

Agenda Item No: 9.1 **Report No:** 116/15
Report Title: Finance Update
Report To: Cabinet **Date:** 24 September 2015
Cabinet Member: Councillor Andy Smith
Ward(s) Affected: All
Report By: Alan Osborne, Director of Corporate Services
Contact Officer(s)-

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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 that a nominee account is opened with a second broker to facilitate treasury management transactions as explained in section 3.3.
- 3 Endorses the opinion of the Head of Audit, Fraud and Procurement on the internal control environment at the Council for the year ended 31 March 2015.
- 4 Agrees the General Fund and Housing Revenue Account financial performance for the quarter ended June 2015 as set out in section 6.
- 5 Agrees the Capital Programme financial performance for the quarter ended June 2015, and associated variations, as set out in section 7
- 6 Agrees
 - a. an allocation of £700,000 from reserves in respect of preliminary costs associated with the property portfolio programme.
 - b. that the Director of Corporate Services has delegated authority to designate the allocation to individual schemes
- 7 Confirms the action taken in respect of procurement as set out in section 8.

- 8 Agrees to award discretionary rate relief to two local organisations as set out in section 9.
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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 1 June and 21 August 2015 is summarised in the table below. All activity was consistent with the Council's approved Treasury and Investment Strategy for 2015/2016.

Type of investment	New investments	Matured investments	Average on deposit £m	Average return %
Short term deposits	£55m	£51m	7.30	0.59
Long term deposits	Nil	Nil	0.00	0.00
Treasury Bills	£23m	£22m	8.80	0.48
Money Market Funds	daily		5.99	0.55
Interest Bearing Accounts			2.95	0.35

- 3.2 No new borrowing was undertaken in the period. Long term borrowing remains at £56.6m.
- 3.3 The 2015/2016 Treasury Strategy limits the amount of negotiable instruments (eg Treasury Bills) that can be held in one broker's nominee account to £10m. Currently the Council has a nominee account with one broker only. In order to increase the opportunity for investment in these instruments and to diversify the use of brokers, it is recommended that a nominee account be opened with a second broker. Financial procedure rules require Cabinet agreement to this action.
- 3.4 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.

4 Opinion of the Head of Audit, Fraud and Procurement on the Internal Control Environment at Lewes District Council for the year ended 31 March 2015

As part of the Council's management of risk and key controls, the Head of Audit, Fraud and Procurement makes an independent appraisal of the overall position each year, then reports to Cabinet. His opinion covering the last financial year is as follows:

"The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council."

5 Audit of 2014/2015 Accounts

5.1 As reported to Cabinet in July 2015, a draft Annual Statement of Accounts was presented to the Council's external auditors (BDO) for audit at the end of June. At the time of finalising this report, BDO were on the point of completing their audit ahead of reporting to the Audit and Standards Committee to be held on 28 September. In an 'audit closing' meeting with officers BDO indicated that they:

- anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2015. This means that BDO consider that the Council's accounts present fairly its financial activity in the year and position at 31 March 2015
- have not identified any significant deficiencies in the Council's control environment
- are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and anticipate issuing an unqualified value for money conclusion

If there is any change in BDO's view set out above, a verbal update will be given at the Cabinet meeting.

5.2 In finalising the accounts and in discussion with BDO, officers were content to amend entries and notes in the draft accounts. None of these amendments had any impact on the final revenue or capital outturn for 2014/2015, or the level of reserves and balances, reported to the last meeting of the Cabinet. A

full list of amendments is included in BDO's report to the Audit and Standards Committee.

6 Financial Performance – Revenue budgets

6.1 Financial Performance in the first quarter (1 April to 30 June) of 2015/2016 is shown below. Service details are shown at Appendix 1.

Activity	Full year budget £'000	Qtr 1 Profiled Budget £'000	Qtr 1 actual £'000	Qtr 1 variance £'000
Service Delivery				
Housing and Environment	1,747	796	707	(90)
Planning and Revenues	1,630	(2,052)	(2,239)	(187)
Customer Service	1,238	494	467	(27)
Waste and Recycling	2,771	793	780	(13)
	7,386	31	(286)	(317)
Business Strategy and Development				
Business Strategy and Performance	655	155	166	11
Regeneration and Investment	1,021	126	127	1
Strategic Policy	545	185	76	(109)
	2,221	466	369	(97)
Corporate Services				
Property and Facilities	223	435	358	(77)
Legal	0	58	63	5
Democratic Services	895	253	209	(44)
Human Resources	0	107	23	(84)
Information Technology	142	490	474	(16)
Finance	52	199	186	(13)
Audit, Fraud and Procurement	0	68	72	4
	1,312	1,610	1,385	(222)
Corporate Strategy and Programmes	1,135	192	239	47
Financing, interest, grants, etc	(12,054)	(882)	(795)	87
Housing Revenue Account	0	(2,203)	(2,342)	(139)
TOTAL	0	(786)	(1,430)	(644)

