REPORT FROM:	**CHIEF FINANCIAL OFFICER**
TO:	**POLICY AND RESOURCES COMMITTEE**
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PROVISIONAL REVENUE OUT-TURN 2018/19

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 2018/19 and seek approval for:

- carrying over budget provision in the sum of £110.9k into 2019/20, and
- setting up a New Homes Bonus Resilience Reserve of £0.552m.

RECOMMENDATIONS

The Committee is recommended to:

(1) Note the out-turn on the Council's Revenue Budget for 2018/19 acknowledging the position is provisional at this time pending completion of the audit of the accounts for the year.

(2) Approve the proposal(s) to re-phase budget from 2018/19 to 2019/20 for the items exceeding £15,000 (as shown at **Appendix B**).

(3) Approve setting up a New Home Bonus Resilience Reserve of £0.552m.

REASON FOR RECOMMENDATIONS

To inform the Committee of the Council's out-turn position on revenue budgets for 2018/19.

ISSUE

Provisional Out-turn 2018/19

1. In setting the original budget for 2018/19, it was planned that £0.990m be used from the Budget Support Reserve to support and fund the revenue budget. As a result of decisions taken by Council and the Policy and Resources Committee this was subsequently revised to a net contribution from the reserve of £0.489m (**Appendix D line 59**). This is summarised below in table 1.

Table 1: Budgeted movements on the Budget Support Reserve 2018/19

Budget Support Reserve (BSR) 2018/19	**Contribution (From) £000**	**Contribution (to) £000**	**Total Net Contribution £000**
Budgeted contribution **from** the BSR to support the original 2018/19 Approved Revenue Budget (approved Council Feb 2018)	(990)		(990)
Adjusted for the following:-			
• Transfers in from other reserves (Review of Reserves)		466	466
• Transfer to Community Investments Fund (CIF)	(100)		(100)
• Contribution to Fund Street Lighting in the Capital Programme	(6)		(6)
• 2018/19 Base Budget Review Savings - Revised Estimate		62	62
• Income Review Volume Changes in 2018/19	(88)		(88)
• Revised Budget Variation		167	167
Closing Budgeted Contribution To/(From) the BSR	**(1,184)**	**695**	**(489)**

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 2018/19 into 2019/20 for committed expenditure, and
   - contributions to and from reserves,

   there is a net reduction of £169k required from the Budget Support Reserve in 2018/19 as set out in Table 2 below.

Table 2: Provisional Out-turn 2018/19 (after budget re-phasing into 2019/20)

	Approved Budget (after re-phasing from 2017/18) £000	Provisional Out-turn £000	Variation to Approved Budget £000
Net Cost of Services	15,283	15,293	10
Corporate Income and Expenditure	(2,148)	(2,327)	(179)
Sub-total of Net Revenue Expenditure	**13,135**	**12,965**	**(169)**
Less: Contribution to/(from) Reserves	(449)	(449)	-
Core Funding – (Council Tax, Business Rates Retention, Govt. Grant)	(12,197)	(12,197)	-
Contribution to/(from) Budget Support Reserve (BSR) (Appendix D, line 59)	**(489)**	**(319)**	**(169)**

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 as listed in **Appendix B**.

4. The table above shows that there was an overspend against the total Net Cost of Services of £10k, off-set by an over achievement (underspend) on Corporate Income and Expenditure of £179k. 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** - £10k overspend. A small overall variation occurred within the Net Cost of Services budgets which is, in the main, an amalgam of off-setting budget variations below £10k. The budget variations are listed in **Appendix E** with some examples of overspends being: Net increase in payments to Liberata due to contractual performance and additional customer services support - £47k. 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; Reduction in expected planning fee income £11k; Fire damage to vehicles resulted in additional hire costs £28k.

   - **Corporate Income and Expenditure** – (£179k) underspend. Additional s31 grant received in respect of the Business Rates Retention (BRR) Scheme – (£135k). Government provide grant to compensate the authority for losses as a result of Central Government policy decisions on reliefs. Due to the nature of the BRR system there is often a time lag before the full impact of Government policy decision affects the actual budgeted income received for BRR.

