

3. The General Fund Outturn

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £6,037 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, the majority being ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

Type of Income	Budget	Outturn	Variance
	£000s	£000s	£000s
Land Charges Search Fees	230	214	16
Commercial Portfolio Rents	1,150	1,014	136
Waste Services	1,730	1,575	155
Newcastle Open Market Stall Fees	198	159	39
Car Parking Income	1,228	1,037	191
Jubilee 2 Income	1,459	1,370	89
Kidsgrove Sports Centre Income	393	298	95
Cemeteries Income	350	322	28
Council Tax Court Costs	680	470	210
Total	7,418	6,459	959

There was also additional expenditure on a number of headings, which is outlined in the following table:

Item	Additional expenditure
	£000s
New Waste Service costs	220
Kidsgrove Sports Centre costs	54
Total	274

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

Item	Saving or additional income
	£000s
Additional Income:	
Bereavement Service Income	49
Planning Applications Fees	255
Street Naming and Numbering Income	16
Income from Business Improvement District levy collection	19
Procurement Savings	
Vehicle Fuel	68
Good Housekeeping Efficiencies:	
Jubilee 2 Expenditure	60
Parks and Open Spaces expenditure	65
Corporate Training expenditure	10
CCTV expenditure	16
Staffing Efficiencies:	
Overall employee costs savings	337
Corporate:	
New Homes Bonus	210
Miscellaneous additional government grant income	38
Minimum Revenue Provision not required	100
Other Variances	-4
Total	1,239

3.2 An amount of £6,037 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Note 3.3.7 to the Accounts, the balance on the Budget Support Fund now stands at £0.269m, a decrease of £0.072m from the 1 April 2016 balance, which apart from the above transfer is accounted for by payments out of the reserve in respect of commitments brought forward and to finance invest to save projects.

3.3 Some income streams continue to suffer adverse variances in the current financial year. The ongoing situation will be monitored and any significant shortfalls will be reported in the quarterly monitoring reports to Cabinet. The likely levels of income will also be considered during the compilation of the Medium Term Financial Strategy which is part of the budget setting process for 2018/19.

3.4 Business Rates Retention

3.4.1 The Council collects business rates and is able to retain in the General Fund a share of the income after paying part to the government, Staffordshire County Council and the Staffordshire Fire Authority. Excess income above the amount budgeted for in 2016/17 amounted to £0.072m.

3.4.2 In the current year it is not expected that there will be a significant variance compared to the budgeted amount for retained business rates income, based on the initial NNDR1 return to the government, compiled in January 2017 which forecast the estimated business rates income for 2017/18 and was the basis for the budget calculation. It should be noted, however, that business rates income is subject to considerable volatility, particularly owing to successful appeals in relation to rateable values which may occur and businesses closing down etc leading to rates no longer being payable.

3.4.3 Various anomalies and grey areas exist within the business rates system which from time to time result in ratepayers making representations that they are entitled to

reductions in the amounts payable by them, for example applications for downwards revaluation of their properties or for the granting of reliefs which they assert they are entitled to and, if successful, refunds of amounts already paid. Looking forward, a significant claim for a reduction in the amounts payable is being made by National Health Service Trusts, which contend that they are entitled to mandatory charitable relief in relation to their properties, which would reduce the amount payable by 80%. This contention is not accepted by the Council, in common with other authorities, and the Local Government Association has obtained a legal opinion which does not support the NHS Trusts' view, therefore, NHS properties will continue to be billed for the full amount.

3.4.4 Fortunately there are no major NHS facilities within the Borough Council boundaries so the impact would be nowhere near as severe as it could be for some other authorities. It looks likely that this issue will take some time to resolve, probably through the courts. Instances such as these, unless they involve large amounts of income loss, are presently of limited significance to the Borough Council because the loss of income is shared with the government and the County Council and Fire Authority with this Council suffering only 40 per cent of the loss. However, most likely from 2021/22, local authorities will be permitted to retain 100 per cent of business rates collected, so will suffer the whole of any losses, with 80 per cent of the amount lost being attributable to the Borough Council. As a result of the new arrangements Revenue Support Grant will no longer be paid to authorities by the government so business rates, along with council tax, will become one of the two largest sources of income for the Council. The exact details of the new arrangements have yet to be determined so the precise impact on the Council's finances cannot currently be determined.

3.4.4 The Business Rates Reserve will be available to meet any such shortfalls in business rates income and to meet the Council's share of business rates Collection Fund deficits, of which the Council's share in relation to 2016/17 was £0.052m. The regulations concerning the Collection Fund require this deficit share to be made good by a transfer from the General Fund into the Collection Fund in subsequent years, which will be the first call upon the Reserve. Because of the previously mentioned volatility in income and the time required to assess the longer term workings of the new rates retention system, it is considered prudent that the remaining balance on the Reserve should remain unused for the time being.

