

REPORT TO THE EXECUTIVE MEETING OF 24<sup>th</sup> JULY 2017

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**Meeting:** Executive  
**Date:** 24<sup>th</sup> July 2017  
**Subject:** Outturn 2016/17  
**Report of:** Simon Riley, Head of Finance and Corporate Services (s151 Officer)  
**Portfolio Holder:** Cllr Phil King, Finance and Assets  
**Status:** For Decision  
**Relevant Ward(s):** All

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1 Purpose of the Report

- 1.1 To review the Revenue and Capital Outturn for 2016/17 and associated explanations for variances.
- 1.2 To consider and approve carry-forwards of revenue and capital budget provision into 2017/18.

2 Recommendations:

- 2.1 To note the outturn figures for the General Fund for 2016/17 as shown on Appendix A, subject to the audit of the Accounts.
- 2.2 To note the key variances detailed in Appendix A.
- 2.3 To approve Revenue carry forwards in Appendix B totalling £330k into 2017/18.
- 2.4 To note the position of the Council's Reserves detailed in Appendix C.
- 2.5 To note the actual expenditure against the 2016/17 Capital Programme as shown on Appendix D, subject to the audit of the Accounts.
- 2.6 To approve the carry-forward of capital approvals and funding in the Capital programme totalling £873K listed in Appendix D to 2017/18.

### 3 Summary of Reasons for the Recommendations

- 3.1 The Council was required to produce its statement of accounts (subject to Audit) by the end of June 2017. The outturn report details the Council's financial performance for the 2016/17 financial year. The request to transfer resources between financial years requires Executive Approval.

### 4 Key Facts

#### **Revenue Budget**

- 4.1 The summary position for the Council's Revenue Budget is shown at **Appendix A**. Subject to audit of the 2016/17 Accounts the Council underspent by £404K after all technical accounting adjustments have been actioned. The outturn is detailed below

	<b>Revised Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Portfolio's			
Net Direct Cost of Services	11,325	10,432	<b>(893)</b>
Non Service Costs (including transfers to/from reserves)	499	37	<b>(462)</b>
Funding	(11,824)	(12,561)	<b>(737)</b>
<b>Sub Total</b>	<b>0</b>	<b>(2,092)</b>	<b>(2,092)</b>
Technical Accounting adjustments - Provision for bad debts		(579)	<b>(579)</b>
Technical Accounting adjustments- IAS 19 Pensions	0	211	<b>211</b>
Technical Accounting adjustments - Collection Fund		2,056	<b>2,056</b>
<b>Net Direct Cost of Services</b>	<b>0</b>	<b>(404)</b>	<b>(404)</b>

- 4.2 The key controllable budgets for the Council are the Portfolio Budgets which are monitored regularly during the year (and summarised in the net direct cost of services line above). These are reported on in detail in the quarterly monitoring report detailing variance +/- £25K. Financial Performance for each

portfolio is detailed in the table below. Explanations for variances are detailed in Appendix A:

<b>2016/17 Revenue Budget</b>	<b>Revised Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Portfolios			
Strategy/Economic Development	109	(22)	(131)
Corporate Services	3,927	3,733	(194)
Environment & Regulation	(47)	(117)	(70)
Finance & Assets	5,157	4,964	(193)
Housing & Community Safety	639	710	71
Planning & Regeneration	1,090	865	(225)
Wellbeing & Localities	374	369	(5)
Contingency	146	0	(146)
Vat Shelter	(70)	(70)	0
<b>Net Direct Cost of Services</b>	<b>11,325</b>	<b>10,432</b>	<b>(893)</b>

- 4.3 These variances have been reported upon and scrutinised throughout the year with the majority of variances identified early on in the year as demonstrated in the table below

<b>Net Direct Cost of Services (*)</b>	<b>Surplus against Budget £000s</b>
Quarter 1	362
Quarter 2	603
Quarter 3	552
Quarter 4	747

(\*) excludes contingency and VAT shelter variances

- 4.4 A key movement between Q3 and Q4 of £195K include the deferment of spend on the external business development budget of £71K until 2017/18 linked to the ERDF bid for Move On Space. This is included in the carry-forward requests and will support the development of and any ineligible costs of this corporate priority. There are a number of other variances, for example, the re-phasing of spend on local plan evidence studies that have resulted in an in-year variance (and associated impact on transfers to/from earmarked reserves).

