

**Committee: CABINET**

**Date of meeting: 6 July 2016**

<b>Subject:</b>	2015/16 Revenue & Capital Outturn and 2016/17 Budget Update
<b>Lead Officer:</b>	Head of Finance
<b>Portfolio Holder:</b>	Resources – Councillor C.R. Sadler
<b>Link to Council Priorities:</b>	All
<b>Exempt information:</b>	None
<b>Delegated status:</b>	For Resolution
<b>Key decision:</b>	N/A

### **EXECUTIVE SUMMARY:**

To provide the Cabinet with an update on the Revenue and Capital Outturn for 2015/16 and a brief update on the 2016/17 in year budget update. The audited Statement of Accounts for 2015/16, which contains the detailed figures in a format compliant with the requirements of the Code of Practice on Local Authority Accounting will be presented to the Audit and Standards Committee in September 2016 following the audit during the Summer.

### **RECOMMENDED:**

**CABINET NOTES THE OUTTURN FOR 2015/16 AND THE EARLY BUDGET UPDATE FOR 2016/17.**

### **REPORT:**

1. In accordance with the regulations, the Council's Chief Finance Officer (Section 151 Officer) approved the draft accounts by 30 June which are then subject to audit. The audited Statement of Accounts will then be approved by the Audit and Standards Committee in September.

The format required for the Statement of Accounts is not directly comparable to the Council's management accounts and the Statement is effectively an academic exercise and caution should be exercised in making comparisons to the financial position of the authority, and in particular the revenue position.

#### **2. Revenue Outturn 2015/16**

- 2.1 In February 2015 the Council approved the 2015/16 net budget for council tax setting purposes at £17.0 million. In February 2016 the Council considered a revised forecast which contained a variation and changes to the anticipated spend for the year.
- 2.2 As a result of these variations and other changes in the anticipated spend, a revised forecast figure was reported in February 2016 (£2.3 million) which after taking account of the movements in provisions predicted an expenditure in line with the approved budget. The underspend at the time of the revised estimate was earmarked to fund the purchase of investment property. The actual outturn position was broadly in line with the revised forecast.

- 2.3 The underspend identified in February is detailed in the February Cabinet report. This is as a result of better than budgeted income in planning, recycling and car parks combined with some one-off income has contributed to the underspend. In addition, prudent budget management during the year, ensuring that the funds available are used to deliver services at the lowest cost to the Council Taxpayer
- 2.4 The outturn for 2015/16 confirms earlier forecasts that the General Fund balance as at 31 March 2016 remains sound. However, with continuing volatility in the economy, where Elmbridge has seen huge fluctuations in income and interest together with known pressures and doubts over future public sector Government support, the recommended level of £4m General Fund balance is essential.
- 2.5 In setting both the 2015/16 and 2016/17 budget, Heads of Service have costed their activities to achieve outcomes in their service plans. Corporate Management Board considers that carry forward of unspent budget provisions into 2016/17 would be appropriate where there was good reason for the delayed spending and where it is clear that the budget is needed and will be spent in 2016/17. The following criteria was used to determine the carry forwards:
- Deferred expenditure for a valid reason beyond their direct control.
  - To fund one-off project expenditure.

### 3. **Overview of 2015/16**

Elmbridge has kept within its overall budget in recent years but there have been under and overspends in individual service areas. The Council's gross revenue budget for 2015/16 was £73 million and it provides an extremely wide range of very different services, many of them demand-led. As a result, it faces a great variety of risks of adverse budget variations. These risks are mitigated by close budget monitoring and reporting in year to officers, Corporate Management Board and various committees.

- 3.1 In summary:
- For the 2015/16 financial year, continuing the trend in previous years, the Council delivered its services within the approved budget. This was achieved despite significant demand on services and during a period of uncertainty in the economic environment. Cautious spending combined with increased income levels has contributed to this favourable position. The Council's General Fund balance stands at £4.0 million as at 31 March 2016.
  - The in-year Council Tax collection performance was 98.8% (98.8% for 2014/15).
- 3.2 The main contributing factors to the underspend as reported to Cabinet in February are as follows:

	<b>£'000</b>
Employee related	(0.3)
Operating Expenses	(0.4)
Property Rental (incl. new Property Purchases	(0.3)
Places for People – Profit Share	(0.2)
NNDR Section 31 Grants	(0.5)
Increase in planning income	(0.2)
One-off Grants	(0.2)
Decrease in the Use of Reserves	(0.2)
	<u>(2.3)</u>

The Council's financial health remains strong and this capacity will be needed to provide a firm financial foundation for the Council to deliver services in what is a very challenging financial climate in the public sector for the medium term, with continued risk of the public sector finances and our continued aspiration and drive to become financially independent by 2019/20.