3.4.5 It is worth noting that by participating in the Stoke on Trent and Staffordshire Business Rates Pool, along with Staffordshire County Council, Stoke on Trent City Council, Stafford Borough Council, Staffs Moorlands DC, South Staffs DC and the Fire Authority, and thereby avoiding the payment of a levy to the government, the Borough Council has achieved a worthwhile increase in the amount of rates retained. The amount of levy that would otherwise have been paid in 2016/17 was £0.510m. Of this £0.204m (40%) has been retained by the Borough Council, with the balance of £0.306m being paid over to the Pool, £0.102m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.204m (40%) in a reserve to fund economic development projects in Staffordshire.

4. The Collection Fund

4.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of the account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies and other pre-determined payments that have been made for the Borough Council, the County Council, the Office of the Police and Crime Commissioner and the Fire Authority and to central government.

4.2 Overall the Fund experienced a deficit of £0.179m for the year, leaving a balance of an accumulated surplus of £0.233m at the year-end. Separating this out into its individual components, the respective positions were as follows:

	Council Tax		Business Rates		Total
	£m	£m	£m	£m	£m
Balance Brought Forward - Surplus/(Deficit)		1.137		(2.122)	(0.985)
Contribution towards previous year's surplus/deficit (A)	(1.143)		2.000		
Surplus/(Deficit) relating to 2015/16 (B)	1.149		(0.609)		
Overall Surplus/(Deficit) for Year (A + B)		0.006		1.391	1.397
Balance Carried Forward - Surplus/(Deficit)		1.143		(0.731)	0.412

More details of the Collection Fund transactions are shown in the Collection Fund Account at Appendix 1.

4.3 As can be seen the Council Tax element of the Fund achieved a surplus of £0.189m for the year, which compares to an in-year surplus of £1.149m in 2015/16. This will be shared with the precepting authorities (Newcastle Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2017/18. The main reason for the reduced surplus is a revision to the method of calculating the council tax base, first applied to the 2016/17 year, which more accurately reflects underlying changes in the tax base data and as a result makes large surplus or deficit amounts less likely.

4.4 The Business Rates element of the Fund experienced an in-year deficit of £0.090m. The deficit must be made good in subsequent years by the four participants in the business rates retention scheme, the Borough Council (40%), Staffordshire County Council (9%), the Fire Authority (1%) and central government (50%). The amounts each body must contribute are shown in brackets and are prescribed by regulations. The deficit arose because the Fund is required to pay a sum to each of the four bodies equating to their share of the estimated business rates which will be collected in the year. The estimate is made before the start of the year and if the actual rates collected are less than the estimated amount, there will be a deficit, which is what occurred in 2016/17. The reduced collectable amount occurred because of various factors, chiefly changes in reliefs, exemptions and appeals.

4.5 A provision has been created in relation to business rates property value appeals to the Valuation Agency which it is considered likely to represent the amount which may have to be refunded in respect of payments already made by ratepayers. This is intended to provide for appeals already lodged and appeals which may arise in the future relating to bills which have been paid. Movements on the Provision in 2016/17 were as follows:

	£m
Balance Brought Forward at 1 April 2016	1.932
Used in 2016/17	(1.731)
Contribution to Provision	1.611
Balance at 31 March 2017	<u>1.812</u>

The balance of £1.812m was assessed, using data supplied by a specialist firm, as being a prudent amount to set aside to meet future appeals. The arrangements for business rates retention mean that only 40% of the cost of contributions to the provision is borne by the Borough Council (because it affects the amount of rates retained), the rest falling to the other participants in the arrangements. The value included in the balance sheet is also

40%, i.e. £0.725m. The amount has increased due to the high level of appeals currently being experienced, reflecting the volatility referred to in paragraph 3.4.

