

Agenda Item No: 9.1 **Report No:** 80/15
Report Title: Finance Update
Report To: Cabinet **Date:** 6 July 2015
Cabinet Member: Councillor Andy Smith
Ward(s) Affected: All
Report By: Alan Osborne, Director of Corporate Services
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Purpose of Report:

To provide an update on financial matters affecting the General Fund Revenue Account, the Housing Revenue Account and the approved Capital Programme.

Officers Recommendation(s):

That Cabinet:

- 1 Agrees Treasury Management activity since the last report to Cabinet has been consistent with the Council's approved Treasury and Investment Strategy.
- 2 Agrees the final position on the General Fund, Housing Revenue Account and Collection Fund accounts for 2014/2015.
- 3 Confirms the allocation of Reserves at 31 March 2015 shown in Appendix 2.
- 4 Adopts the Reserves shown in Table 6.
- 5 Agrees the Capital Programme outturn for 2014/2015 as shown in Appendix 3.
- 6 Approves the updated 2015/2016 Capital Programme set out in Appendix 4.

Recommends to Council

- 7 That the Annual Treasury Management Report for 2014/2015 be approved.
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Reasons for Recommendations

- 1 A report on funding issues in relation to the Council's General Fund Revenue Account, Housing Revenue Account and Capital Programme is made to each meeting of the Cabinet to ensure that the Council's financial health is kept under continual review. It is essential to ensure that the Council has a sound financial base from which to respond to changing activity levels and demand for statutory services and to ensure that, when appropriate, its finances are adjusted in response to reducing income levels and inflationary pressures on expenditure.
- 2 The Council's Treasury Management function deals with very large value transactions on a daily basis. It is essential that the Council is satisfied that appropriate controls are in place and in accordance with the Code of Practice on Treasury Management in the Public Services prepared by CIPFA (the Chartered Institute of Public Finance and Accountancy) and adopted by the Council.

Information

3 Treasury Management

- 3.1 Treasury Management investment activity between 28 February and 31 May 2015 is summarised in Table 1. All activity was consistent with the Council's approved Treasury and Investment Strategies for 2014/2015 and 2015/2016.

Table 1 - recent investment activity

Type of investment	New investments	Matured investments	Average on deposit £m	Average return %
Short term deposits	12	11	4.88	0.62
Long term deposits	Nil	Nil	0.00	0.00
Treasury Bills	16	8	6.02	0.43
Money Market Funds	daily		2.05	0.56
Interest Bearing Accounts			2.70	0.32

- 3.2 No new borrowing was undertaken in the period. Long term borrowing remains at £56.6m.
- 3.3 In accordance with the Council's approved Treasury Strategy Statement, the Audit and Standards Committee reviews all treasury activity that takes place in order to confirm that it has been undertaken in accordance with the approved Strategy. Should the Audit and Standards Committee have any observations they would be recorded in its minutes and referred to Cabinet.
- 3.4 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services Code and complies with its requirements, one of which is that the Council should receive an Annual Treasury Management Report following the end of each financial year. This Report also includes the results of the various indicators which the Council sets each year in accordance with the Prudential Code for Capital Finance in Local Authorities.

3.5 The Annual Report for 2014/2015 is attached at Appendix 1. The Audit and Standards Committee considered the report at its meeting on 22 June 2015, following the drafting of this report. Any comments made by the Audit and Standards Committee will be reported verbally to this meeting of Cabinet. Cabinet is asked to recommend that Council approves the Annual Report.

4 Closure of 2014/2015 Accounts

4.1 The Council's 2014/2015 Accounts have now been closed. The Director of Corporate Services approved the draft Statement of Accounts on 29 June 2015. The Accounts have been released to the Council's external auditor BDO and are available to the public for inspection.

4.2 General Fund

4.2.1 The General Fund year end position for 2014/2015 is in line with the budget and remains sufficiently robust to support the Medium Term Financial Strategy.

4.2.2 Table 2 shows the final net expenditure/income for 2014/2015 analysed by statutory service area, as presented in the Council's published budget papers.