- 4.5 Throughout the year the Council has forecast a surplus driven by buoyant income levels, especially in respect of planning fees from major developments, introduction of a subscription based garden waste services and ongoing tight management of costs. Key Variances are detailed in **Appendix A**
- 4.6 The outturn budget also shows a favourable variance in respect of net cost of borrowing of £542K (Quarter 3 reported a favourable variance of £333K). The increased underspend arises from the continued policy of using internal investments to finance the capital programme rather than more expensive borrowing (see paragraph 4.21 below) and a reduction in the in-year borrowing requirements (provided in full in the 2016/17 budget) from £1.783 million to £360K as a result of the slippage in the capital programme detailed in paragraph 4.22. The S151 Officer will be commissioning a balance sheet review by our Treasury Management Consultants to assess the impact of net investments and borrowing (and associated debt charges) in the medium term. This may allow the Council to not fully budget for the Capital Financing Requirement in year, free up resources and improve the accuracy of in-year monitoring.
- 4.7 The net variance on non service costs includes the debt charge variance detailed in paragraph 4.6 above; movements to/from earmarked reserves and the disposal of Capital Interests. For reporting purposes disposal of capital interests are included in the summary table in paragraph 4.1. However, these are then transferred to the Usable Capital Receipts reserve rather than a usable revenue reserve – this is detailed in paragraph 4.26. Extracting this from the revenue analysis reduces the surplus for the year (before technical adjustments) from £2.092 million to £1.565 million.
- 4.8 The variances in respect of transfers to/from earmarked reserves and funding related largely to the required accounting for business rate retention and largely net each off. The net residual balance of £130K (after portfolio service variances and the net borrowing costs savings) largely reflect additional S31 grants from Central Government and net movements on reserves detailed in paragraph 4.28.
- 4.9 Following the 2015/16 External Audit a provision for a creditor of approximately £579K was identified on the balance sheet which needed in-depth analysis to establish whether there was any outstanding liability. The review was concluded in 2016/17 and £579K has been credited to the revenue account as part of the overall surplus for the year.
- 4.10 The last set of adjustments made to the revenue position are in respect of accounting adjustments required by the annual review of pension liabilities and assets and for the Collection Fund. These both are debits in 2016/17 with the consequential impact of reducing the surplus for the year transferred to the General Fund (prior to earmarked carry forward requests) of £404K.

- 4.11 Overall the financial position and surplus for 2016/17 is positive and will support the delivery of sustainable budgets through the MTFS in future years. The delivery of a £893K surplus in Service Areas in 2016/17 is in addition to the £1.170 million of savings and income generation proposals approved by the Council in February 2016. During the year the Executive received reports detailing high level of demand for income generating activities. In particular, the implementation of a subscriber based garden waste service resulted in over 18,000 subscribers generating £390K of additional income. Planning Applications and Fees remain very buoyant and have generated £237K of fees over and above the budget. After deducting costs to deliver these increased levels of activity these two areas have delivered approximately 50% of the in-year surplus. In addition to this additional income has been generated in the Council's commercial activities and through active contract management, for example a net saving on The Symington Building of £146K.
- 4.12 The cost centres included in the Portfolios shown in **Appendix A** are those that were in place for 2016/17.
- 4.13 The Council's accounts are prepared for the financial year up to the 31 March 2017. As a result there are a number of areas where budgets were not spent in 2016/17 where Corporate Management Team have requested revenue carry-forward to fund expenditure in 2017/18. These total £330k and are detailed in **Appendix B** for Members consideration. If Executive approves the revenue carry-forwards detailed in **Appendix B** in full this would reduce the estimated General Fund Balance to £5.014m. The £330k of carry-forward requests (if approved) will be drawn down into the Revenue Budget when the expenditure is committed.
- 4.14 In setting the Council Budget, the Council utilises earmarked reserves to support service delivery, or specific initiatives. The Council's reserves and movements during 2016/17 are detailed in **Appendix C**.
- 4.15 The Council sets annually its borrowing and capital prudential indicators. During 2016/17 the Council operated within the approved indicators.