6.2 Financial performance in the first quarter resulted in a favourable net variation of £644,000. Key elements of this variation were:

	£'000
Employee costs – the savings delivery plan assumes a vacancy savings target of 2% for the year. In Quarter 1, savings from vacant posts exceeded the target by 5%	(229)
Planning Development Control fees – additional income	(50)
Business Rates local discount scheme - £370,000 has been earmarked to support a pilot scheme. In Quarter 1 a (minor) discount has been awarded, on application, to one business	(93)
Government grants received – funding has been received in respect of the Neighbourhood Planning process and electoral registration changes	(62)
Recyclate sales – the budget for this income stream is £350,000. The Council has been effected by the closure of a bulking facility run by a third party last year and it has not been possible to store material for collection and sale. Instead material has been shipped to Brighton material recycling facility managed by Veolia, where no income has been received by the Council and no charge made to use the facility. Building a bulking facility at a new depot reduces a reliance on third parties however recycling income goes down as well as up. New arrangements are now in place to receive a income for paper recycling, however an overall shortfall against the budget for the year of £250,000 is anticipated.	72
Housing Revenue Account repairs	(65)
	(427)

6.3 Spending activity in many service areas has tended to be slow in the first quarter and the 'gap' between budgeted and actual spend is expected to close in quarter 2. Trends in housing benefit awarded and associated government subsidy due will also be more identifiable when the position at 30 September is analysed.

7 Financial Performance – Capital Programme

7.1 Appendix 2 gives details of the capital programme spending in the first quarter, which is line with expectations at this stage of the year. Minor variations are required in respect of three projects – these are separately identified in the Appendix.

7.2 The approved programme includes £280,000 in respect of the costs of architectural and other preliminary work associated with the proposed housing development at Robinson Road, Newhaven. An allocation is now required in respect of preliminary costs associated with other sites which form part of the property portfolio partnership programme. It is recommended that Cabinet earmark £700,000 from unallocated reserves (including the Housing Revenue Account where appropriate) to fund these costs and to delegate authority to the Director of Corporate Services to designate the allocation to specific sites within the portfolio. The future disposal of sites within the portfolio is expected to generate capital receipts which will offset this initial funding.

8 Procurement

- 8.1** Where it is not practicable to use the schedule of rates or obtain quotations for contracts or orders over £5,000, an officer may proceed with the prior agreement of the appropriate Cabinet Member with the reasons reported to the next meeting of the Cabinet.
- 8.2** With prior approval from the Cabinet Member for Strategy and Development £10,000 has been spent on obtaining commercial advice from GVA. Advice was sought on the content of the Council's preferred section 106 agreement clause relating to the duties of a charge/mortgagee in possession of affordable housing. In this case competitive quotations were not obtained. The reasons are as follows:

The wording of this clause has far-reaching implications for the provision of affordable housing within the district. It requires specialist advice from experts with good technical expertise who also have a sound understanding of the way in which the housing market, and funding for that market, is moving and who understand government policy on housing. Officers have had difficulty in identifying experts with the requisite knowledge and experience in this niche area of work. Some time ago officers sought initial advice from a well-known consultancy but the advice was superficial and did not fill officers with confidence. The Council has been working with a senior employee of GVA on another project and has been able to satisfy itself that GVA has the expertise needed in this field.

9 Discretionary Rate Relief

- 9.1** From April 2013, income from business rates directly impacts on the Council's financial position. The Council retains 40% of business rates collected. The Council award discretionary rate relief to community organisations, total rates income reduces, with the Council effectively funding 40% of the cost.
- 9.2** There is a statutory requirement for the Council to maintain a Discretionary Rate Relief Scheme to award business rates relief of up to 100% to certain organisations which operate within specified criteria as follows:

	Mandatory Relief	Discretionary Relief
Charities, using premises for charitable purposes	80% of rates due	Up to 20% of rates due
Registered community amateur sports clubs (CASC's)	80% of rates due	Up to 20% of rates due
Non-profit making organisations	Not applicable	Up to 100% of rates due

- 9.3** The table overleaf shows the number of organisations currently receiving Discretionary Rate Relief and the value of that relief.

