



**REPORT FROM:** CHIEF FINANCIAL OFFICER  
**TO:** POLICY AND RESOURCES COMMITTEE  
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## PROVISIONAL REVENUE OUT-TURN 2017/18

### PURPOSE OF REPORT

The purpose of this report is to provide the following:-

Inform the Policy and Resources Committee of the provisional out-turn position on the Council's General Fund Revenue Budget for 2017/18 and seek approval for carrying over budget provision in the sum of £36.9k into 2018/19.

### RECOMMENDATIONS

The Committee is recommended to:

- a) note the out-turn on the Council's Revenue Budget for 2017/18 acknowledging the position is provisional at this time pending completion of the audit of the accounts for the year;
- b) approve the proposal(s) to re-phase budget from 2017/18 to 2018/19 for any item(s) exceeding £15,000 (as shown at **Appendix B**).

### REASON FOR RECOMMENDATIONS

To inform the Committee of the Council's out-turn position on revenue budgets for 2017/18.

## ISSUE

### *Provisional Out-turn 2017/18*

1. In setting the original budget for 2017/18, it was planned that £1.046m be used from the Budget Support Reserve to support and fund the revenue budget. As a result of decisions taken by Council and The Executive this was subsequently revised to a net contribution from the reserve of £0.786m (**Appendix C line 45**). This is summarised below in table 1.

**Table 1:** Budgeted movements on the Budget Support Reserve 2017/18

<b>Budget Support Reserve (BSR) 2017/18</b>	<b>Contribution (From) £000</b>	<b>Contribution (From) £000</b>	<b>Total Net Contribution £000</b>
Budgeted contribution <b>from</b> the BSR to support the original 2017/18 Approved Revenue Budget (approved Council Feb 2017)	(1,046)		(1,046)
Adjusted for the following:-			
• Transfers in from other reserves (approved Council Oct 2017)		235	235
• Transfer in from revised budget underspend (reported to Exec Dec 2017)		505	505
• Revised Budget Adjustment (reported to Exec Dec 2017)		20	20
• Application of underspend to other reserves (reported to Exec Dec 2017)	(500)		(500)
<b>Closing Budgeted Contribution To/(From) the BSR</b>	<b>(1,546)</b>	<b>760</b>	<b>(786)</b>

2. On the basis of the provisional out-turn figures, and taking into account the following year-end adjustments:-
  - the proposed re-phasing of approved budget from 2017/18 into 2018/19 for committed expenditure, and
  - contributions to and from reserves,

a net reduction of £183k in contribution from the Budget Support Reserve in 2017/18 in line with the budgeted position as shown in Table 2 below.

**Table 2:** Provisional Out-turn 2017/18 (after budget re-phasing into 2018/19)

	<b>Approved Budget (after re-phasing from 2016/17) £000</b>	<b>Provisional Out-turn £000</b>	<b>Variation to Approved Budget £000</b>
Net Cost of Services	14,591	14,758	167

Corporate Income and Expenditure	(2,048)	(2,315)	(267)
<b>Sub-total of Net Revenue Expenditure</b>	<b>12,543</b>	<b>12,443</b>	<b>(100)</b>
Less: Contribution to/(from) Reserves	(208)	(207)	1
Core Funding – (Council Tax, Business Rates Retention, Govt. Grant)	(11,549)	(11,633)	(84)
<b>Contribution to/(from) Budget Support Reserve (BSR) – (Appendix C, line 45)</b>	<b>(786)</b>	<b>(603)</b>	<b>(183)</b>