Provisional Out-turn 2018/19 (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 2018/19 (before budget re-phasing into 2019/20)

	Approved Budget (before re-phasing from 2017/18) £000	Provisional Out-turn £000	Variation to Approved Budget £000
Net Cost of Services	15,461	15,293	(169)
Corporate Income and Expenditure	(2,147)	(2,326)	(179)
Sub-total of Net Revenue Expenditure	**13,313**	**12,965**	**(348)**
Less: Contribution to/(from) Reserves	(628)	(628)	-
Core Funding – (Council Tax, Business Rates Retention, Govt. Grant)	(12,197)	(12,197)	-
Contribution to/(from) Budget Support Reserve (BSR) (Appendix A, line 59)	**(489)**	**(141)**	**(348)**

Net Cost of Services

6. As the table indicates, the provisional out-turn position shows an underspend of £348k when compared to the Approved Budget. This primarily comprises an underspend on Net Cost of Services of £169k plus an over achievement (underspend) on Corporate Income and Expenditure of £179k. The out-turn position shown in Table 3 above includes unspent budgets of £178k which are proposed to be carried forward into 2019/20. This will re-phase expenditure that was planned to take place in 2018/19 into 2019/20 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 of which there are 4 items as follows:-

	£
• Funding to spend of Pocket Parks	23,460
• Provision for Maternity Leave cover in 2019/20 (Fin. Services)	26,000
• Consultancy budget in Planning Services	28,540
• Provision for Maternity Leave cover in 2019/20 (Hsg, Health & Eng)	32,860
Total	1**10,860**

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 £348k (table 3 and **Appendix A, line 58**) to an underspend of £169k (table 2 and **Appendix D, line 58**) 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	(11)	9	(2)
Financial Services (incl. Liberata Services)	20	31	51
Democratic & Legal Services	(40)	5	(35)
Planning, Building Control & Licensing	(70)	39	(31)
Environmental Services	30	44	74
Housing, Health & Economic Development	(35)	50	15
Neighbourhood Services	(63)	1	(62)
Net Cost of Services	**(169)**	**179**	**10**
Corporate Income and Expenditure	(179)	-	(179)
Net Revenue Expenditure **(see Appendices B, C and D)**	**(348)**	**179**	**(169)**

8. An analysis of the variances within each Service is provided at **Appendix C** 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 £179k 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 £56k being the total effect of higher than forecast cash balances (mainly due to slippage on the capital programme) and achieving a higher rate of return.

   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 £135k more than budgeted reflecting the actual level of reliefs awarded in the year;

Business Rates Retention (BRR) 2018/19 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).

<u>*Approved BRR Budget – NNDR 1*</u>

12. The Council's budgeted income from business rates each year is derived from the NNDR1 form. For 2018/19 the Council's share of income was £7.064m based on 40% of £17.7m being net collectable Business Rates. From our share of income the Council has to make a tariff payment to Government which was budgeted at £3.260m for the year. Hence the net income from Business Rates Retention was budgeted at £3.804m.

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.

<u>*Actual BRR Out-turn – NNDR 3*</u>

14. Based on the NNDR 3 form, the actual business rates income for the borough in 2018/19 was £17.4m, a decrease of £0.3m on that estimated at the start of the year per the NNDR1 return. It is important to note however, that this decrease is caused by the vagaries of the BRR system and not a decrease in Business Rates generated within the Borough, which has in fact increased. In summary, more reliefs are being awarded which reduces the amount filtering through the system from gross rates payable to net rates received. This doesn't equate to a loss of income, however, as the Council is reimbursed via the s31 grant payment. The added benefit of BRR income shifting from rates income to grant income is that grant income is not subjected to losses on collection.

15. In respect of collection, the Council has also benefited from an improved position at the end of 2017/18 compared to that which had been estimated. The overall improvement within the BRR Collection Fund resulted in a one off benefit of which the Council's share was 40% equating to £0.253m.

16. The overall 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.

17. The forecasted trend within the updated MTFP is that BRR income will decrease over the period to 2022/23. This is due to the budget assumptions included in the forecasts, which are subject to change, on the next revaluation of the tax base and amendments made by Central government such as:

    - Adjustments made to the Tariff paid to Central Government
    - Resetting the baseline and potentially reducing the benefit of growth achieved
    - Move from a 50% retention scheme to a new 75% retention scheme, and
    - Outcomes of the Fair Funding Review, for example amendments to the local shares

18. The Council continues to benefit from its membership of the Lancashire business rates pool. This has now operated for three years and in each year our membership has resulted in the levy payment, that would have been paid over to Central Government, being retained. 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 Central Government.

Lancashire Business Rates Pool

19. Income achieve over and above the Funding Baseline (set by Government) is subject to a levy which is paid to Central Government at a rate of 45.4%. 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 to operate such a pool of which Pendle Borough Council is a member.

20. 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.

