Statement of Accounts 2015/16 – Questions and Answers

The following questions and answers will help to demonstrate that the Council's Accounts were subject to robust member scrutiny prior to approval.

First some questions on the Narrative Report which is included in the Statement of Accounts and starts on Page 2.

Question No. 1 (Page 3)

Starting with the revenue variances, should we not be concerned to see increased spending/reduced income of over £0.5m and reduced spending/increased income of just under £1.4m?

Revenue slippage continues to grow year on year and in relation to 2015/16 the value (net of reserve funding) is £821,400. A significant proportion of the slippage represents external funding that has not yet been spent so it would be counter-productive to refuse it on the basis that the money would ultimately be repaid to the funding body. As this expenditure still needs to be incurred, the saving is returned to balances to be spent in the following year.

Whilst we will explore the other variances in a bit more detail below, in summary, **additional income** from cemeteries, planning fees, Civic Centre rent, summons costs and interest totals £134,300. **Savings** in employee costs, utilities, fuel, vehicles, training, advertising/promotions, waste disposal, business rates and printing and stationery budgets total £286,192. These positive variances have been used to compensate for **over spends** on building maintenance, the notification of additional costs regarding the ongoing land charges litigation and to provide for outstanding insurance claims – in total unbudgeted costs of £179,203. The net savings of £241,289 together with other miscellaneous under spends of £145,563 have been used to top up the capital investment reserve by £386,852.

When you consider that our gross expenditure on services for last year was £57m, a net saving of £386,852 equates to 0.7%.

Question No. 2 (Page 3)

Can you tell me a little bit more about the litigation concerning land charges – how much have we spent to date and is it a cost to our taxpayers?

A contingent liability note is included in the Statement of Accounts at page 76. Essentially, a claim was made some time ago by a group of Property Search Companies seeking to claim refunds of fees paid to the Council to access land charges data. Bevan Brittan, a firm of solicitors, has been acting on behalf of all the local authorities affected with a view to reaching a settlement. As at the end of the 2015/16 financial year, the Council has incurred costs of £241,376 and received new burdens funding from the Government of £155,791 (equating to 65% of the cost) leaving a shortfall in funding of £85,585.

Question No. 3 (Page 3)

I see that there is increased spending in relation to outstanding insurance claims totaling £69,348 – what are these claims and why have they not been provided for previously?

Each year there is an analysis produced by the Insurance Officer identifying the Council's potential liability in terms of outstanding claims. There are 19 claims (14 Public Liability and 5 Employers Liability) totalling £400,366. This value is reduced to £151,903 when the insurance excess of £10,000 per claim is applied. The largest claim relates to an incident at Knott End Slipway and the smallest is one of three highway claims submitted that we are in the process of rebutting as it is Lancashire County Council and not Wyre who are the Highway Authority. There is a contingency budget and this together with the increased expenditure of £69,348 provides for the potential liability of £151,903.
From 2016/17, however, an insurance reserve will be created to avoid the need to hold a contingency budget which is difficult to allocate to a particular service and can distort the VFM profiles.

Question No. 4 (Page 3)

Can you explain why our building maintenance costs have exceeded the budget by almost £59,000 – why is this and was it agreed by the relevant portfolio holder?

Unfortunately, the Head of Built Environment is currently away on leave and it has been difficult to pin point the exact reason for the over spend. Predominately it relates to responsive maintenance which whilst over spending by £65,535 has been reduced by various savings on other maintenance codes bringing the net overspend on building maintenance down to £58,762. There are a number of areas where the budget has been exceeded including:

- Civic Centre - £17,289 over spend due to asbestos removal and boiler/heating repairs;
- Fleetwood Market - £15,242 over spend due to boiler repairs and works carried out to the public toilets;
- Marine Hall - £9,597 over spend due to roof repairs;
- Butts Close - £6,117 over spend due to the replacement of a number of roller shutters and a clear out of unit no. 4;
- Copse Road Depot - £4,943 over spend due a number of electrical repairs.

Whilst it would appear that a Portfolio Holder report has not been prepared seeking authorisation for the over spend, an explanation from the Head of Build Environment will be sought as soon as possible.

Question No. 5 (Page 3)

I see that cemetery income has exceeded expectations – is the service now making a surplus and how has it performed in earlier years?

Performance (excluding any notional charges) across all of the cemeteries over the last 11 years is shown in the table below. The service became self-financing, thereby avoiding any impact on the council tax, in 2013/14. Although income in 2015/16 exceeded projections it was still lower than the income level achieved in 2014/15. Whilst the service operated at a surplus of £35,000 in 2014/15, additional costs incurred in 2015/16 for the new columbarium and memorial testing at Fleetwood Cemetery resulted in a break-even position. The Council will continue to monitor the situation in future years.

- 2005/06 - a deficit of £86,735
- 2006/07 - a deficit of £58,609
- 2007/08 - a deficit of £11,930
- 2008/09 - a deficit of £53,822
- 2009/10 - a deficit of £56,492
- 2010/11 - a deficit of £23,648
- 2011/12 - a deficit of £45,818
- 2012/13 - a deficit of £7,393
- 2013/14 - a surplus of £7,528
- 2014/15 - a surplus of £35,311
- 2015/16 - a surplus of £1,357

Question No. 6 (Page 3)

Income from planning fees is also higher than we expected. Looking back over say the last five years – is there evidence to suggest that we are constantly underestimating income?