5. The Balance Sheet

5.1 The main features of the Balance Sheet, which is shown in full at Appendix 1, are as follows:

- There are Net Tangible Fixed Assets of £65.246m (£57.304m at 31 March 2015) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The main reasons for the increase are increases in Plant, Property and Equipment (£3.576m) which includes the purchases of new vehicles for the waste recycling service and an increase in investment properties (£4.366m) primarily due to revaluations.
- Investments (all short term at 31 March 2017 - i.e. with less than 1 year to run from that date) show a decrease, amounting to £3.460m compared to £7.549m at 31 March 2016. The amount invested at any one time reflects the prevailing cash flow situation but as reserves and capital receipts balances are reducing the sums available for investment correspondingly reduce.
- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £8.000m. Short Term Debtors have decreased by £1.306m compared with 31 March 2016. The main reasons for this are a decrease in amounts owed by central government to the Council of £1.383m, this primarily relates to the reduced share of the business rates deficit owed. Additionally, the level of sundry debtors relating to other entities and individuals (including NHS bodies) has decreased by £0.441m at 31 March 2016. Offsetting this, the amounts owed by other local authorities has increased (£0.518m) this is due to an increase in the cash amount owed by precepting authorities in respect of council tax due to arrears remaining relatively constant but the collection fund surplus decreasing.
- The amount the Council owes to its creditors is £5.738m. Creditors have increased by £0.045m compared to 31 March 2016.
- Provisions are £1.270m compared with £1.290m at 31 March 2016. This overall total comprises four provisions (31 March 2016 balance in brackets): NNDR Appeals £0.725m (£0.773m); Insurance Claims Provision £0.148m (£0.072m); Municipal Mutual Insurance (MMI) Provision £0.025m (£0.079m); Employee Benefits Provision £0.372m (£0.366m).
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) increased from £68.428m to £71.709m. The variance between the two years comprises a £1.200m decrease in the liability arising from the final year's payment in respect of the "prepayment" agreement whereby the Council received a discount on payments into the Pension Fund in return for paying the amounts due in advance and a £4.481m increase in the liability arising from changes in demographic and financial assumptions. The balance on the Pensions Liability is mirrored by a corresponding balance on the Pensions Reserve included in the balance sheet under unusable reserves. The £4.481m change mainly arises as a result of a significant decrease in the net discount rate applied to pension fund assets over this period (3.4% down to 2.5%), the negative impact of which has outweighed the much higher than expected pension fund asset returns. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the

Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy.

6. Reserves

6.1 The Council has usable reserves totalling £5.812m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2017, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£1.611m)
- Capital Grants Unapplied (£1.126m)
- Budget Support Fund (£0.269m)
- Contingency Reserve Fund (£0.135m)
- ICT Development Fund (£0.068m)
- Renewal and Repairs Fund (£0.002m)
- Equipment Replacement Fund (£0.481m)
- Revenue Investment Fund (£0.105m)
- Business Rates Reserve (£0.442m)

The majority of these balances are committed to various projects and initiatives and are not available for other use.

6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2017. The amount required to be held in this reserve is assessed each year when the revenue budget is compiled, by identifying and quantifying the risks applicable to the revenue budget and using this information as the basis to calculate a prudent sum to keep in reserve to meet those risks should they arise.

6.3 The Capital Receipts Reserve is almost entirely committed to financing the currently approved capital programme plus slippage from 2016/17, the year-end balance reflecting underspending in relation to the 2016/17 capital programme, as discussed at paragraphs 7.2 and 7.3, and will almost all need to be spent in 2017/18. The majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.

6.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.

6.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 above and 3.4, respectively.

6.6 The levels of reserves will be considered as part of the budget preparation process for 2017/18. Some may require "topping up", either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund balance is insufficient to meet likely commitments.

7. Capital Expenditure

7.1 Capital expenditure totalled £8.729m in 2016/17.

7.2 The capital programme approved by Full Council on 24 February 2016 provided for an amount of £14.249m to be spent in 2016/17. However, the budget report to Full Council on 23 February 2017 revised the estimated spend for 2016/17 to £11.744m. This was largely

due to the need to curtail the capital programme by putting around £2.400m of projects on hold because of a lack of capital receipts to finance them.

7.3 As can be seen, the actual outturn for the year was lower than the forecast reported to Full Council. The main reasons for this are: some vehicle replacements were deferred until 2017/18 (£0.646m) and £2.248m of payments in relation to the construction of Castle House did not become due until 2017/18.

7.4 Projects in progress or committed will be completed or commenced in 2017/18. The remainder will be reviewed to confirm they are still required and considered in the context of available resources to finance the capital programme, particularly in view of the continuing uncertainty regarding the timing of receipts from land sales, upon which much of the financing of the capital programme is dependent, owing to the delay in commencing the assets disposal programme. The new projects included in the 2017/18 programme will also need to be reviewed for the same reason.

7.5 The expenditure of £8.729m was financed as shown below:

	£m
Capital Receipts	5.519
New Homes Bonus	0.165
BetterCare Funding (re Disabled Facilities Grants)	0.988
Contributions from Other Bodies	0.015
Section 106 payments	0.087
Reserves - ICT Development Fund	0.216
Sport England Grant (Clayton Sports Centre)	0.016
Internal Borrowing	1.723
Total Financing	<u>8.729</u>