#### 4. **Effect on 2016/17 Budget**

- 4.1 A review has been carried out on the probable effect on the 2016/17 Budget of the over and underspends included in the outturn position. Items have already been taken into account in the 2016/17 Budget, or were one-off items that relate to 2015/16 only. At this stage, the outturn figures appear to have little overall impact on the 2016/17 Budget, with some exceptions where more work will be required to ensure that the monitoring reflects the latest position. The detailed Outturn figures will be taken into consideration as part of the review of the 2017/18 Budget work to be undertaken during July/August.

#### 5. **Capital Outturn**

- 5.1 The capital programme for 2015/16 outturn position is £11,360,220 an underspend of £146,280 compared to the revised programme of £11,506,500.
- 5.2 In the majority of cases the underspends are due to slippage and the funding will be carried forward into the 2016/17 capital programme following a review by the Council Management Board. Should there be no requirement for the funding, the funds will be released for use on future capital schemes.
- 5.3 The large underspend on the Housing Portfolio is mainly due to affordable Housing Grants and Private Sector Housing Grants which are demand led schemes. The main underspend on the Leisure Portfolio is due to the Sports Hub, Waterside Drive where construction was due to commence in

September 2015 but was delayed until March 2016 due to the requirement for an Environmental Impact Assessment.

## 6. **Collection Fund**

- 6.1 The net collectable debt for Council Tax was at £106 million in 2015/16 (£103 million in 2014/15). The percentage of Council Tax collected for 2015/16 (payments received as a percentage of the collectable debit) was on target at 98.8%. This was the same as the previous year's collection rate of 98.8%.
- 6.2 The net collectable debt for Business Rates for 2015/16 was £56 million an increase of £1 million compared to 2014/15. The percentage of Business Rates collected for 2015/16 (payments received as a percentage of the collectable debit) was 98.4% slightly below the target for that year of 98.8%. For comparison, the percentage collected for 2014/15 was 98.9%.

## 7. **Significant Issues on Closing the 2015/16 Accounts**

### 7.1 **Accounting for Business Rates**

The main issue relating to the Council's 2015/16 accounts is the accounting requirements for the Localisation of Business Rates, the third year of accounting for the new arrangement.

In 2014/15 the Council had a significant increase in the appeals as a result of the government's decision to impose a backdating cut-off, the 31 March 2015. In addition the Council made a provision for a national claim relating to a request for infrastructure assets to be moved to the central list for billing purposes. The effect in 2014/15 was that the Council moved into a safety net position, where the government were due to pay the Council £1 million as a result of the level of income on Business Rates falling below the government set Baseline position.

It now appears that a significant number of speculative claims were submitted and combined with a review of the settlement rate for appeals has resulted in a reduction in the 'normal' provision for appeals.

The certainty of the claim relating to the infrastructure asset, the timing of the settlement and the government's action should the claim be settled (the government would come under pressure to adjust its allocation to affected Councils given the significant effect on the Council's finances) has meant that the Council no longer considers it requires a provision but instead a contingent liability will be mentioned in the Council's Statement of Accounts.

The overall effect of these adjustments together with the in year collection performance will produce a surplus on the business rates account. Normally the Council would be entitled (after allowing for its proportion and the levy required by central government) to 20% of this. However, the Council was a member of the Surrey Pool in 2015/16 and the Council's estimated share of the pool is yet to be finalised since it is subject to audit of the pooled authorities.

The timing differences when accounting for business rates means that any surplus will not be available until the next financial year and is a one-off gain because it is generated as a result of the change in the appeals provision and pooling. The Medium Term Financial Strategy includes a substantial part of this surplus over the next four years, with a £700,000 use in 2016/17.

## 7.2 **Community Infrastructure Levy (CIL)**

The CIL regime commenced in 2013/14 and the original legislation on the scheme issued by central government indicated that the expenditure would be of a capital nature. The guidance issued by CIPFA indicated that CIL would be classified as a Capital Grant. The guidance for the 2015/16 accounts continues to indicate that CIL is a Capital Grant.

Legislation and statutory instruments indicate that CIL can be used for either capital or revenue expenditure.

Having discussed the issue with CIPFA whose advice is that statute overrides accounting guidance the Finance Team have classified the expenditure as an earmarked revenue reserve in both 2014/15 and 2015/16.

At 31 March 2015 £5.5 million was included in the earmarked reserve. During the year £3.8 million was allocated and has been reclassified on the balance sheet in accordance with how the CIL Boards allocated the expenditure (Capital Grant Unapplied. Or a Creditor for expenditure of a revenue nature). An additional £4.7 million has been received during 2015/16 leaving £6.4 million to be allocated.