The estimated and actual income for 2015/16 and the previous 4 years can be seen below:

- 2011/12 - Actual income of £356,420 compared to a revised estimate of £400,000 – down £43,580
- 2012/13 - Actual income of £453,319 compared to a revised estimate of £375,000 – up £78,319
- 2013/14 - Actual income of £469,714 compared to a revised estimate of £420,000 – up £49,714
- 2014/15 - Actual income of £824,673 compared to a revised estimate of £786,690 – up £37,983
- 2015/16 - Actual income of £696,135* compared to a revised estimate of £602,580 – up £93,555

(*Prior to allocation of £41,350 used to fund future year additional costs)

The Head of Planning is of the view that many developers are submitting planning applications in advance of the adoption of the Local Plan which it is hoped will be towards the end of 2017. The publication of the National Planning Policy Framework in 2012, together with the abolition of the Regional Spatial Strategy as part of the Localism Act in 2011 which was effective early 2013 has also contributed. The RSS restricted the number of houses in Wyre to 206 per annum so a combination of this relatively low housing number, the transition from the earlier economic recession and Government policy has meant that there has been an acceleration of applications.

Question No. 7 (Page 3)

I know that savings in the training budget have been offered in the past as part of the efficiency programme with a view to reducing the gap between expenditure and income. It seems odd that even with this reduction there is once again an under spend of £11,603 – why is this?

Essentially this is made up of three items:

- an under spend on post entry/professional training of £3,540 - due to the HR team reinforcing the criteria for approval i.e. that the professional qualification must ultimately benefit the Council and where a decision is taken to 'grow our own' that the staffing structure permits the trainees retention;
- savings in National Vocational training costs of £3,000 - resulting from many of these qualifications now being available for free, for example, where employees are under a certain age and have not previously studied to a specified level; and
- an under spend of £4,411 on technical training - achieved by coordinating with other Councils to share the costs of routine training. The Council will offer places on our courses to other authorities and similarly attend courses which they are hosting.

Question No. 8 (Page 3)

I know that from April 2016 we now have Lockwood Avenue doctors' surgery and the Extensive Care facility at the Civic Centre but what rental income did we receive last year?

The estimated rental income was £13,800 made up of room hire, civil ceremonies and hire of the playing fields to the rear. Following negotiations with the CCG who were responsible for the recent building works accommodating Lockwood Avenue Surgery and the Extensive Clinic, the Council was able to secure a compound fee (£9,500) which together with room hire (£9,319), civil ceremonies (£4,426) and playing field income (£785) makes up the £24,030 actually received.

Question No. 9 (Page 3)

I seem to recall that Council Tax summons fee income was greater than expected last year – how does it compare to 2014/15?

In 2014/15 the Council issued 6,080 summons earning income of £456,000 compared to 5,718 summons earning income of £428,850 in 2015/16. This is a reduction in the number of summons issued of 362 or 6% and a reduction in income of £27,150. The income is further reduced as a result of summonses which are subsequently withdrawn and bailiff costs. The net income for 2014/15 was £402,687 and for 2015/16 was £381,018.

The Council must comply with legislation which states that the customer must receive a bill followed by a reminder for any missed payments. If the customer ignores the reminder then in effect the Council has no option but to issue a summons and obtain a Liability Order through the Magistrates Court. Only then can we proceed to attach the debt to benefits or earnings or refer the debt to Enforcement Agents (previously referred as the Bailiffs). Other options include committal to prison, placing a charging order on their home or bankruptcy proceedings. All reminder notices clearly explain the consequences of not paying and offer assistance to the customer via the Council's debt advice service. Every time a summons is issued, costs of £75 are awarded to the Council (£72 net of court fees) and added to the customer's council tax debt recognizing the administration costs incurred in chasing the payment. Challenges continue to be made in relation to the costs charged and any future decision to set a lower fee will impact significantly on the Council's level of income.

A recent recovery case involved a non-payer who owed the Council £11,500 a sum which had accumulated since 2007/08. Despite repeated attempts, the debtor had refused to engage with the Council and had not made any offer of payment. The Council was advised in 2014 that the debtor was self-employed so attachment of earnings was not an option and there was no equity in the property so a charging order was not appropriate. Bankruptcy proceedings have therefore been pursued culminating in the debtor being made bankrupt 13 June 2016. The Council will continue to pursue non payers recognizing the duty that it owes to the majority of residents who do pay.

<u>Question No. 10 (Page 3)</u>

Appendix 3a lists all the major revenue variations and shows that the updated revised estimate for 2015/16 for advertising and promotion was £88,130 – just exactly what are we spending almost £90,000 on and which elements have under spent?

Advertising and promotion budgets can be analysed as follows:

Cost Centre	2015/16 Updated Revised Budget £	2015/16 Actual £	Variance £
Fleetwood Market (recovered via service charges)	25,500	25,666	166
Theatres (in part recovered from hirers)	17,250	17,444	194
Tourism/General Promotions	14,650	12,205	(2,445)
Business Support/Wyred Up (in part recovered via subs)	14,030	11,633	(2,397)
Other minor budgets (including Sports Development and Countryside)	16,700	9,350	(7,350)
Total	88,130	76,298	(11,832)

<u>Question No. 11 (Page 3)</u>

With the recent introduction of charges for green waste, is it not embarrassing to be declaring savings of £13,657 for bulky, hazardous and clinical waste?