Table 2 - General Fund Services net expenditure

(a)	(b) 2014/2015 Budget £'000	(c) 2014/2015 Actual £'000	(d) =(c) – (b) Variance £'000
Service area			
Central Services	1,243	1,089	(154)
Cultural and Related Services	2,360	2,185	(175)
Environmental and Regulatory Services	4,637	4,353	(284)
Highways and Transport Services	(317)	(321)	(4)
Housing General Fund Services	1,609	1,720	111
Planning Services	1,267	1,390	123
Corporate and Democratic Core	1,966	2,274	308
Net cost of Service provision	12,765	12,690	(75)

4.2.3 Table 3 overleaf summarises the variations which led to the overall saving of £75,000 in the cost of Service provision when compared with the budget.

Table 3 - General Fund summary of variations

	£'000	£'000
One-off costs of voluntary severance including pension strain	560	
Reduced cost of salaries	(393)	
Net increase in employee costs		167
Unused budgets for Service Priorities/Savings target released to Reserves		(134)
Additional expenditure:		
- Projects funded from Reserves	481	
- Projects funded from Grants	118	
- Miscellaneous Service costs	337	
		936
Reduced Service income		705
Reduced Service expenditure		(1,103)
Increased Service income		(579)
Treasury Management		(48)
Increased allowance for doubtful debts		134
Ad-hoc grants and contributions received		(153)
Net saving		(75)

4.2.4 Further details of the elements summarised above are available from the Head of Finance. Examples of key variations are:

- £181,000 reduced income from recycle sales
- £99,000 reduced income from parking charges and PCN's
- £97,000 reduced income from Private Sector Leasehold property tenants
- £73,000 reduced payments to Private Sector Leasehold property owners
- £74,000 additional income from Planning fees
- £60,000 VAT reimbursement to Council re Trade Waste
- £114,000 reduced property maintenance expenditure
- £104,000 reduced grounds maintenance expenditure
- £68,000 reduction in Trade Waste Disposal charges paid
- £68,000 reduction in cost of Car Parking management agreement

4.2.5 In addition to spending on services, contributions to Reserves were made in 2014/2015 as shown in Table 4. Appendix 2 identifies the contributions to each Reserve.

Table 4 - Contributions to Reserves

(a)	(b) 2014/2015 Budget £'000	(c) 2014/2015 Actual £'000	(d) =(c) – (b) Variance £'000
Net cost of Service provision (Table 3)	12,765	12,690	(75)
Transfers to Reserves	2,414	2,745	331
Total cost to be financed	15,179	15,435	256

4.2.6 The increase in the amount transferred to Reserves shown in Table 4, £331,000, is primarily the result of additional grants and contributions received, pending use in future years, (£133,000), and the carry-forward of unspent budgets at the year end (£157,000), approved by the Chief Executive and Director of Corporate Services in accordance with the Council's financial management arrangements.

4.2.7 Table 5 shows the sources of General Fund financing in 2014/2015.

Table 5 - General Fund financing

(a)	(b) 2014/2015 Budget £'000	(c) 2014/2015 Actual £'000	(d) =(c) – (b) Variance £'000
Service area			
Use of Reserves	1,034	1,314	280
Use of Balance	748	789	41
Non-specific Government Grants	4,214	4,197	(17)
Retained Business Rates	2,445	2,397	(48)
Council Tax	6,738	6,738	0
Total Financing	15,179	15,435	256

4.2.8 General Fund Reserves

- i** As Table 4 shows, £1,314,000 was used from General Fund Reserves in 2014/2015 to fund revenue expenditure. At 31 March 2015, £10,056,000 was held in these Reserves and is available to support future spending. Appendix 2 shows the movements through each Reserve in 2014/2015 and the balance held at the year end. This analysis corresponds with the position stated in the Council's draft Statement of Accounts.
- ii** Table 4 also highlights that General Fund spending in 2014/2015 was supported by the use of £789,000 from the balance, £41,000 higher than anticipated within the budget. At 31 March 2015, the balance was £1,552,000, consistent with the Medium Term Finance Strategy.
- iii** Cabinet reviews the composition of Reserves a minimum of twice a year – when setting the annual budget and after the closure of the accounts. The number of General Fund Reserves has increased steadily over time, with 26 now active. Some of these are subdivided into a number of components. In order to enhance transparency and accountability, it is now considered appropriate to rationalise the number of reserves, combining them where amounts are held for very similar purposes.
- iv** Following an internal review, Cabinet is now recommended to adopt the General Fund Reserves set out in Table 6 with immediate effect. It is important to note that the total amount held in Reserves is unchanged and that the contributions into, and use of, reserves indicated for 2015/2016 are as currently approved.

