

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

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Report Author: Vince Green
Tel. No: 01282 661867
E-mail: vince.green@pendle.gov.uk

PROVISIONAL REVENUE OUTTURN 2016/17

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 2016/17.

RECOMMENDATIONS

2. The Executive is recommended to:-
 - a) note the outturn on the Council's Revenue Budget for 2016/17 acknowledging the position is provisional at this time pending completion of the audit of the accounts for the year;
 - b) approve the proposals for budget slippage from 2016/17 to 2017/18, for those items exceeding £10,000 (as shown at [Appendix B](#)).

REASONS FOR RECOMMENDATION

3. To inform the Executive of the Council's outturn position on revenue budgets for 2016/17.

ISSUE

Provisional Outturn 2016/17

4. In setting the original budget for 2016/17, we planned to use £1.521m from the Budget Support Reserve to support the revenue budget. As a result of decisions taken by Council in July 2016 to streamline reserves combined with the review of budgets as part of the budget setting process for 2017/18, and any supplementary estimates since then, this was subsequently revised to a net contribution to the reserve of £0.324m. This is summarised below in table 1:

Table 1: Budgeted movements on the Budget Support Reserve 2016/17

Budget Support Reserve (BSR) 2016/17	To	From	Total/Net
	£'000	£'000	£'000
Approved budgeted contribution <i>from</i> the BSR to support the original 2016/17 revenue budget.		(1,521)	(1,521)
Adjusted for:			
(a) Transfers to the BSR from other earmarked reserves as agreed by Council in July 2016	1,751		1,751
(b) Effect of in year underspend reported when approving the Revised Budget for 2016/17 – agreed by the Executive in December 2016	101		101
(c) Supplementary estimate (PEEF/ITHAAD) – agreed by the Executive in June 2016		(7)	(7)
Closing budgeted contribution to the BSR	1,852	(1,528)	324

5. On the basis of the provisional outturn figures, and taking into account proposed slippage and contributions to and from reserves, a net contribution of £324k is expected to be made to the Budget Support Reserve in 2016/17 in line with the budgeted position as shown in Table 2 below:

Table 2: Provisional Outturn 2016/17 (after budget slippage)

	Approved Budget (Post Slippage)	Provisional Actual	Variance
	£000	£000	£000
Net Cost of Services	16,276	16,295	19
Corporate Income and Expenditure	(2,061)	(2,080)	(19)
Sub-total of Net Revenue Expenditure	14,215	14,215	0
Less: Cont to/(from) Reserves	(2,359)	(2,359)	0
Funding (Council Tax / NNDR / Govt Grant)	(12,180)	(12,180)	0
Cont. to / (from) Budget Support Reserve	324	324	0

Source: Appendix C

6. The Executive should note that the position shown in Table 2 above is *after* taking account of proposed budget slippage required to provide funding for future/ongoing commitments. More detail on this is provided below.

Provisional Outturn 2016/17 (Before budget slippage)

7. Table 3 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 3: Provisional Outturn Position 2016/17 (Before slippage)

	Approved Budget (Pre - Slippage)	Provisional Actual	Variance
	£000	£000	£000
Net Cost of Services	16,337	16,295	(42)
Corporate Income and Expenditure	(2,061)	(2,080)	(19)
Sub-total of Net Revenue Expenditure	14,276	14,215	(61)
Cont to/(from) Reserves	(2,420)	(2,359)	61
Funding (Council Tax / NNDR / Govt Grant)	(12,180)	(12,180)	0
Cont. to / (from) Budget Support Reserve	324	324	0

Source: Appendix A

8. As the table indicates, the provisional outturn position shows an underspend of £61k when compared to the Approved Budget. This primarily comprises an underspend on the Net Cost of Services of £42k and an underspend on Corporate Income and Expenditure of £19k. The outturn position shown in Table 3 above includes unspent budgets of £61k which it is proposed to carry forward to 2017/18 (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

9. As Table 3 shows, the outturn position on the Net Cost of Services is an underspend of £42K ([Appendix A, Col 5, Row 8](#)). 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 2017/18. Details of these 'budget slippage' requests amounting to £61k are provided at [Appendix B](#). Of these, £23k has been approved under the officer delegation referred to above. The Executive is requested to consider and approve the balance of £38k. If the balance of slippage proposals is agreed, the effect will be to negate the underspend of £61k reported in the table above at the Net Revenue Expenditure line as shown below:

Table 4: Impact of Slippage on Net Cost of Services

	Variance (Pre - Slippage)	Slippage	Variance (Post - Slippage)
	£000	£000	£000
Directorate	0	0	0
Financial Services (including Liberata services)	(6)	0	(6)
Democratic & Legal Services	7	0	7
Planning, Building Control & Licensing	(85)	0	(85)
Environmental Services	(114)	40	(74)
Housing, Health & Economic Development	32	21	53
Neighbourhood Services	124	0	124
Net Cost of Services	(42)	61	19
Corporate Income and Expenditure	(19)	0	(19)
Net Revenue Expenditure	(61)	61	0

Source: Appendix B, C and D

10. 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.
11. Councillors are asked to note that included within the overall Net Cost of Services are charges totaling £192k 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 has been possible to meet these costs in the Revenue Account from a combination of the Area Committee approved revenue budget provision (£70k), other service budgets and an adjustment to the Revenue Contribution to Capital Expenditure.