The introduction of the charge for green waste collection, which is a non-statutory service, was prompted by the withdrawal of cost sharing income received from LCC of approximately £1m per annum. Take-up of the green waste collection service has been much higher than expected, and as at 24 June, income at £633,530 represents 79% compared to the 30% or £239,610 originally forecast – an increase of £393,920. Unfortunately, even if the take-up was 100% there would still be a significant gap of £200,000 between the green waste subscription income and the cost sharing income which ceases in March 2018.

Whilst there has been a small saving on bulky, clinical and hazardous waste it should be noted that each of these services operates at a loss. The saving results from a reduction in the number of hazardous collections when compared to that anticipated and reduced contractor costs for the bulky household waste service.

<u>Question No. 12 (Page 3)</u>

Employee Costs (including car allowances) show a saving of £154,735 – what % of the total salary budget does this equate to?

The updated revised estimate for staffing costs was £9.8m. The saving on employee costs across all services is £141,738 representing a saving against the budget of approximately 1%. The under spend reflects an awareness of the Council's financial position with many teams choosing not to fill established posts and seeing if they can manage but at the same time not feeling comfortable enough to offer up the savings in case things don't work out. Many of the savings have already or will be formally declared via staffing reviews as part of the £3m target which the senior leadership team has committed to deliver.

Car allowance savings of £12,997 were achieved against a budget of £84,100 with the majority of these savings relating to 6 areas: Engineering, Electoral Registration, Building Control, Pollution/Commercial Safety, Contact Centre/Compliance and Private Sector Housing. Part of the saving will be attributable to vacant posts and general reductions in mileage. It is also possible that despite the guidance in Council policies and regular reminders, some staff have not submitted recent mileage claims and may not therefore have claimed within two months of the mileage being incurred. This could lead to increased costs in 2016/17 and will be monitored.

Question No. 13 (Page 3)

I see that there is a saving on utilities of £34,392 – actual expenditure of £274,118 against a budget of £308,510 – do we know why?

The Council receives utility bills for over 70 Electric Sites and 6 Gas sites across the borough, with 52% of the cost incurred in 2015/16 being attributable to the three largest sites; the Civic Centre, Marine Hall and Fleetwood Market.

Following the switch to Npower in October 2014, billing issues with the previous electricity provider, British Gas, continued into 2015/16. The issues were finally resolved by British Gas in March 2016, and involved the cancellation of a number of disputed invoices carried forward from 2014/15. This reduced the electricity costs on a large number of the smaller sites and meant that as the revised budgets reflected the worst case scenario, electricity costs were £20,231 less than budgeted at year end.

The under spend on gas of £14,161 is due to reduced consumption between October 2015 and March 2016 of approximately 10% when compared with the same period for the prior year. This can perhaps be attributed to a milder than expected winter and/or maintenance work on the boiler at the Civic Centre which meant that it was switched on much later than is usually the case.

Question No. 14 (Page 3)

I seem to recall that we made savings in fuel costs last year of £18,196 and once again we are declaring a saving, albeit a little reduced of £12,154 – do we know why?

Overall fuel consumption is broadly similar in both years (excluding fuel purchased on behalf of our waste contractor) with 2015/16 consumption being approximately 5% higher than in 2014/15. Despite this slight increase in fuel usage a reduction in cost has been achieved owing to lower market prices and effective management of stocks. In 2014/15 the average fuel price for White Diesel, which makes up the majority of all fuel purchases, was £1 per litre and in 2015/16 it reduced to 86p. As a result of the under spend in 2014/15, the fuel budget was reduced by £10,000 and will continue to be monitored ensuring that price increases are reflected and that the accuracy of future forecasts is improved.

Question No. 15 (Page 3)

NNDR or business rates is an area that hasn't been reported previously – why the saving of £11,202?

The main variances totaling £10,658 involve Poulton Community and Youth Centre, Fleetwood Market and Butts Close Industrial sites.

PYCC was unoccupied for a period which entitled the Council to unoccupied rate relief resulting in a saving of £4,007. At Fleetwood Market there are more stall holders on license who now pay their own share of the business rates resulting in a saving of £4,399. Occupancy at Butts Close has been higher than in other years resulting in a saving of £2,252.

Question No. 16 (Page 3)

Printing and stationery has underspent by £16,062 against a budget of £66,090 – this is a significant saving equating to 24% of the budget - do we know the reasons for this variance?

This under spend can be broken down further as follows:

- Printing is £9,380 under budget with savings being reflected in Benefits Administration (£3,619), Council Tax Collection (£3,065) and Homelessness (£1,000) with several smaller underspends across a number of other cost centres;
- Stationery is £3,884 under budget due to a number of small under spends across many areas, the highest being Council Tax Collection (£1,036);
- Copier expenses are £2,798 under budget again attributable to small underspends across many areas.

The 2015/16 actual expenditure is considered when reviewing future year budgets and wherever possible budgets will be reduced accordingly.

Question No. 17 (Page 3)

Savings in vehicle costs and sale income has resulted in an under spend of £20,555 – can you analyse this a bit further for me – is the majority of it down to efficiencies or have we had a number of vehicle sales that we weren't expecting?

The values achieved at auction for vehicle sales were higher than anticipated by £6,875 largely down to the vehicle maintenance team ensuring that vehicles going to auction do so in the best possible condition to maximise the return. Whilst income from the sale of vehicles is usually applied to fund vehicle and plant replacements, occasionally underspends are offered as general savings. The balance of £13,680 reflects reduced repair and maintenance costs primarily as a result of the absence of any significant accident and repair costs. The vehicle replacement programme schedules each item of fleet for replacement recognising its useful life and this also avoids spending excessive amounts on maintenance of old fleet.