3. The Committee should note that the position shown in Table 2 above is *after* taking account of proposed budget re-phasing to be carried forward to provide funding for future/ongoing commitments.
4. The net cost of services above shows that there was an overspend against the total Net Cost of Services off-set by an underspend on Corporate Income and Expenditure. Additional core funding received in year results in a total underspend against the Approved Budget of £183k. Summarised in the main as an overspend on Net Cost of Services offset by an over achievement (underspend) of Income. Detailed information on the actual variations to budgets are included in the attached appendices, however the overall underspend can be summarised as follows:-
  - **Net Costs of Services** - £167k. Budget variations are listed in Appendix E with some examples of overspends being: Net increase in payments to Liberata due to contractual performance and welfare reforms - £81k. As part of the agreement with Liberata UK Ltd, incentive payments are paid at the end of each financial year. These payments are based on an agreed set of key performance measures and the agreed annual targets set for the year; Cost variation due to assumption made on the completion date of No1 Market Street; Delivery of blue bins following demands exceeding that anticipated. All of the variations are being reviewed in detail as part of the Base Budget Review currently being completed to update the 2019/20 Medium Term Financial Plan.
  - **Corporate Income and Expenditure** – (£267k). Additional s31 grant received in respect of the Business Rates Retention (BRR) Scheme - £217K. Government provide grant to compensate the authority for losses as a result of Central Government policy decisions. Due to the nature of the BRR regime there is often a time lag before the full impact of Government policy decision affects the actual budgeted income received for BRR.
  - **Core Funding** – BRR Tariff Payment - £83k. The Council's BRR Tariff payment to Central Government (see paragraph 22) was adjusted retrospectively after the Local Government Finance Settlement following a reconsideration of adjustments made in respect of the national re-valuation of property effective from 2017.

***Provisional Out-turn 2017/18 (Before budget re-phasing)***

5. Table 3 below provides a summary of the provisional out-turn position for the year whilst a more detailed analysis is provided at **Appendix A**. This position is *before* budget re-phasing has been taken into account.

**Table 3:** Provisional Out-turn 2017/18 (before budget re-phasing into 2018/19)

	Approved Budget (before re-phasing from 2016/17) £000	Provisional Out-turn £000	Variation to Approved Budget £000
Net Cost of Services	14,692	14,758	66
Corporate Income and Expenditure	(2,035)	(2,315)	(280)
<b>Sub-total of Net Revenue Expenditure</b>	<b>12,657</b>	<b>12,443</b>	<b>(214)</b>
Less: Contribution to/(from) Reserves	(207)	(207)	-
Core Funding – (Council Tax, Business Rates Retention, Govt. Grant)	(11,549)	(11,633)	(84)
<b>Contribution to/(from) Budget Support Reserve (BSR) – (Appendix A, line 45)</b>	<b>(901)</b>	<b>(603)</b>	<b>(298)</b>

**Net Cost of Services**

6. As the table indicates, the provisional out-turn position shows an underspend of £298k when compared to the Approved Budget. This primarily comprises an over achievement (underspend) on Corporate Income and Expenditure of £280k offset by a small overspend of £66k on the Net Cost of Services. The out-turn position shown in Table 3 above includes unspent budgets of £114k which it is proposed to carry forward into 2017/18. This will re-phase expenditure that was planned to take place in 2017/18 into 2018/19 to be spent as per the list attached in **Appendix B**. Approval of budget re-phasing requests for items not exceeding £15,000 is delegated to the Chief Executive in consultation with the Chief Financial Officer (CFO) and are shown in the appendix for information. Amounts above £15,000 require approval by the Committee. There is one item in **Appendix B** over £15,000 to assist the empty homes task and finish project and also support Growth Development in the sum of £36.9k.
7. If this balance of budget re-phasing proposals is agreed, the effect will be to reduce the total underspend of Net Revenue Expenditure from £214k (table 3 and **Appendix A, col 5, line 20**) to an underspend of £100k (table 2 and **Appendix C, col 5, line 20**) as shown below:

**Table 4:** Impact of budget re-phasing on Net Cost of Services

	Variance before budget re- phasing £000	Budget Re- phasing £000	Variation after budget re- phasing £000
Directorate	(19)	(2)	(21)
Financial Services (incl. Liberata Services)	(89)	-	(89)
Democratic & Legal Services	8	(1)	7
Planning, Building Control & Licensing	21	(20)	1

Environmental Services	(59)	(11)	(70)
Housing, Health & Economic Development	95	(58)	37
Neighbourhood Services	(23)	(8)	(31)
<b>Net Cost of Services</b>	<b>(66)</b>	<b>(100)</b>	<b>(166)</b>
Corporate Income and Expenditure	280	(14)	266
<b>Net Revenue Expenditure (see Appendices B, C and D)</b>	<b>214</b>	<b>(114)</b>	<b>100</b>

