (Pre - Slippage)	Provisional Actual	Variance
	£000	£000	£000
Net Cost of Services	17,221	16,352	(869)
Corporate Income and Expenditure	(1,457)	(1,731)	(274)
Cont to/(from) Reserves	(1,314)	(714)	600
Funding (Council Tax/Govt Grant)	(13,190)	(13,165)	25
Cont (to)/from Budget Support Reserve	1,260	742	518

Source: Appendix A

8. As the table indicates, the provisional outturn position shows an underspend of £518k when compared to the Approved Budget. This primarily comprises an underspend on the Net Cost of Services of £869k, an underspend on Corporate Income and Expenditure of £274k offset by an additional unbudgeted reserve contribution of £600,000. Please refer to paragraph 19 below for more details on the latter.
9. The outturn position shown in Table 2 above includes unspent budgets of £195k which it is proposed to carry forward to 2016/17 (referred to as 'slippage'). Approval of slippage requests for items not exceeding £10,000 is delegated to the Strategic Director in consultation with the Financial Services Manager. Amounts above £10,000 require approval by the Executive.

Net Cost of Services

10. As Table 2 shows, the outturn position on the Net Cost of Services is an underspend of £869K (**Appendix A, Col 5, Row 9**). Included in the variances referred to above are underspends on certain budgets where Service/Budget Managers have requested that the unspent budget is carried forward to be used in 2016/17. Details of these 'budget slippage' requests amounting to £195k are provided at **Appendix B**. Of these, £60k has been approved under the officer delegation referred to above. The Executive is requested to consider and approve the balance of £135k.
11. If the Executive agree to the balance of slippage proposals, the effect of this will be to reduce the overall underspend on the Net Cost of Services to £674k (as indicated in table 3 below).

Table 3: Impact of Slippage on Net Cost of Services

	Variance (Pre - Slippage)	Slippage	Variance (Post - Slippage)
	£000	£000	£000
Directorate	2	5	7
Financial Services	15	3	18
Liberata Services	(430)	0	(430)
Democratic & Legal Services	(54)	9	(45)
Planning, Building Control & Licensing	(28)	1	(27)
Environmental Services	(153)	24	(129)
Housing, Health & Economic Development	(179)	96	(83)
Neighbourhood Services	(42)	57	15
Net Cost of Services (see Table 1 and 2)	(869)	195	(674)

Source: Appendix B, C and D

12. An analysis of the variances on the cost centres within each Service is provided at **Appendix C (Col 5)** and **Appendix D** whilst **Appendix E** provides a summary, by Service, of those variances that are +/-£10,000 or more.
13. Councillors are asked to note that included within the overall Net Cost of Services are charges totaling £137k representing amounts initially charged to capital which on review were deemed to be revenue expenditure. These charges comprise expenditure on a range of items which, in accordance with proper accounting practice, are classed as repairs and maintenance, revenue grants and staff time associated with activities that do not result in capital assets. It is possible to meet these costs in the Revenue Account from the Area Committee approved revenue budget provision (£30K) and by an adjustment to the Revenue Contribution to Capital Expenditure for the balance.
14. Linked to Area Committees is the unresolved issue of the £40,000 which was held-back from the Committee revenue budget allocations in 2015/16. This was to offset any shortfall in the delivery of savings from the programme of asset and service transfers to local Town and Parish Councils. The revenue outturn on Area Committees was effectively £40k under budget in 2015/16 as a result of this action. For accounting purposes this underspend has been transferred to the Revenue Expenditure Reserve on the assumption that the Executive will want to release the monies back to the Area Committees in 2016/17 given the progress now being made on transfers.

15. In view of the underspend shown above, Councillors are advised that work is currently underway to establish the extent to which variations in outturn can be factored in to the revised budget for 2016/17 and subsequent years.

Corporate Income and Expenditure

16. Corporate Income and Expenditure relates to those areas of spend and income that are not specific to the delivery of services. Overall, there is a net underspend of £274k in this area when compared to the approved budget. The main variances are:-
- a) an overspend of £12k on external debt charges. This is as a result of borrowing from the Public Works Loan Board at points in the year which were earlier than assumed in the budget owing to favourable movements in interest rates at the time.
 - b) additional investment income of £40k, due to higher than forecast cash balances arising primarily from slippage on the capital programme;
 - c) additional New Homes Bonus of £12k being the Council's share of the national allocation held-back by Government and subsequently released during the year;
 - d) a higher than budgeted Section 31 grant. The grant compensates the Council for specific business rate reliefs awarded during the year (e.g. retail property relief, small business rate relief). Grant for the year is now estimated at £88k more than budgeted reflecting the level of reliefs awarded in the year which include flood relief payments as a result of the flooding caused by Storm Eva in December 2015;
 - e) a net reduction of £147k in the levy payable to Government under the business rates retention scheme. This stems from the Council's actual share of business rates in 2015/16 being significantly lower than when initially estimated in January 2015. No levy is payable in respect of 2015/16. The cost of £6k shown on this expenditure line reflects an additional levy payment made to Government in respect of 2014/15. This stemmed from late changes to the methodology adopted by the Government to calculate the levy which meant payment was delayed until the current year. Whilst the levy saving benefits the Council in respect of 2015/16, the ongoing impact of less business rates income will be felt in subsequent years and needs to be factored in to the financial plans for 2017/18. More detail on this is provided below.