Question No. 18 (Page 3)

I see that there is additional interest received of £24,994 – why is this?

The interest received in the year was £105,784 compared to the revised estimate of £80,790. The increase in investment income over that budgeted is due to an improved cash flow situation in the latter half of the financial year partly due to the Council receiving external grant monies in advance of expenditure. The additional income will be reported to Council 7 July 2016 as part of the annual report entitled 'Treasury Management Activity 2015/16'.

Question No. 19 (Page 4)

Looking now at the Capital Expenditure, our main item of expenditure at £15m is Sea Defences. What exactly does this include?

Schemes categorised as sea defences for the 2015/16 financial year include:

Scheme	**Value £**
Cell Eleven Monitoring – External costs/In house fees	19,296
Rossall Sea Wall Improvement Works – External costs/In house fees	14,952,827
Knott End Revetment Works – External costs/In house fees	8,210
Cleveleys Promenade Beach Urgent Works – External costs/In house fees	28,420
Fleetwood and Cleveleys Beach Works	20,335

Total	15,029,088

The cell eleven monitoring attempts to assess the impact of the tides – with the scheme title being a reference to the particular region of the coastline, namely, Wales and the North West of England; Rossall Sea Wall Improvement Works are being funded by the £63.2m award from the Environment Agency and will run until the end of 2017; Knott End Revetment Works concerns the repair of the slipway and estuary protection; the urgent works at Cleveleys Promenade Beach involves the replacement of groynes after renourishment of the beach in 2013/14; the Fleetwood and Cleveleys Beach Works concerns the re-establishment of beaches and beach management groynes damaged during the winter storms of 2013/14.

Question No. 20 (Page 4)

Can we have an update on the position with the Poulton and Thornton Leisure Centre Improvement works – what exactly have we spent?

The approved amendments that have been made to the initial project costs and those potentially anticipated/provided for are detailed in the table below.

	£	£
Capital Budget originally agreed by Cabinet 12.09.12	**5,175,502**	
Capital Budget originally agreed by Cabinet 19.06.13:		
- Client Side Costs – AECOM	150,000	
- Construction and Design Management Consultancy	10,000	
Changes agreed by Cabinet 21.05.14:		
- Improvements to the front elevation at Poulton	65,000	
- Electricity Northwest (upgrade to network)	150,000	
- Works to Poulton pool including tiling, sand filters and mechanical plant	112,000	
- Client Side Costs – use of NW Hub	11,801	
Changes agreed by Cabinet 22.10.14:		
- Roof works to both Thornton and Poulton	380,000	
- Client Side Costs – AECOM	15,000	
Changes agreed by Cabinet 23.03.16:		
- Contractor Costs (agreed contract variations)	152,336	
- Client Side Costs – AECOM	50,000	
Total Approved Capital Budget		**6,271,639**
Changes reported - 3rd Qtr 2015/16 Capital Programme Review:		
- Construction and Design Management Consultancy: mainly Tom Lucas savings	(6,042)	
Changes subject to future Cabinet approval:		
- Contractor Costs (including claim for overrun)	162,665	
Total Projected Capital Cost		**6,428,262**

The projected capital cost of £6,428,262 has been fully funded and this is reflected in the accounts.

Question No. 21 (Page 4)

I know that as a result of improving the Poulton and Thornton Leisure Centres we were meant to reduce our revenue subsidy by approximately £130,000. If I remember correctly, this resulted in a reduced operational subsidy (excluding the management fee) for 2015/16 of £225,299. What does the final position look like?

The expenditure has been routinely monitored throughout the year and the final outturn reported by the YMCA for 2015/16 is £170,459. This is £54,840 less than the estimate and £356,320 lower than last year's actual.

The Council's Leisure Management Contract has in the past included an incentive for the operator to reduce costs by allowing the YMCA to keep 50% of any savings below the operational subsidy and pay a 50% share of any expenditure incurred above the operational subsidy. The YMCA requested that this clause be suspended for 2015/16 recognising the significant levels of disruption during the period of the works at Poulton and Thornton Leisure Centres. The saving for 2015/16 of £54,840 has therefore been retained by the Council in full and has been used to top up the Leisure Management Reserve providing future funding for continued investment in the Council's leisure facilities. Taking into account the contribution from the YMCA in 2016/17, which represents year 4 of the 5 year repayment profile agreed in respect of the acquisition of fitness equipment by the Council for Garstang Leisure Centre and the additional costs for the Garstang Leisure Centre and Pool improvement works (£38,828), the balance on the reserve at 31 March 2017 is expected to be £119,054.

<u>Question No. 22 (Page 4)</u>

Staying with Capital Expenditure, I can see that there was £10,000 spent on Flood Grants – this doesn't seem a very high value when you consider the extent of the flooding that Wyre suffered in St Michaels, Churchtown and Garstang?

The £10,000 referred to in 2015/16, actually relates to the severe weather in December 2013 and January 2014 when high winds and high tides caused coastal flooding in parts of the borough. At this time, a Bellwin incident was declared and the council submitted a claim to central government to recover the proportion of costs which were eligible that had been incurred in the 2013/14 and 2014/15 financial years. Further funds were made available for Repair and Renew grants of up to £5,000 per property and these were promoted by the council on our website and via the Regeneration and Engineering Teams. As the number of properties actually flooded was low, take-up was slow and only two properties in the borough claimed the £5,000 grant with a total of £10,000 being spent in 2015/16.