21. The position for Pendle in respect of its membership of the pool in 2018/19 is summarised below:

	£000
Total net Non-Domestic Rating Income	17,411
add back: rating reliefs compensated by grant from Govt.	2,488
	19,899
Pendle's share at 40%	7,960
Less tariff payment to Government	(3,260)
Total retained income from business rates	**4,700**
Funding baseline for Pendle (set by Government)	3,916
Excess income over baseline (i.e. amount subject to levy)	784
Levy payable at 45.4%	**£356K**

22. This reflects the levy that **would** have been payable by the Council in 2018/19 were it not a member of the Lancashire Business Rates Pool. Membership means it retains 90% of this levy with the remaining 10% (£36k) being payable to the County Council. The benefit to the Council from this (being £356k less £36k = £320k) will be taken in to account in the budget estimates process for 2020/21. 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 £7.1m. This is the amount retained within Lancashire that would previously have been paid over to the Government by way of the levy.

Reserves

23. 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 in **Appendix C**, at lines numbered 97 to 109.

24. The financial risk profile for the Council continues to increase with the high degree of uncertainty within the budget forecasting process to 2022/23. As reported to this committee in May, there are a number of unknowns in 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. The updated Reserves position reported to Policy and Resources Committee is attached at **Appendix F**.

New Homes Bonus Resilience Reserve

25. The arrangements for the New Homes Bonus (NHB) incentivisation grant scheme post the Fair Funding Review are also unknown. Significant reductions in NHB grant allocations have been implemented in previous years and therefore it is feasible that it will be withdrawn in its totality at the end of 2019/20 including legacy payments.

26. The total forecasted NHB receipts within the updated MTFP total £0.552m (as per the MTFP report to P&R in May 2019), given that the budget savings targets to be achieved are challenging, even after contributions from the Budget Support Reserve, it is recommended that a NHB Resilience Reserve is created to smooth out the impact of this potential additional significant loss of income.

27. The proposed contributions into the NHB Resilience Reserve are as follows:-

	£m
Underspend in 2018/19	0.169
Review of Reserves 2019/20	0.183
Transfer from Budget Support Reserve	0.200
Total Contribution to NHB Resilience Reserve	**0.552**

28. 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. As the Budget Support Reserves is forecasted to reduce to zero before year 3 of the updated MTFP period (2022/23), a review is planned to take place and the findings reported to Policy and Resources Committee in July. That said, with the total level of reserves reducing year on year, it is expected that the capacity to reallocate reserves will be minimal.

Statement of Accounts 2018/19

29. 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.

30. 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 31st May in accordance with the statutory deadline.

31. 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 28th May 2019. The SOAs will now be subject to audit by our External Auditors (Grant Thornton). This external inspection should 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 30th July 2019 for approval. However, the Council received notification from Grant Thornton on 13th June 2019 that they will not be signing off the Statement of Accounts until, what is referred to as The McCloud ruling on age discrimination, has been concluded within the courts which may well be after the July deadline date.

32. In summary, the Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government has applied to the Supreme Court for permission to appeal but it will be July at the earliest before a decision on permission is granted. The legal ruling around age discrimination (McCloud - Court of Appeal) potentially has implications for all pension funds where changes to benefits have been implemented.

33. This is a national issue and affects all funded pension schemes. The decision of the Supreme Court will determine how this should be treated in the 2018/19 SOAs and therefore the External Auditor will only sign off the accounts after this matter has been concluded.

34. The SOAs is available for public inspection between 3rd June and 12th 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 will be contained within the Review of Reserves report that will be reported to Policy and Resources Committee in July 2019.

Legal
There are no legal implications arising directly from the recommendations within this report.

Risk Management
There are no direct risk management implications arising directly from the contents of this report. The recommendation to set up the NHB Resilience Reserve is to mitigate against the risk of NHB grant income being withdrawn in its totality from 2020/21 onwards. Not making the required budget savings to balance the budget and relying on one-off reserves is a key risk identified and reported within the Strategic Risk Register.

Health and Safety
There are no health and safety implications arising directly from the recommendations within this report.

Sustainability and Climate Change
There are no sustainability implications arising directly from the recommendations within this report.

Community Safety
There are no community safety issues arising directly from the recommendations within this report.

Equality and Diversity
There are no equality and diversity issues arising directly from the recommendations within this report.

APPENDICES

Appendix A – Provisional General Fund Revenue Budget 2018/19 Out-turn Statement BEFORE Budget Re-phasing
Appendix B – Budget Re-phasing Proposals 2018/19 into 2019/20
Appendix C – Detailed Cost Centre Analysis of Budget Variances 2018/19
Appendix D – Provisional General Fund Revenue Budget 2018/19 Out-turn Statement AFTER Budget Re-phasing
Appendix E – Variance +/- £10k by Service Area
Appendix F - General Fund - Forecast Amounts of Specific Reserves and Balances 2019/20 to 2022/23

LIST OF BACKGROUND PAPERS - Working Papers for the preparation of the Statement of Accounts 2018/19 held in Financial Services.