Table 6 - Reserves 2015/2016

Ref	Reserve	Balance at 31 March 2015	Contribution to reserve	Committed for revenue	Committed for capital	Total Use of reserve	Balance at 31 March 2016
		£'000	£'000	£'000	£'000	£'000	£'000
	General Fund						
1	Strategic Change	(2,358)	(1,686)	489	1,763	2,252	(1,792)
2	Asset Maintenance	(2,444)	(511)	238	646	884	(2,071)
3	Vehicle and Equipment Replacements	(2,490)	(320)	0	1,576	1,576	(1,234)
4	Economic Regeneration	(353)	0	220	0	220	(133)
5	Revenue Grants and Contributions pending use	(284)	0	0	0	0	(284)
6	Unallocated Reserve	(3,679)	51	539	0	539	(3,089)
7	General Fund Sub-total	(11,608)	(2,466)	1,486	3,985	5,471	(8,603)
	HRA						
8	Major Repairs Reserve	(1,112)	(4,421)	0	4,637	4,637	(896)
9	HRA Balance	(2,638)	0	491	0	491	(2,149)
10	Total	(15,358)	(6,887)	1,977	8,622	10,599	(11,649)

4.3 Housing Revenue Account

4.3.1 The HRA outturn for 2014/2015 produced a net deficit of £90,000 compared with a surplus of £281,000 projected when setting the 2015/2016 budget. Table 7 summarises the main variations compared with that projection.

Table 7 - HRA variations

	£'000
Increase in rent income	(19)
Increased spend on Revenue Repairs and Maintenance	1,023
Reduced spend on Capital Repairs and Maintenance	(385)
One-off cost of voluntary severance	228
Reduced Service Management cost including salaries	(547)
Reduced Corporate Management cost	(35)
Reduced spend on communal areas	(25)
Reduction in cost of insurance	(21)
Increased allowance for doubtful debts	24
Increase in contribution to Major Repairs Reserve	151
Miscellaneous net variations	(23)
Total variation (increase in net deficit)	371

4.3.2 Active management of planned and responsive repairs (which are accounted for as revenue expenditure) alongside major repairs,

replacements and improvements (which fall within the HRA capital programme) has been in place. Variations in the HRA capital programme are explained elsewhere in this report.

- 4.3.3** The projected spend on Service Management included an allocation of £430,000 for external support to progress new affordable housing projects and other specialist projects. Actual spending in the year was £93,000, with the unspent resources being retained within the HRA Balance at the end of the year.
- 4.3.4** The contribution to the Major Repairs Reserve is calculated in accordance with accounting guidance and is based on the depreciation of the various components of the housing stock (windows, bathrooms, heating systems, etc) over time. The total contribution made is higher than the original budget to reflect the current cost of replacing these components. The Major Repairs Reserve is used to fund capital expenditure.
- 4.3.5** The net deficit generated in 2014/2015 is funded from the Housing Revenue Account balance, £2,638,000 at 31 March 2015. Table 8 identifies the components of the balance.

Table 8 - HRA Balance

	£'000
1 General Working Balance	1,300
2 Capital Expenditure	112
3 Budgets Carried Forward	319
4 Special Projects	557
5 Service Charges	75
6 Self Insurance	275
7 Total	2,638

4.4 Collection Fund

- 4.4.1** The actual balance on the Council Tax Collection Fund at 31 March 2015 was a surplus of £975,000, compared with a surplus of £403,000 which had been estimated at the time of setting the Council Tax for 2015/2016. This variance, at just under 1% of income, is well within the acceptable level of tolerance given that the total annual amount of Council Tax due was £58.9m. The earliest that this Collection Fund balance can be distributed is during 2016/2017. The distribution would be between Lewes District Council, East Sussex County Council, East Sussex Fire Authority and the Sussex Police and Crime Commissioner, based on 2015/2016 Council Tax amounts. Approximately 14% of the surplus will be returned to this Council.
- 4.4.2** The actual balance on the Business Rates Collection Fund at 31 March 2015 was a deficit of £614,000 (of which this Council's share will be £245,000) compared with the break-even position anticipated when setting the 2015/2016 budget. This variation was the result of an increase in the provision made in respect of business rates appeals.