<u>Question No. 23 (Page 4)</u>

In the table showing capital variances, why is there such a large value of capital slippage into future years?

The individual schemes making up this £518,115 can be seen in Appendix 2 Table 2. The larger items include:

Scheme	Value of Slippage £	Reason
Fleetwood Leisure Centre Heating	95,000	The seeking of tenders was delayed pending design works
Fleetwood Leisure Centre Sand Filters	51,500	Awaiting suitable dates from YMCA as this involves closure of the pool
Marine Hall Dome Restoration (incl. CCF funding)	63,200	Complications with the scaffolding have resulted in the works being retendered with a new design
Beach Bungalows CCF2	76,710	Works have commenced but have taken longer than originally anticipated
Mount Grounds	127,478	Work to shelters commenced later than anticipated

Question No. 24 (Page 4)

I understand that advance spending relates to the re-phasing of expenditure and know that Rossall Sea Wall is grant funded so presumably not a problem. What I am concerned about is the section entitled 'Increased Spending' and the Café CCF2 project showing increased spending of £81,275 – why is this?

The specification for the CCF work changed over time and the increased cost for the scheme referred to as the café was primarily funded by a revision in the design for the water park. The main contractor submitted cumulative invoices for these two elements of the scheme and it wasn't until the final statement was received that an accurate allocation of costs could be made. A number of variations were agreed to the original contract totalling approximately £70,000 which included a revision to the Leisure Centre entrance doors, increased costs for the kitchen, toilets and windows.

Question No. 25 (Page 5)

Can you explain what is meant by revenue slippage?

Spending officers ask for unspent budgets to be moved to the next financial year to avoid paying for previously committed works from their new year's budget. In other words they ask us to 'slip' the under spend against their budget so that next year they can spend their full budget and the under spend from the previous year. Often, the request relates to a one-off budget provision which has either been externally funded or met from earmarked reserves. A full list of revenue slippage for 2015/16 totalling £832,000 can be seen at Appendix 3b.

There was also a request to slip increased planning fee income received in 2015/16 to 2016/17 to fund the work on the Local Plan and additional development control processing costs and other minor adjustments.

Slippage on capital schemes which were being funded by revenue totals £146,500 and after recognising that some of the slippage is funded from earmarked reserves the value of slippage that impacts on the level of balances going forward is £821,400. Essentially, this is the value of the apparent underspend in 2015/16 which will ultimately be incurred in 2016/17.

Question No. 26 (Page 5)

Looking at the table which summarises revenue slippage (with the full listing being shown at Appendix 3b), can I ask you to explain, the three highest requests hopefully giving me a better understanding of why slippage occurs?

The highest value of slippage (£177,510) relates to a potential VAT adjustment that the Council may be required to pay concerning disabled facilities grants i.e. a potential declaration of unpaid VAT for which confirmation is currently being sought. Three local authorities (Trafford, Portsmouth and South Cambridgeshire) have submitted appeals to HMRC with Cambridgeshire being asked to attend a tribunal for which a date has yet to be set. The result of the appeal will obviously dictate whether the service is vatable going forward but may also result in Wyre declaring unpaid VAT which will also incur a penalty charge and interest.

The second highest value of slippage (£152,830) relates to Local Plan Consultancy fees and Statutory Notices. As the slippage reflects the rescheduling of works relating to the Local Plan, the savings have been earmarked to meet future unbudgeted costs.

The third highest value of slippage (£150,000) relates to Planning Enforcement and reflects the uncertainty around the unauthorised travellers' site at Preesall and the current planning appeals and potential costs.

Question No. 27 (Page 5)

Just before we leave revenue slippage and looking at the full list at Appendix 3b, can you tell me about the item on page 97 regarding the Care and Repair Service where we show projects subject to re-phasing of £229,560 which is met by external grant funding of the same amount. This seems a large amount to be carrying forward – why haven't we managed to spend the money?

Care and Repair have been extremely successful in levering in external funding to support a number of ongoing projects that include Winter Warmth initiatives, a social isolation project, a project to help prevent hospital admissions for patients with long term health conditions, a dementia project, a gas safety project and a project to provide increased security for vulnerable households. These projects will have various start dates and continue into 2016/17 and timescales for delivery and reporting requirements are agreed with the funders in advance. The money is ring fenced within the Council's accounts and is used only for the purpose intended. Care and Repair have to date managed to provide these projects without additional staffing resource and the flexibility of funders around delivery timescales is therefore a key factor.

Question No. 28 (Page 6)

I see that at 31 March 2016 we have over £8m in our revenue balances – why are we still trying to find efficiency savings?

The Council prepares a 4 year Medium Term Financial Plan which forecasts what we expect our income and expenditure to be in each of those years and shows the impact on the revenue balances. The latest update reflects a gap between expenditure and income in 2019/20 of approximately £2.5m and in effect, our level of balances only allows the Council to continue with its current spending plans until March 2022 before it runs out of money. There is an action in the Council's Business Plan (2016 Update) to 'deliver our programme of efficiency savings' and regular progress reports will be provided to both Cabinet and Overview and Scrutiny in order to bring the expenditure and income projections back into balance.

Question No. 29 (Page 6)

I noticed earlier that we have used savings to top up the Capital Investment Reserve and the balance at the end of the year looks very healthy at almost £800,000. Is this available for new capital schemes?