#### **Business Rates Retention**

- 4.16 As part of the Localism Agenda, 2013/14 saw the introduction of a new Business Rates Retention scheme where local authorities are able to retain a proportion of any business rates growth (over a Government determined baseline) within their area. The Business Rate retention scheme allows 50% of the business rate growth to be retained within Leicestershire with the remaining 50% going to Central Government. For 2016/17 the Authority was part of the Leicester and Leicestershire Business Rate Pool allowing for the retention of additional monies within Leicestershire to be distributed into economic growth projects through the LLEP and for a share to be retained as a contingency. The levy retained by the pool in 2016/17 was £5.049 million.
- 4.17 The level of business rate appeals remains high alongside significant delays in the Valuation Office determining appeals. However, in 2016/17 it was

possible to decrease the level of business rate appeals not determined by the valuation office to £5.115 million (2015/16, £5,725 million), of which Harborough has a provision in its' accounts for £2,046 million (2015/16 £2.290 million). This combined with continued strong performance in respect of business rate retention allowed the transfer of £1.429 million into the Business Rate Retention Reserve.

- 4.18 The Council utilised £624K of the business rate growth reserve during 2016/17 supporting the overall budget and investing in economic development initiatives.
- 4.19 The accounting for business rates and the in-year and cumulative impact over a number of years remains complex.

### **Capital Programme 2016/17**

- 4.20 The original 2016/17 Capital Programme was set at £4.883 million and was approved by Council in February 2016. Subsequent amendments were approved by the Executive to allow for capital commitments and slippage from the 2016/17 Capital Programme, and to allow for schemes funded from additional external resources and additional capital approvals. These have been reported in the quarterly budget monitoring. These changes have increased the approved capital budget for 2016/17 to £7.082 million; the details can be seen on **Appendix D**. The Executive as part of approving the Quarter 2 monitoring report on 2<sup>nd</sup> December approved £4.478 million of slippage into 2017/18. This was largely accounted for by slippage of the move-on space of £3.005 million whilst awaiting access to external funding and £1.024 million due to a re-profiling of the Council's Housing developments on vacant garage sites. The approved Capital Budget was therefore amended to £2.604 million.
- 4.21 The Council in 2016/17 spent a total of £1.676 million on capital schemes against the final budget of £2.604 million. The Capital Programme has been reviewed to identify underspend and slippage. It is proposed to carry forward £873K of approved schemes and their associated funding into 2017/18, leaving a residual £109k underspend against the capital programme. Explanations for the significant slippages and underspends are given on **Appendix D** to this report.

The capital programme is financed from a number of sources, including borrowing, capital receipts, and government grants, contributions from developers and other outside bodies / organisations. A high level breakdown of expenditure and funding is detailed in the table below along with comparatives for the previous year.

	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>
Capital Expenditure:		
- Car Parking	109	5
- Leisure & Recreation	413	325
- Flood Prevention	5	0
- Private Sector Housing	347	540
- HDC Office		
Redevelopment	36	339
- Other Property	125	360
- Other	83	107
	<b>1,118</b>	<b>1,676</b>
Financing		
- Unsupported Borrowing	(346)	(360)
- Capital Receipts	(182)	(439)
- Government Grants	(204)	(199)
- Direct Revenue Funding	0	(223)
- Contributions from Developers etc	(386)	(455)
	<b>(1,118)</b>	<b>(1,676)</b>

The above financing gives permission to borrow £360K to finance the 2016/17 Capital Programme, However, in line with recent years the Council has been using its' internal investments to negate in the short to the medium term the need for more expensive borrowing. This has contributed to the reported revenue surplus detailed earlier in the report.

- 4.22 The amount shown in **Appendix D** of £873K represents the unspent budget in 2016/17 in respect of schemes which had not started or were incomplete at 31 March 2017. The Executive are asked to approve that these budgets (and associated funding) be carried forward to 2017/18 to allow for completion of those schemes.