## 7.3 **Provisions**

In 2014/15 the Council identified contaminated land which required remediation. The minimum cost of the remediation work was estimated to be in the region of £900,000 and this was provided for in the 2014/15 accounts.

The Council commenced work to redevelop the site in March 2016. The provision was no longer required and was released to the revenue account. The £900,000 was then utilised to fund the remediation, which is over and above the minimum required to redevelop the site.

In addition, the Council has a full repairing responsibility on a car park it leases. A further provision of £500,000 has been made to meet its obligations under the leasing agreement bringing the total provision to one million.

## 8. **Balance Sheet**

8.1 A summary balance sheet for the last two years is shown below:

	<b>31 March 2015</b>	<b>31 March 2016</b>
	£'000	£'000
Long Term Assets	104,560	123,627
Current Assets	49,660	49,710
Current Liabilities	(13,880)	(16,470)
Long Term Liabilities	(61,363)	(53,395)
<b>Net Assets</b>	<b>78,977</b>	<b>103,672</b>
Useable Reserves <sup>1</sup>	46,015	49,505
Un-useable Reserves <sup>2</sup>	32,962	54,167
<b>Total Reserves (Net Worth)</b>	<b>78,977</b>	<b>103,672</b>

### Notes:

1. The usable reserves are the General Reserve, Earmarked Reserves, Capital Receipts Reserve and Capital Grants Reserve.
2. The unusable reserves are the Capital Adjustment Account, Revaluation Reserve, Collection Fund Adjustment Account, Accumulated Absence Account, Pension Reserve and Deferred Capital Receipts Reserve.

The Council's net worth has increased by £24.7 million, mainly as a consequence of an increase in the value of its assets of £19.1 million and a reduction in the pension liability of £5.1 million.

8.2 The Long Term Assets of the authority have increased due to:

- An increase in the values of the property, plant and equipment - £5.7 million (£6.7 million is due to the revaluation of assets)
- A £8.4 million increase in the value of the investment properties mainly as a result of the purchase of the purchase of two properties in Weybridge.
- An increase in Long Term Investments of £4.2 million.

8.3 The reason for the increase in the un-useable reserves is mainly due to the increase in the revaluation reserve (£6.7 million) as a result of the upward revaluation of the assets and the Capital Adjustment Account of £6.6 million.

8.4 The main reason for the increase in the Useable Reserves is due to the CIL receipts of £4.7 million received in the year.

## 9. **2016/17 Budget Monitoring**

9.1 Based on the first two months of this financial year, the table below shows an early indication of income against budget and should be viewed with some caution at this early stage. Further updates to Cabinet will follow later in the year.

	<b>Current Prediction Compared to Budget</b>
Land Charges *	↓
Interest on Balances	↓
Cemetery Income	↓
Planning Fee Income	↓
Centre Income	↑
Net Recycling Income	↔
Off Street Parking Income	↓
Property Rental Income	↔

↔ - Income neutral compared to budget

↑ - Additional income above budget

↓ - Income below budget

\* - Land Charges have to break even by statute with any surplus being used to offset future years fees, and does not therefore result in an income stream which contributes to the Council's budget.

9.2 Early indications of the main income areas show an adverse variance against budget and will require careful monitoring against the £1.9 million savings and additional income included in the 2016/17 budget.

#### **Financial implications:**

The Council's accounts are produced according to the Code of Practice on Local Authority Accounting, which facilitates benchmarking with other authorities.

#### **Environmental/Sustainability Implications:**

None for the purpose of this report.

#### **Legal implications:**

Under the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations 2006 and 2011) the Council is required to prepare, in accordance with proper practices, a Statement of Accounts and have them formally approved by a resolution of a Committee (Audit and Standards Committee at Elmbridge Borough Council).

#### **Equality Implications:**

There is no need for an Equality Impact Assessment as part of this report.

#### **Risk Implications:**

Preparation of the Council's Annual Statement of Accounts is managed carefully to minimise risks and ensure that statutory obligations are met. Regular monitoring and robust financial management of budgets has enabled the outturn to be within the overall budget.

**Community Safety Implications:**

There are no direct community safety implications as part of this report.

**Principal Consultees:**

Council Management Board

The Council is committed to publishing its summary accounts in a way that is accessible to the public. The published accounts will be made available to the public on the Council website on a timely basis. The Council also publishes user-friendly versions of the Council finances in a summary form in September to all households in the Borough via the Elmbridge Review.

**Background papers:**

None.

**Enclosures/Appendices:**

None.

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