Unfortunately, there a number of commitments including Garstang Leisure Centre Improvements and the sand filters and heating improvements at Fleetwood Leisure Centre for which this funding has already been earmarked. The balance available for funding new capital schemes is £453,070 and reflects the top-up of £386,852 (made using 2015/16 net revenue savings) and a small balance carried forward of £66,218. The receipt of tenders for the Beach Bungalows currently being constructed at the Marine Hall Colonnade, however, has recently been reported (Resources PH report 16 June 2016) and there is an increased cost of £13,801 above the existing capital budget which will need to be met from this reserve reducing the available balance to £439,269.

Question No. 30 (Page 6)

The New Homes Bonus Reserve is significant at almost £2.5m – why are we not spending it?

The Government introduced this to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. The first payment was made in 2011/12 and was based on the number of additional homes added to the council tax base which in effect reflected new houses built and long term empties returned to use. Payments were based on the national average council tax relevant to each property and were paid for a period of 6 years. There is an additional payment of £350 for each affordable home delivered, again for a 6 year period. In two tier areas, 80% is paid to the District and 20% to the County.

Receipts in respect of the 2011/12, 2012/13 and 2013/14 financial years have been used to fund the shortfall in future income which results from the Council's acceptance of the Council Tax Freeze Grant in earlier years. The impact of a 5 year council tax freeze i.e. council tax income foregone is £569,000pa. The New Homes Bonus Reserve will be used up until the 2021/22 financial year when only £394,000 remains.

The increased scale of the funding distributed by the Government in the form of New Homes Bonus effectively meant that payments needed to be financed by reductions in formula grant. As a result, at Wyre the New Homes Bonus from the 2014/15 financial year was used to compensate for the loss of formula grant. Whilst the Government has awarded New Homes Bonus for 2016/17 they have consulted on reducing the length of payment from 6 years to 4 years and other options for change.

<u>Question No. 31 (Page 6)</u>

Can you explain what the Non-Domestic Rates Equalisation Reserve is for?

The new Business Rates Retention scheme was introduced in 2013/14 and this reserve was established because of the volatility of business rate income and the fact that the safety net support provided by the Government does not kick in until we have suffered a loss in business rates income of approximately £232,000. The top up each year has been funded using the Section 31 Grant paid by the Government to compensate for additional Reliefs awarded after the baseline funding level was established, net of the levy which is calculated on income received above the previously notified baseline.

NNDR income collected by the Council fell by £2.8m in 2015/16 mainly as a result of a revaluation of Forton Motorway Service Station and its backdating to 1st April 2010. The impact on Wyre was a loss of business rates income of £1.1m when compared to the 2015/16 Revised Estimate. Savings on not having to pay any levy and the fact that the Council's income fell below the safety net triggering a payment by the Government reduced the loss to £597,000. This loss impacts in the 2017/18 financial year and will be funded by the Non-Domestic Rates Equalisation Reserve. The problem experienced in the 2015/16 financial year supports the need for such a reserve going forward and demonstrates the volatility of the current system. The 2013/14 s.31 grant net of levy was released and used to fund revenue expenditure in 2015/16, 2014/15 s.31 grant net of levy was applied to reduce expenditure in 2016/17 and 2015/16 will be used to contribute to the collection fund deficit in 2017/18. The delay in the release of the reserve is considered to be a prudent approach and ensures that funds are not released or utilised until they have been confirmed by Central Government.

<u>Question No. 32 (Page 7)</u>

It is useful to see the different grants and contributions in the financing table but when the Capital Programme is financed from Revenue to the tune of £1.1m what does this mean?

Revenue funding of £1,108,189 has been made during the year reflecting a number of contributions including:

- Capital Investment Reserve (£703,377) – used primarily for the Leisure Centre Improvements, the new link road through Hardhorn Road car park and improvements to Memorial Park;
- Vehicle Replacement/Street Cleansing Maintenance Reserve (£205,888) - used for the rolling replacement of the vehicle fleet;
- Value for Money (£28,945) – used to meet the costs of e-Benefits and general filing/disposal software;
- Savings on relevant revenue budgets (£36,375) – used for the Flexi and Absence Management System and Knott End Revetments; and
- Balances (£133,922) – used to fund the purchase of Fleetwood Leisure Centre Equipment which will be recovered over a 5-year period via contributions from the YMCA's operational budget.

And finally, some questions on the rest of the Statement of Accounts:

<u>Question No. 33 (Page 26)</u>

The Comprehensive Income and Expenditure Statement shows that Planning Services has cost the Council £1,158,066 in 2015/16 but in 2014/15 it only cost £527,302 – what has caused this significant increase of £630,764?

This reflects a number of services categorized by the Service Reporting Code of Practice and includes Planning, Regeneration and Economic Development which includes the two markets. The increase in cost is mainly attributable to an increase in notional charges i.e. depreciation and impairment (£254,000), increased support service charges (£69,500), increased consultancy costs (£110,000), increased employee costs (£19,114), Flood grants for which the income was received from DCLG in 2014/15 (£17,550), insurance excesses (£29,007) and reduced income (£137,333).

<u>Question No. 34 (Page 26)</u>

What are Non Distributed Costs and why have they increased by 40% from £698,451 in 2014/15 to £975,248 in 2015/16?