Corporate Income and Expenditure

12. 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 £19k in this area when compared to the approved budget. The main variances are:-
 - a) an underspend £6k on external debt charges linked to variations in the timing of borrowings from the Public Works Loan Board;
 - b) additional investment income of £16k being the net effect of higher than forecast cash balances (mainly due to slippage on the capital programme) offset by lower investment returns;
 - c) a higher than budgeted Section 31 grant. The grant compensates the Council for specific business rate reliefs awarded during the year (e.g. small business rate relief). Grant for the year is now estimated at £28k more than budgeted reflecting the actual level of reliefs awarded in the year;
 - d) a net increase of £30k in the County Council’s share of the retained levy for the year resulting from the Council’s membership of the Lancashire Business Rates pool. Additional commentary on this is provided below.

Business Rates 2016/17 Outturn

13. Under the Business Rate Retention scheme, introduced in April 2013, 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%
14. 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).
15. The Council's budgeted income from business rates each year is derived from the NNDR1 form. For 2016/17 the Council's share of income was £7.69m based on 40% of £19.23m. From this, the Council has to deduct its tariff payment to Government for the year of £4.09m. The Council also had to meet its share of the estimated deficit on the business rates part of the Collection Fund from the previous year of £0.52m – hence the budgeted *net* income from business rates for 2016/17 was £3.08m (i.e. £7.69m less £4.09m less £0.52m).
 16. 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 net 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.
 17. Based on the NNDR 3 form the actual business rates income for 2016/17 was £20.7m an increase of £1.47m on that estimated on the NNDR1 form. In addition to this there was a residual deficit from 2015/16 of £1.53m. As a result of these movements the closing position as at 31st March 2017 in respect of business rates is a net deficit of £57k of which Pendle's share is £23k.
 18. Whilst the position outlined above on business rates is an encouraging one there is still much uncertainty attached to projections of future income levels from business rates. This results from a combination of the 2017 Revaluation with the risk of significant appeals by businesses against their rateable value and planned reforms of the business rates system nationally. That said the year-end deficit of £57k is the lowest to-date since the scheme was introduced and is significantly lower than the £1m deficit assumed for the year when making the January 2017 estimate. This has implications for the Council's participation in the Lancashire Business Rates Pool as outlined below

Lancashire Business Rates Pool 2016/17

19. Under the Pool governance arrangements for Lancashire each member bears its own risk. There is no safety net protection provided by Government and individual pool members are protected from each other's losses within the pool. The upside to pool membership is that there is no levy payable to Government and hence each member retains its share of rates income in full save for 10% which is payable to the County Council under the pooling arrangement.
20. The position for Pendle in respect of its membership of the pool in 2016/17 is summarised below:

	£'000
Total Non-Domestic Rating Income	20,695
add back rating reliefs compensated by grant from Govt	<u>1,509</u>
	22,204
Pendle's share at 40%	8,882
Less tariff payment to Government	<u>(4,094)</u>
Total retained income from business rates	4,788
Funding baseline for Pendle (set by Government)	<u>3,726</u>
Excess income over baseline (i.e. amount subject to levy)	<u>1,062</u>
Levy payable at 50%	531

21. This reflects the levy that **would** have been payable by the Council in 2016/17 were it not in a business rates pool. However, the Council's membership of the Lancashire pool means it retains 90% of this levy with the remaining 10% (£53k) payable to the County Council. The benefit to the Council from this will be taken in to account in the budget for 2018/19. Based on information provided by Ribble Valley BC, as the lead authority for the pool, the total retained levy for the pool overall is an estimated £5.1m. This is the amount retained within Lancashire that would previously have been paid over to the Government by way of the levy.

Reserves

22. 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](#).
23. The intention, as with last year, is to review all reserve balances to establish the scope to transfer resources in to the Budget Strategy Reserve to support medium-term financial planning. The scope for this will be more limited this time as a result of actions taken in 2016 which resulted in £1.751m being transferred in to the Budget Strategy Reserve. The initial outputs from the work this year will be reported via the Budget Working Group prior to the Executive.

VAT Shelter Reserve

24. The Council received no income from Together Housing (in relation to Housing Pendle) during the year under the VAT Shelter Agreement established following the Large Scale Voluntary Transfer of the Council's housing stock in 2006. Together Housing has informed us that they consider the agreement has come to an end. We are reviewing this currently to establish whether all income due to the Council has been received under the agreement.

The Budget Strategy Reserve

25. In setting the original budget for 2016/17 the Council planned to use £1.521m from this reserve. As set out in Table 1 above the closing budgeted position resulted in a contribution to the reserve of £324k and the outturn for the year is consistent with this.

Statement of Accounts 2016/17

26. 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 2nd June. The accounts are subject to audit by Grant Thornton and the period for public inspection is underway and runs to the 14th July.
27. In accordance with the Council's Constitution, the draft accounts for 2016/17 will be reported to the Accounts and Audit Committee. The intention is to report to the Committee on 31st July when the accounts and Audit Findings Report from Grant Thornton will be submitted for approval.

IMPLICATIONS

Policy

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

Financial

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

Legal

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

Risk Management

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

Health and Safety

32. There are no health and safety implications arising directly from this report.

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – Provisional Outturn on the General Fund 2016/17 (**before** slippage)

Appendix B – Slippage Proposals 2016/17

Appendix C – Detailed Analysis of Variances by Cost Centre 2016/17

Appendix D – Provisional Outturn on the General Fund 2016/17 (**after** slippage)

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

LIST OF BACKGROUND PAPERS

Working Papers for the Final Accounts 2016/17 held in Accountancy.