8. An analysis of the variances 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.

### ***Corporate Income and Expenditure***

9. Corporate Income and Expenditure relates to those areas of expenditure and income that are not specific to the delivery of services. Overall, there is a net underspend of £100k (table 2) in this area when compared to the approved budget. The main variances are:-
- a) an underspend £50k on external debt charges linked to variations in the timing of borrowings from the Public Works Loan Board;
  - b) additional investment income of £20k 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 £217k more than budgeted reflecting the actual level of reliefs awarded in the year;
  - d) a net increase of £20k 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 Retention (BRR) 2017/18 Out-turn***

10. Under the Business Rate Retention (BRR) 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 on behalf of the County's preceptors (Lancashire Police and Crime Commissioner is excluded from the BRR scheme as protection against its inherent volatility). The income is shared in the following prescribed proportions:-

- Central Government 50%
- Pendle Borough Council 40%
- Lancashire County Council 9%
- Lancashire Fire and Rescue Service 1%

11. 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 out-turn for the current year (known as the NNDR1 form);
  - April – completion of return to Government setting out the actual income for the preceding financial year (known as the NNDR3 form).

*Approved BRR Budget – NNDR 1*

12. The Council's budgeted income from business rates each year is derived from the NNDR1 form. For 2017/18 the Council's share of income was £6.8m based on 40% of £17m being net collectable Business Rates. From our share of income the Council has to make a tariff payment to Government which was budgeted at £3.25m for the year. Hence the net income from Business Rates Retention was budgeted at £3.55m.
13. 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. Therefore the year end performance in respect of the collection of Business Rates has implications for the Council's budget for the succeeding two years.

*Actual BRR Out-turn – NNDR 3*

14. Based on the NNDR 3 form, the actual business rates income for the borough in 2017/18 was £17.9m, an increase of £0.9m on that estimated at the start of the year per the NNDR1 return. In addition to this the Council also benefitted from an improved position at the end of 2016/17 compared to that which had been estimated in January 2017 in respect of collection. The overall improvement within the BRR Collection Fund resulted in a one off benefit of which the Council's share is 40% equating to £0.76m.
15. The position outlined above on business rates is positive. However, looking at the Business Rates outlook in the MTFP, there remains a level of uncertainty, especially relating to business rates appeals, which can affect our forecasts for business rates income. Appeals submitted to the Valuation Office Agency (VOA) are monitored closely albeit that there is little information available in terms of confirmed appeals from April 2017 following the introduction nationally of the new system for making appeals (known as check, challenge, change).
16. The Council continues to benefit from its membership of the Lancashire business rates pool. This has now operated for two years and in each year our membership has resulted in a retained levy of c£0.5m. The Council retains 90% of this with the remainder paid to the County Council. Had we not been in the Pool arrangement we would have to pay the full levy retained to the Government.

***Lancashire Business Rates Pool 2016/17***

17. Under the BRR scheme, income overachieved is subject to a levy paid to Central Government at a rate of 50%. Central Government, however, allows Authorities to join

together under a Pooling Agreement in order to retain the levy payment locally. Lancashire District Councils have successfully applied operate such a pool of which Pendle Borough Council is a member.

18. Under the Pool governance arrangements for Lancashire each member bears its own risk should income dip. There is no safety net protection provided by Government from such a dip in income, however, within the Lancashire Pool members are protected from each other's losses should they occur. 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.
19. The position for Pendle in respect of its membership of the pool in 2017/18 is summarised below:

	<b>£'000</b>
Total net Non-Domestic Rating Income	17,897
add back: rating reliefs compensated by grant from Govt.	<u>2,372</u>
	<b><u>20,269</u></b>
Pendle's share at 40%	8,107
Less tariff payment to Government	<u>(3,165)</u>
<b>Total retained income from business rates</b>	<b><u>4,943</u></b>
Funding baseline for Pendle (set by Government)	<u>3,802</u>
Excess income over baseline (i.e. amount subject to levy)	<u>1,141</u>
 <b>Levy payable at 45.5%</b>	 <b>518</b>

20. This reflects the levy that **would** have been payable by the Council in 2017/18 were it not a member of the Lancashire Business Rates Pool. Membership means it retains 90% of this levy with the remaining 10% (£52k) being payable to the County Council. The benefit to the Council from this (being £518k less £52k = £466k) will be taken in to account in the budget process for 2019/20. Based on information provided by Ribble Valley BC, as the lead authority for the pool, the total retained levy for the pool in overall is an estimated £6.0m. This is the amount retained within Lancashire that would previously have been paid over to the Government by way of the levy.