CIPFA issue a Service Reporting Code of Practice to ensure that all authorities account for expenditure and income in a consistent manner. The guidance specifies how the cost of services should be analysed and what constitutes Non Distributed Costs. Non Distributed Costs reflects past service costs i.e. deficit recovery payments (adjusted for IAS 19) of £701,248 and curtailments i.e. the impact of restructures since the last revaluation of the fund of £274,000. In 2014/15 there were deficit recovery payments (adjusted for IAS 19) of £597,451 and curtailments totalled £101,000.

The past service and curtailment costs are normally a result of increased benefits being paid in the event of members retiring early during the year. They may result either from 'early retirement strains' (the cost of paying members' benefits earlier than had been anticipated), or from additional benefits being awarded on retirement. Those costs which result from redundancy/efficiency retirements are classified as Curtailment Costs, with other amounts such as augmentation being regarded as Past Service Costs.

International accounting standards require the accounts to reflect the cost of retirement benefits when they are earned rather than when the benefits are paid. For example, whilst the cash deficit recovery contribution paid in the year was £796,300 the charge in the Non Distributed Costs is £701,248.

<u>Question No. 35 (Page 26)</u>

The Comprehensive Income and Expenditure Statement appears to show that we have made a surplus on the Provision of Services of £13,604,124 but the Narrative Report on page 3 shows a contribution to balances of £1,558,020. Why is the contribution to balances not £13m?

Note 6 on page 43 illustrates the adjustments that are needed to reconcile the Accounts prepared in accordance with proper accounting practice to the resources available as specified by statutory provisions which ultimately influences the level of council tax that we levy from our residents.

The total comprehensive income and expenditure which can be seen on page 26 of £21,415,851 is reflected in both usable and unusable reserves and is analysed in the Movement in Reserves Statement on page 25. The first column of this statement shows the General Fund Balance which increases from £6,463,992 at the start of the year to £8,022,011 at the end of the year, an increase of £1,558,019 which other than a £1 rounding adjustment agrees with the Narrative Report.

And now turning to the Balance Sheet on page 27…

Question No. 36 (Page 27)

Looking at the Current Assets, how can we have Cash and Cash Equivalents of almost £16m when we are continuously being told that our reserves and balances are being depleted?

The Council has a variety of cash resources available for investment totalling £15,113,241 at 31 March 2016. This includes capital receipts unapplied of £251,474, capital grants unapplied of £634,326, earmarked reserves of £6,361,141, provisions of £1,248,763, the collection fund adjustment account of (£1,404,474) and unallocated balances of £8,022,011.

There is also a working capital surplus of £11,158,440. This is calculated by taking the value of short term debtors plus inventories of £3,281,758 less short term creditors (net of accumulated absences) of £7,430,679, less capital grants received in advance of £7,009,519.

The Council's capital financing requirement i.e. its underlying need to borrow for capital purposes is £11.6m and as long term borrowing is only £1.5m this indicates an under borrowed position of £10.1m and means that essentially the council is borrowing money from itself.

The cash resources available of £15.1m plus the working capital surplus of £11.2 suggests that there should be investments of £26.3m but because some of this money is being used to meet the Council's long term borrowing requirement of £10.1m the investments reflected on the balance sheet total £16.2m.

Question No. 37 (Page 27)

Why have Unusable Reserves increased from almost £33m to almost £52m – and can we spend the additional £19m?

Unfortunately, the clue is in the name and they cannot be used to fund expenditure. The £52m is made up of a number of different reserves:

- Revaluation Reserve – this was introduced 1 April 2007 and as assets are either revalued upwards or downwards the revaluation reserve is adjusted. For example, if the Civic Centre was currently in the balance sheet with a valuation of £3m and this was revalued at £4m then the value of the assets in the balance sheet would increase by £1m and the revaluation reserve would increase by £1m. The increase in value is not really realized until the asset is sold with the income then becoming a capital receipt which is usable.
- Capital Adjustment Account – this contains the revaluation gains/losses before 1 April 2007 and reflects the differences between the 'statutory provisions' concerning the treatment of acquisition/enhancement of assets and 'accounting arrangements' for the consumption of assets via charges such as depreciation, impairment and amortization which are made in the Comprehensive Income and Expenditure Statement. In effect, the Capital Adjustment Account and the Revaluation Reserve, when compared to the value of long term assets indicates the authority's statutory borrowing requirement. The reflects the most significant increase of just under £15m which in essence equates to the Rossall Sea Defence works funded by capital grant from the Environment Agency.
- Pensions Reserve – this reflects the timing differences between the 'accounting arrangements' concerning post-employment benefits and the 'statutory provisions' for funding the cost. In effect, the 'accounting arrangements' require a charge to the Comprehensive Income and Expenditure Statement as benefits are earned but the 'statutory provisions' require the benefits to be financed as the employer contributions to the pension fund are paid.
- Collection Fund Adjustment Account – each year the 'statutory provisions' require the council to estimate the surplus or deficit on the collection fund for funding purposes. The 'accounting arrangements', however, require the actual surplus or deficit to be reflected in the Taxation and Non Specific Grant Income line within the Comprehensive Income and Expenditure Statement.

- Accumulated Absences Account – this reflects the difference between ‘accounting arrangements’ concerning absences earned but not taken in the year i.e. annual leave carried forward at 31 March and ‘statutory provisions’ which require that the impact of this adjustment must be neutralized.

Question No. 38 (Page 67)

The officers’ remuneration at note 30 on page 67 shows 4 employees earning more than £50,000 in 2015/16 but only three are listed in the Senior Officers’ table – why is this?