Business Rates 2015/16 Outturn

17. The Business Rate Retention scheme was introduced in April 2013 under which income from business rates is shared 50:50 between central and local government. Pendle acts as the billing authority and is responsible for collecting business rates. The income is shared in the following prescribed proportions:
- Central Government 50%
 - Pendle Borough Council 40%
 - Lancashire County Council 9%
 - Lancashire Fire Authority 1%
18. The rates retention scheme operates on a fixed cycle with the following key milestones each year:
- January – completion of return to Government setting out an initial estimate of income for the next financial year with an updated estimate of the likely outturn for the current year (known as the NNDR1 form);

- May – completion of return to Government setting out the actual income for the preceding financial year (known as the NNDR3 form).
19. The Council's budgeted income from business rates each year is derived from the NNDR1 form. For 2015/16 the Council's share of income was £7.73m based on 40% of £19.33m. From this the Council has to make a tariff payment to Government, which in 2015/16 was £4.06m – hence the budgeted *net* income from business rates was £3.67m.
 20. The significance of the above is that once these amounts have been set in the NNDR1 form they are fixed for that year. Regardless of actual performance in the year the amount credited to the Council's revenue account will be that declared on the NNDR1 form. This is a statutory requirement under which any variations in actual income from that estimated get reflected in budgets for the following year or the following year +1.
 21. Based on the NNDR 3 form the actual business rates income for 2015/16 was £16.9m a shortfall of £2.4m from that estimated on the NNDR1 form. In addition to this there was a residual deficit from 2014/15 of £0.4m making the total deficit £2.8m at 31st March 2016. The Council's share of this is **£1.1m**.
 22. When setting the budget for 2016/17 we had estimated a total deficit of £1.3m. Pendle's share of this at 40% equated to **£0.5m** and the payment of this was included in the Council's approved budget for 2016/17.
 23. Hence the Council's share of the business rates deficit on the collection fund at 31st March 2016 was **£0.6m** higher than projected and this cannot be recouped until 2017/18. All other things being equal this will impact as a £600k charge against the budget in 2017/18.
 24. The additional deficit by 31st March 2016 stemmed from the following factors:

	Total £'000	Pendle Share £'000
• Net effect of additional rate relief awards	197	79
• Increase in provision required for business rate appeals	684	274
• Net increase in provision for bad debts/write-offs	183	73
• General reduction in collectable rates	465	186
	<u>1,529</u>	<u>612</u>

25. The revenue outturn for 2015/16 as detailed above provides the opportunity to set aside resources now to meet this deficit in 2017/18. Accordingly, an additional contribution of £600,000 has been made to the Business Rates Volatility Reserve in 2015/16 and the Executive is requested to endorse this action.

Reserves

26. As part of the initial budget setting process and as the year progressed, Councillors agreed to use certain reserves in support of the Council's expenditure. These and other movements in reserves are shown on the Summary Revenue Account provided at [Appendix D](#).
27. The opportunity has been taken as part of the end of year review to assess the on-going requirement for specific reserves. This follows the report on the updated medium-term financial plan as reported to the May meeting of the Executive. This identified the requirement to transfer c£1.7m to the Budget Support Reserve to help mitigate the impact of projected resource shortfalls to 2019/20. A more detailed report on the review of reserves is presented separately on the agenda for this meeting.

VAT Shelter Reserve

28. The Council has received £279k from Housing Pendle, being amounts received in relation to the VAT Shelter Agreement established following the Large Scale Voluntary Transfer (LSVT) of the Council's housing stock. This funding has been credited to the VAT Shelter Reserve (which forms part of the Budget Support Reserve).

The Budget Support Reserve

29. In setting the original budget for 2015/16 the Council planned to use £1.605m from the Budget Support Reserve. Following the review of the budget as part of the budget setting process for 2015/16, and taking into account virements/supplementary estimates, and adjustments between reserves since then, this has been revised to £1.260m.
30. On the basis of the outturn figures above, the amount required from the Budget Support Reserve is £937k in 2015/16.

Balances and Reserves

31. A report elsewhere on this agenda provides the Executive with an updated view of Council's Balances and Reserves taking account of the year-end position as at 31st March 2016.

Statement of Accounts 2015/16

32. The information presented in this report represents the Council's management accounts and shows performance against agreed budgets. Work has recently been completed on the Council's draft Statement of Accounts for the year which contains the Council's formal financial accounting statements. The Statement of Accounts contains, in essence, the same financial information presented in this report but in a format prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The draft Statement of Accounts was published to the Council's website on 15th June. The accounts are subject to audit by Grant Thornton and the period for public inspection is underway and runs to the 27th July.
33. As agreed previously by the Executive, the draft Statement of Accounts for 2015/16 will be reported for approval to the Accounts and Audit Committee. This is expected to be in late July following completion of the audit by Grant Thornton.

IMPLICATIONS

Policy

34. There are no policy implications arising directly from this report.

Financial

35. The financial implications are as given in the report.

Legal

36. There are no legal implications arising directly from this report.

Risk Management

37. There are no direct risk management implications arising directly from the contents of this report.

Health and Safety

38. There are no Health and Safety implications arising directly from this report.

Climate Change

39. There are no sustainability implications arising directly from this report.

Community Safety

40. There are no community safety issues arising directly from this report.

Equality and Diversity

41. There are no equality and diversity issues arising from the contents of this report.

APPENDICES

Appendix A – Provisional Outturn on the General Fund 2015/16 (**before** slippage)

Appendix B – Slippage Proposals 2015/16

Appendix C – Detailed Analysis of Variances by Cost Centre 2015/16

Appendix D – Provisional Outturn on the General Fund 2015/16 (**after** slippage)

Appendix E – Variance +/- £10k by Service Area

LIST OF BACKGROUND PAPERS

Working Papers for the Final Accounts 2015/16 held in Accountancy.