## **Reserves**

- 4.23 As part of the Council's Budget Strategy and MTFs, earmarked reserves and the Council's General Fund Balance were utilised to support the Council's budget in 2016/17.

- 4.24 The majority of the call on reserves is as approved in February 2016. There has been an improved position in respect of contributions to the business rate retention reserve from the £1.117 million estimated in the Budget (February 2016) to £1.429 million at outturn. This reflects the continued position of the Council being the best performer in Leicestershire in this crucial source of income for local government.

- 4.25 The movement in the General Fund Reserve from £5.867 million to £5.344 million represents the planned call on the fund as part of the budget strategy, movements in respect of business rate accounting between financial years and the net surplus during 2016/17 detailed earlier in the report.
- 4.26 During 2016/17 the Council received £526K of Right to Buy Receipt arising from the disposal of Council Houses that were transferred to Seven Locks Housing. This is shown as Disposal of Capital Interests in **Appendix A** but is then accounted for by being transferred to the Capital Receipts Reserve. The Council also benefited from £70K in respect of the VAT shelter arrangement with Seven Locks. This has been added into the earmarked reserve.

	<b>Balance at 1<sup>st</sup> April 2016</b>	<b>Balance at 31<sup>st</sup> March 2017</b>
	<b>£000s</b>	<b>£000s</b>
General Fund Balance	5,867	5,344
Earmarked Reserves	4,296	5,270
General Reserve Fund	1,319	1,272
Capital Reserves	2,575	2,710
<b>Total</b>	<b>14,057</b>	<b>14,596</b>

- 4.27 The overall level of reserves is £518K more favourable than the £14.078 estimate included in the Budget (February 2017) before application of carry-forward requests.
- 4.28 The purposes of retaining an earmarked reserve are detailed in **Appendix C**. These are reviewed annually by the Portfolio Holder for Finance and Assets.

## 5 Legal Issues

- 5.1 The financial accounts for 2016/17 were signed off “as authorised for issue”, the legal term that they are ready for audit and inspection, by the Council’s S151 Officer on the 29<sup>th</sup> June 2017. The Council External Auditor, KPMG, is required to now audit the accounts and to report back to the Council by the end of September. Any changes will be reported back to the Governance & Audit Committee for approval on 20<sup>th</sup> September 2017 following completion of the audit.

## 6 Resource Issues

- 6.1 The Outturn report summarises all the financial resources of the Council. These are also detailed in the Statement of Accounts (subject to Audit). The report and recommendations formalise transfer of resources between financial years and approval of earmarked reserves.



7 Equality Analysis Implications/Outcomes

7.1 There are no equality issues arising directly from this report.

8. Risk Management Implications

8.1 If the requested carry forwards (**Appendix B**) are not approved there are contractual commitments that would have to be funded from within the approved 2017/18 budget.

9 Consultation

9.1 Performance Scrutiny Panel are due to scrutinise the outturn report on 15<sup>th</sup> September.

9.2 The financial position detailed in this report is included within the draft statement of accounts published on the Council's website and will be considered by Governance and Audit Committee on 20<sup>th</sup> September 2017

10. Options

10.1 The Statement of Accounts and Outturn report are a formal record of the financial transactions of the Council in 2016/17. The approval of carry-forward requests is subject to approval by the Executive.

11 Background Papers

11.1 Final Accounts Working Papers.

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**Previous report(s): Quarterly Financial Monitoring Report to Executive, 5<sup>th</sup> September 2016, 5<sup>th</sup> December 2016, and 20th March 2017**

**Information Issued Under Sensitive Issue Procedure: N**

**Ward Members Notified: N**

**Appendices:**

<b>A(i)</b>	<b>Revenue Out-turn,</b>
<b>A(ii)</b>	<b>Cost Centre Variances</b>
<b>A(iii)</b>	<b>Analysis of key variances</b>
<b>B.</b>	<b>Revenue carry forwards</b>
<b>C.</b>	<b>Reserves</b>
<b>D(i)(ii)(iii)</b>	<b>Capital Out-turn &amp; Capital carry forwards</b>