	Number of cases	Total value of relief
Charities receiving 20% top-up relief	71	£162,600
CASC's	1	£500
Non-profit making organisations	6	£14,500
Total	788	£177,600

9.4 The Leader of the Council has delegated authority to approve or refuse new applications where the value of the relief is up to £5,000, with Cabinet deciding on all other applications. Applications are evaluated against the Council's Discretionary Rate Relief Policy.

9.5 Two applications have been received which Cabinet is recommended to approve:

- i Lewes Football Club** – based at the Dripping Pan in Lewes, Lewes FC operates on a not for profit basis, structured as a 'Community Benefit Society' with ownership spread across 1000 supporters. The Club has a strong community focus and has recently installed a 3g pitch which will be a good facility within the town. Looking beyond its on-pitch activity as a non-League football club, the Club is nationally recognised for its Football Therapy work (targeted at persons with mental wellbeing issues such as depression), offers Vocationally Related Qualifications and runs soccer schools throughout the week and in school holidays.

The Club's business rates liability in 2015/16 is £9,860.

From the background information and financial details supplied, the Club is considered to fall within the Council's Policy for awarding discretionary rate relief and it is recommended that 100% relief is awarded, effective from 1 April 2015.

- ii Dance Academy, North Street, Lewes** – based at Riverside Industrial Estate Lewes, this dance school which offers in the region of 300 classes to 60 registered students a week, registered as a Community Interest Company (CIC) in April 2015. As a CIC, the Dance Academy has been established as a non-profit making organisation and its Articles of Association require any surplus generated to be used principally for the benefit of the community.

Initially operating as a privately-owned small business, the Dance Academy has occupied its current premises since June 2012, investing in fitting out an industrial unit with 2 dance studios, changing facilities, etc.

The Dance Academy's business rates liability in 2015/16 is £6,800.

From the background information and financial details supplied, the Dance Academy is considered to fall within the Council's Policy for awarding

discretionary rate relief and it is recommended that 100% relief is awarded, effective from 1 April 2015, when first established as a CIC.

10 Financial Appraisal - referred to under individual items above.

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

Risk Management Implications

11.1 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.

11.2 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.

12 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.

Background Papers:

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

Discretionary Rate Relief Policy www.lewes.gov.uk/Files/cabinet_051019_NonDRates.doc

Appendices

Appendix 1 – Financial performance Quarter 1 by service

Appendix 2 – Capital Programme 2015/2016 – Quarter 1

Financial Performance Quarter 1 – Service details

	Qtr 1 Profiled Budget £'000	Qtr 1 actual £'000	Qtr 1 variance £'000
Service Delivery			
Housing and Environment			
: Regulatory Services - Licensing	(49)	(29)	20
: Regulatory Services - Public Health	14	13	(1)
: Regulatory Services - Food Safety	1	2	1
: Regulatory Services - Environmental Protection	9	11	2
: Regulatory Services - Health and Safety	0	0	0
: Regulatory Services - Port Health	0	1	1
: Community Safety	2	2	0
: Emergency Planning	5	0	(5)
: Homelessness	58	69	11
: Housing Strategy, Enabling and Advice	5	0	(5)
: Private Sector Housing Renewal	3	0	(3)
: Salaries, management, admin costs	748	637	(111)
Sub-total	796	706	(90)
Planning and Revenues			
: Building Control	(84)	(67)	17
: Coast Protection	9	16	7
: Flood Defence	82	60	(22)
: Development Control	(173)	(248)	(75)
: Street Naming	2	0	(2)
: Regulatory Services - Environmental Protection	(66)	(72)	(6)
: Council Tax Support Scheme Mgt	0	0	0
: Local Tax Collection - Council Tax	89	60	(29)
: Local Tax Collection - Business Rates	9	7	(2)
: Housing Benefit Administration	157	114	(43)
: Housing Benefit	(2,366)	(2,356)	10
: Salaries, management, admin costs	289	247	(42)
Sub-total	(2,052)	(2,239)	(187)
Customer Service			
: Regulatory Services - Animal and Pest Control	4	(2)	(6)
: Cemeteries	(1)	(7)	(6)
: Open Spaces	89	66	(23)
: Sports and Playing Fields	70	60	(10)
: Vehicle Workshop	(25)	36	61
: Internal Corporate Support Unit	39	16	(23)
: Salaries, management, admin costs	318	298	(20)
Sub-total	494	467	(27)