### **Reserves**

21. 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** at lines numbered 115 to 126.
22. The financial risk profile for the Council continues to increase with the high degree of uncertainty within the budget forecasting process to 2020/21. As previously reported there are a number of unknowns with regard to the outcome of the Fair Funding Review and changes to more than one element of the Business Rates Retention scheme. All outcomes have the potential to significantly reduce core funding over and above that already retracted since the Comprehensive Spending Review in 2010.
23. A review all reserve balances takes place at year-end to consider the impact of the out-turn financial performance on the assessment of reserves undertaken at budget setting time and the most up to date budget forecast across the MTFP period. The aim of the review is to match the reserves held to Council priorities and mitigation against financial risk dependent on the purpose of the reserve. A review has been undertaken with the

aim to provide the Council with greater capacity within the Budget Support Reserve to smooth out further core income reductions. A report on the Review of Reserves is contained elsewhere on this Policy and Resources Committee agenda.

#### *VAT Shelter Reserve*

24. The Council received no income from Together Housing (in relation to Housing Pendle) during 2016/17 under the VAT Shelter Agreement established following the Large Scale Voluntary Transfer of the Council's housing stock in 2006. To ensure that the Council's financial benefits are maximised an independent review of the matter confirmed that the agreement had expired and that no further VAT Shelter income will be received.

#### *The Budget Strategy Reserve*

25. In setting the original budget for 2017/18 the Council planned to use £0.786m from this reserve (**Appendix C, col 3, line 45**). As set out in Table 1 above the closing budgeted position means that this amount will be reduced to £603k. This means that the balance on the reserve will be £0.183m higher than originally expected when the budget was approved in February 2017. The budget forecasts in the updated Medium Term Financial Plan (MTFP) reported to this committee in May 2018 shows that the balance on this reserve is fully committed to 2021/22 to contribute towards bridging the budget gap.

#### **Statement of Accounts 2017/18**

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 statutory financial accounting statements.
27. The Statement of Accounts (SOAs) 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 31<sup>st</sup> May in accordance with the new statutory deadline this year (previously the deadline was 30<sup>th</sup> June).
28. The SOAs also contains the Annual Governance Statement (AGS) that was signed off by The Leader and the Chief Executive following its approval at the Policy and Resources Committee on 24<sup>th</sup> May 2018. The SOAs will now be subject to audit by our External Auditors (Grant Thornton). This external inspection needs to be completed by the end of July when, in accordance with the Council's Constitution, the audited SOAs will be reported to the Audit and Account Committee on 26<sup>th</sup> July 2018 for approval. The SOAs is also available for public inspection between 1<sup>st</sup> June and 12<sup>th</sup> July.

## **IMPLICATIONS**

**Policy** - There are no policy implications arising directly from this report.

**Financial** - The financial implications are as given in the report. The impact on Reserves and the proposals for managing financial risk inherent in the budget forecasts is contained in the Review of Reserves report elsewhere on this Policy and Resources Committee Agenda.

**Legal** - There are no legal implications arising directly from this report.



**Risk Management** - There are no direct risk management implications arising directly from the contents of this report.

**Health and Safety** - There are no health and safety implications arising directly from this report.

**Climate Change** - There are no sustainability implications arising directly from this report.

**Community Safety** - There are no community safety issues arising directly from this report.

**Equality and Diversity** - There are no equality and diversity issues arising from the contents of this report.

## **APPENDICES**

**Appendix A** – Provisional Out-turn on the General Fund 2017/18 (before budget re-phasing)

**Appendix B** – Budget Re-phasing Proposals 2017/18 into 2018/19.

**Appendix C** – Detailed Analysis of Budget Variances by Cost Centre 2017/18.

**Appendix D** – Provisional Out-turn on the General Fund 2016/17 (after budget re-phasing).

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

## **LIST OF BACKGROUND PAPERS**

Working Papers for the preparation of the Statement of Accounts 2017/18 held in Financial Services.