4.5 Capital Programme 2014/2015 and 2015/2016

4.5.1 The Capital Programme is an allocation of resources (principally capital receipts from the sale of assets, grants or contributions received with specific conditions attached, and reserves) to projects relating to the major repair, enhancement or purchase of long-term assets. In many cases these projects will span financial years.

4.5.2 Table 9 summarises the final position of the 2014/2015 Capital Programme. Appendix 3 gives a detailed analysis.

Table 9 - Capital Programme 2014/2015 Summary

	£'000
Original allocation for year	8,546
Variations agreed in year including allocations c/fwd from 2013/14	8,048
Revised allocation for the 2014/2015 year and beyond	16,594
Further variations (explained in paragraph 4.5.3)	57
Final allocation	16,651
Less: Actual spend in 2014/15	9,901
Remaining allocations to be used in 2015/16 and beyond	<u>6,750</u>

4.5.3 In some cases, further variations to the allocations previously agreed during 2014/2015 are necessary. Details of the most significant changes noted on Appendix 3 are in :

Table 10 - 2014/2015 Capital Programme variations

Lines 1 to 26	HRA Capital Programme. There are a number of amendments to the individual elements of the programme which has been managed as a whole and in conjunction with the revenue budget for planned and responsive repairs. The total cost of the programme has reduced by £673,000. No homes became available for purchase under the right to buy buy-back arrangements in the year.
Line 33	Spending on disabled facilities grants was fully funded by government grant, and no additional call on capital receipts was required. £48,000 of unused grant funding is carried over into 2015/2016.
Line 56	The Big Park project is funded primarily by s106 developer contributions. The capital programme allocation is adjusted to reflect the level of contributions available and spent.
Lines 74 to 81	The IT elements of the Agile Working Project are now complete and no allocations are carried forward into 2015/2016. Future investment in modernising IT systems and telephony will form part of the New Service Delivery allocation within the 2015/2016 capital programme.
Line 84	There is no requirement to carry forward the unused general provision for Asset Backlog repairs. The provision available within the 2015/2016 capital programme is sufficient at this time.
Line 91	A review of waste collection and recycling arrangements has

	taken place and Cabinet will consider proposals for change at this meeting. Vehicle replacements envisaged when the programme was originally drafted have not been actioned pending Cabinet's decision on the way forward. Funding for future replacements is retained within an earmarked Reserve.
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4.5.4 The Capital Programme for 2015/2016 (Appendix 4) has been updated to include the amounts brought forward from 2014/2015. The only other recommended variations are:

- inclusion of Play Area project at Newick, to be fully funded from a Developer's Contribution (line 50)
- minor adjustment to incorporate a final payment required in respect of the replacement boiler at Southover House (line 76).

5 Financial Appraisal - referred to under individual items above.

6 Legal Implications - there are no legal implications arising from this report.

Risk Management Implications

6.1 The Council maintains an overview of its policy programme, its Medium Term Financial Strategy and the external factors that affect them. Without this constant analysis and review there is a risk that the underlying recurring revenue budgets will grow at a faster rate than the resources available to fund them. This risk is mitigated through regular reports to Cabinet on the Council's overall revenue and capital position and Cabinet's correcting actions taken in accordance with the objectives and principles it set for management of the Council's finances.

6.2 An additional risk in the current climate is that reserves and balances will be drawn upon sooner than is necessary unless an assessment is made of resource implications where activity levels have fallen or risen to any significant degree. This risk is mitigated by identifying such areas, making an assessment covering the short and medium term and taking corrective action.

7 Equality Screening

This Finance Update is a routine report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports.

8 Background Papers

Treasury Strategy Statement <http://www.lewes.gov.uk/council/20987.asp>

Appendices

Appendix 1 – Annual Treasury Management Report 2014/2015

Appendix 2 – Earmarked Reserves at 31 March 2015

Appendix 3 – Capital Programme 2014/2015

Appendix 4 – Capital Programme 2015/2016