The officers’ remuneration table at the top of page 67 incudes payments to all staff regardless of their position or grade within the organisation and therefore includes officers who are not considered to be ‘senior employees’. The Accounts and Audit Regulations describe ‘senior employees’ as an employee whose salary is £50,000 a year or more and who is either:

- A head of paid service or a chief officer;
- A head of staff; or
- A person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body (in particular activities involving the expenditure of money).

Salary costs for the Head of Engineering along with standby allowance for occasions when the post holder acts as the Severe Weather Officer, mileage, expenses and election fees has meant that the total remuneration in the year was slightly above the £50,000 limit at £50,790.

Question No. 39 (Page 71)

Note 37 shows termination benefits and on page 71 it seems to suggest that we have had 2 compulsory redundancies during 2015/16 – I wasn’t aware of any – can you let me know which officers these were?

The expiry of the external funding for the Hate Crime officer post which was awarded for a 2-year period resulted in the post being made redundant. Unfortunately, the other termination benefit recorded as a compulsory redundancy is incorrect and should have been declared in the ‘other departures’ column. This will be corrected and reflected in the Statement of Accounts published post audit which is considered at the Audit Committee in September.

Question No. 40 (Page 79)

Looking at the Collection Fund on page 79 and in particular the Business Rates column, there is a deficit at the end of the year totalling £3.8m. Why is this?

The Council collects business rates from ratepayers during the year and the money is apportioned 50% to central government, 40% to Wyre, 9% to LCC and 1% to the Lancashire Fire and Rescue service. Whilst the Revised Estimate indicated that we expected to collect £25.5m in 2015/16, the actual figure collected of £25.4m less relevant charges (including bad debts and provisions for appeals) was £22.7m – a loss in income of £2.8m. The main reason for the reduction was an alteration to the rating list ‘by notice’ actioned by the Valuation Office in relation to Forton Service Station. There had been no appeal submitted and the Council had therefore been unable to provide for any reduction in valuation. The Council was notified by email dated 24 March 2016 that the rateable value was reducing by £725,000 (from £1,970,000 to £1,245,000) and would be backdated to 2010. The rates payable were therefore reduced by a massive £1,994,475 in the 2015/16 financial year.

The impact of this loss on income has been that for the first time since the introduction of Business Rates Retention, the Council has fallen below the safety net level set at 92.5% of the Baseline Funding Level.

Whilst there is no immediate impact in the 2015/16 financial year, the deficit on the collection fund will need to be financed in 2017/18 and equates to a loss of income of £597,512 when compared to the 2015/16 Revised Estimate for retained rates, Section 31 grant and Levy/Safety Net payments/receipts. This is one of the largest adverse variances that the Council has ever had to face and reinforces the need for balances/reserves to meet unforeseen costs.

Question No. 41 (Page 79)

Just thinking ahead, wasn't it made clear that we shouldn't join the Lancashire Business Rates Pool from 1 April 2016 if we were expecting to have income levels that were below the safety net? What does this reduction in rates income in 2015/16 mean for the financial projections for 2016/17 and beyond?

The 2016/17 business rates projections are further complicated by the fact that from 1 April 2016 we also have an Enterprise Zone on the Hillhouse site in Thornton. Any growth in business rates income for the area specified is retained by the Lancashire Enterprise Partnership for spending on the EZ site. Having completed a forecast using business rate data at the end of May'16, it is pleasing to report that the Council's income level remains above the safety net and there is a potential levy payable which as a result of the Lancashire Business Rates Pool will be retained by Wyre of £375,412. This, together with the projected S31 grant net of levy of £242,403 totals £617,815 and will be used in the 2017/18 financial year to fund the 2015/16 deficit on the collection fund which impacts in 2017/18. In essence, the Council has lost business rates income to the tune of £600,000 in 2015/16 but because of the cautious approach taken with S31 grant income net of levy, namely that income is not released until realized, what would have been bonus income in 2017/18 must now be used to meet the deficit on the collection fund.

And finally…

Question No. 42

Are there any recommendations from last year's audit that remain outstanding?

There was one recommendation made in the External Auditor's Report to those charged with governance, which was considered by the Audit Committee at their meeting 22 September 2015, which was awarded a priority three rating. Priority three ratings refer to: "issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them". The recommendation concerned a reconciliation within the payroll section which had not been signed as prepared and/or reviewed.

The current procedure involves making adjustments to the listing of monthly pay, as recorded in the payroll system, to reflect known changes/variances e.g. recognising part payments for starters who are not entitled to a full month's salary, career breaks or reduced payments for those on maternity leave (referred to as the element balancing) with a view to being able to confirm that this balances to the gross pay from the last payroll plus these known adjustments – in essence, a sort of manual check. This is undertaken at the start of each payroll month.

This exercise is concluded by a second officer prior to the payroll being run picking up any further known adjustments and is balanced to a report from the payroll system showing gross and net figures for each pay element.

Both stages of the reconciliation are signed and dated but not reviewed. Resources within the HR team are limited and only one payroll technician is currently allocated to perform the monthly payroll. The completion of the reconciliation (albeit in two stages and by two separate members of the team) is in itself an additional control which validates the output from the payroll system.

There was one issue followed up from the ISA260 report for 2013/14 concerning the NNDR appeals provision. The Council no longer uses the services of an external advisor (Inform-CPI) and all assumptions supporting the estimated provision are known and documented as part of the working papers which are subject to audit.