	Qtr 1 Profiled Budget £'000	Qtr 1 actual £'000	Qtr 1 variance £'000
Waste and Recycling			
: Recycling	236	299	63
: Waste Collection	264	235	(29)
: Street Cleansing	175	154	(21)
: Management and administration	73	54	(19)
: Robinson Road facility	45	38	(7)
Sub-total	793	780	(13)
Service Delivery Total	31	(286)	(317)
Business Strategy and Development			
Business Strategy and Performance			
: Voluntary Sector Support	50	49	(1)
: Print Plus service	(6)	9	15
: Salaries, management, admin costs	111	108	(3)
Sub-total	155	166	11
Regeneration and Investment			
: Tourism	47	54	7
: Culture and Heritage: Arts Development	1	(6)	(7)
: Economic Development	107	55	(52)
: Newhaven Enterprise Centre	(29)	24	53
: Salaries, management, admin costs	0	0	0
Sub-total	126	127	1
Strategic Policy			
: Planning Policy	73	(23)	(96)
: Planning Policy - Conservation	0	0	0
: Salaries, management, admin costs	112	99	(13)
Sub-total	185	76	(109)
Business Strategy and Development total	466	369	(97)
Corporate Services			
Property and Facilities			
: Investment Properties	(6)	(55)	(49)
: Industrial Estates	(165)	(158)	7
: Property Portfolio/Regeneration	16	7	(9)
: Public Conveniences	72	56	(16)
: Culture and Heritage - Newhaven Fort	32	46	14
: Indoor Leisure - Wave	161	153	(8)

	Qtr 1 Profiled Budget £'000	Qtr 1 actual £'000	Qtr 1 variance £'000
: Car Parking	17	18	1
: Office Accommodation	232	214	(18)
: Salaries, management, admin costs	76	77	1
Sub-total	435	358	(77)
Legal Services	58	63	5
Democratic Services			
: Democratic Representation	73	60	(13)
: Electoral Registration	38	6	(32)
: Elections - LDC	67	71	4
: Elections - other	0	0	0
: Local Land Charges	(3)	(6)	(3)
: Salaries, management, admin costs	78	78	0
Sub-total	253	209	(44)
Human Resources			
: Recruitment and Training	0	0	0
: HR service	107	23	(84)
Sub-total	107	23	(84)
Information Technology	490	474	(16)
Finance			
: Treasury Management	11	8	(3)
: Salaries, management, admin costs	188	178	(10)
Sub-total	199	186	(13)
Audit, Fraud and Procurement	68	72	4
Corporate Services Total	1,610	1,385	(222)
Corporate Strategy and Programmes			
: Corporate Management	38	35	(3)
: Organisational Development	0	30	30
: Salaries, management, admin costs	154	174	20
Corporate Strategy and Programmes total	192	239	47
Financing, interest, grants, etc			
Contributions to the HRA re shared items	0	0	0
Interest payments and receipts	(19)	(10)	9

	Qtr 1 Profiled Budget £'000	Qtr 1 actual £'000	Qtr 1 variance £'000
Town and Parish Council grant	118	118	0
Contributions to/from Reserves	0	0	0
Service Priority budget and savings target	(70)	0	70
Pensions accounting	21	32	11
Provision for Debt Repayment	0	0	0
Government Grants	(916)	(935)	(19)
Council Tax	(16)	0	16
Retained Business Rates	0	0	0
Use of Balance	0	0	0
Total	(882)	(795)	87
Housing Revenue Account			
Rent income	(3,866)	(3,874)	(8)
Charges for Services	(41)	(23)	18
Contributions towards expenditure	(10)	0	10
Community Amenities Contribution	0	0	0
Supervision and Management	84	46	(38)
Special Services	264	159	(105)
Repairs and Maintenance	811	794	(17)
Rents, rates, etc	123	124	1
Provision for irrecoverable debts	0	0	0
Capital accounting	0	0	0
Interest payments and receipts	432	432	0
Depreciation	0	0	0
Capital Programme funding	0	0	0
Transfer to/from HRA Balance	0	0	0
Total HRA	(2,203)	(2,342)	(139)
TOTAL	(786)	(1,430)	(644)