

Agenda Item No: 9.1 **Report No:** 147/16
Report Title: Finance Update – Performance Quarter 2 - 2016/2017
Report To: Cabinet **Date:** 16 November 2016
Cabinet Member: Councillor Bill Giles
Ward(s) Affected: All
Report By: Alan Osborne, Deputy Chief Executive
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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 the General Fund and Housing Revenue Account financial performance for the quarter ended 30 September 2016 as set out in section 3.
- 2 Agrees the Capital Programme financial performance for the quarter ended 30 September 2016 as set out in section 7.
- 3 Agrees the Treasury Management financial performance for the quarter ended 30 September 2016 as set out in section 8.
- 4 Agrees that a custody account is opened to facilitate treasury management transactions as explained in section 8.4.
- 5 Agrees the mid-year position for the Council's 2016/2017 Treasury Management and Investment Strategy.

Recommends to Council:

That Council approves the Mid-Year Treasury Management Report 2016/2017 at Appendix 3.

Reasons for Recommendations

- 1 A report on current and anticipated financial performance is made to Cabinet to ensure that the financial health of the General Fund, Housing Revenue Account, Council Tax and Business Rates Collection Funds and the Capital Programme are 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 Local Government Finance Settlement 2017/2018

- 3.1 On 15 September 2016, the Department for Communities and Local Government (DCLG) published a technical consultation on the 2017/2018 funding settlement. The main thrust of the consultation is to reconfirm the multi-year settlement offer that DCLG proposed in February 2016 when confirming the current year's settlement. It also covers additional elements such as proposed council tax referendum principles, and the proposed approach for adjusting business rates tariff and top ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income.
- 3.2 In February 2016 when setting the 2016/2017 budget, the Council agreed that it was minded to accept the Government's proposal in respect of a four-year settlement to cover the period 2016/2017 to 2019/2020, delegating the final decision to the Deputy Chief Executive in consultation with the Cabinet Member for Finance. The multi-year settlement offer was conditional on DCLG receiving and accepting an efficiency plan to be published by the Council by 14 October 2016. With the Joint Transformation Programme being key to achieving the Medium Term Finance Strategy (MTFS) savings targets of both this Council and Eastbourne Borough Council, officers worked to prepare a shared efficiency plan to be published by each authority. The efficiency plan was submitted to DCLG by the deadline. This Council's efficiency plan is published on the Council's website at <http://www.lewes.gov.uk/council/15998.asp>.
- 3.3 The multi-year settlement confirms the Council's Revenue Support Grant and Transition Grant at the following amounts, which are consistent with the MTFS.

	2017/2018 £'000	2018/2019 £'000	2019/2020 £'000
Revenue Support Grant	375	2	0
Transition Grant	84	0	0

The DCLG technical consultation sets out a proposal for adjusting business rates tariffs and top-ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income.

- 3.4** The Government has proposed that, in order to balance its aim of keeping council tax low for local residents with the need for councils to raise sufficient funding to support local services, district councils will be allowed to increase council tax in 2017/2018 by less than 2% or up to and including £5 whichever is higher. An increase above this level would trigger a referendum of local taxpayers. The MTFS assumes annual council tax increases of 2% through to 2019/2020.
- 3.5** The Government is also proposing that referendum principles should be applied for the first time to larger, higher-spending town and parish councils in 2017/2018 (Lewes Town Council is the only local council in this area which falls into this category). These local councils would face the same referendum principles as shire districts. The Government wishes to ensure that town and parish councils continue to have the flexibility to take on responsibilities from other tiers of local government, and is proposing that a town or parish council could increase its expenditure in respect of a transferring function (eg through this Council's devolution programme), without triggering a referendum.

4 Financial Performance – General Fund Revenue budgets

- 4.1** Financial Performance at the end of Quarter 2 (September) 2016/2017 is shown below. Service details are shown at Appendix 1.

	Full year budget £'000	End Quarter 2 profiled budget £'000	End Quarter 2 actual £'000	End Quarter 2 variance £'000
General Fund Summary				
Service Delivery	8,293	4,328	3,916	(412)
Business Strategy and Development	1,861	999	864	(135)
Corporate Services	4,324	2,432	2,341	(91)
Corporate Strategy and Programmes	840	423	416	(7)
Corporate costs and income	416	(39)	124	163
Netting off of Central Support Services recharges included above	(3,942)	0	(186)	(186)
Net cost of Service provision	11,792	8,143	7,475	(668)
Contributions to/from Reserves	805	0	0	0
Total cost to be Financed	12,597	8,143	7,475	(668)

- 4.2** Actual financial performance to the end of Quarter 2 has been largely in line with service budgets. Items to note at this stage are:

- spending on staff (adjusted for payments in respect of agency staff providing cover for short-term absences and shared staffing arrangements with Eastbourne Borough Council) is below budget.

- income generating activities are performing in line with or exceeding projections eg income from planning fees at the end of Quarter 2 £229,000 compared with a full year budget £375,000.
- as previously reported to Cabinet, the share of business rates income to be received by the General Fund in 2016/2017 is expected to reduce for reasons outside the Council's control (see also paragraph 6 below). The net reduction for the year is currently projected to be in the region of £280,000 (£215,000 projection at end of Quarter 1).
- trends in housing benefit awarded and associated government subsidy, which can have a net impact on the net budget continue to be monitored and will be more identifiable later in the year.
- as previously reported, the timing of Joint Transformation Programme activity is likely to result in the delivery of some of the savings target of £400,000 being deferred into 2017/2018. This is currently offset by a managed vacancy process which will remain until the main restructuring is complete (in two phases during 2017/18 as set out in another paper on the agenda)

4.3 The amount held in the General Fund Uncommitted Reserve, which acts as a buffer against negative movements in the budget, is projected to be £2.3m at 31 March 2017 before any adjustment needed in respect of the items listed in paragraph 4.2. The table below shows the projected movements and balances of each Reserve.

	Reserve	Balance at 1 April '16 £'000	Contributions & transfers £'000	Commitment £'000	Balance at 31 March '17 £'000
1	Strategic Change	(3,657)	(2,346)	4,589	(1,414)
2	Asset Maintenance	(2,653)	(303)	1,005	(1,951)
3	Vehicle and Equipment Replacement	(2,440)	(320)	1,315	(1,445)
4	Economic Regeneration	(351)	0	72	(279)
5	Revenue Grants and Contributions	(253)	0	4	(249)
6	Unallocated	(3,105)	813	0	(2,292)
7	TOTAL	(12,459)	(2,156)	6,985	(7,630)

5 Financial performance – Housing Revenue Account budgets

5.1 Financial performance at the end of Quarter 2 is shown overleaf.

	Full year budget £'000	End Quarter 2 profiled budget £'000	End Quarter 2 actual £'000	End Quarter 2 variance £'000
Housing Revenue Account Summary				
Income:				
Rents	(15,290)	(7,645)	(7,617)	28
Service charges	(1,156)	(580)	(607)	(27)
Other income	(219)	(110)	(84)	26
	(16,665)	(8,335)	(8,308)	27
Expenditure:				
Supervision and Management	534	309	254	(55)
Special Services eg sheltered	1,075	511	366	(145)
Repairs	3,686	2,089	1,959	(130)
Capital financing, etc	7,610	(13)	0	13
Central support charges, etc	3,241	0	0	0
Net cost of Service provision	16,146	2,896	2,579	(317)
Contributions to/from Reserves	519	0	0	0
	16,665	(5,439)	(5,729)	(290)

- 5.2** Spending and income is generally in line with service budgets and no significant variations have arisen since the Quarter 1 report to Cabinet. Spending on responsive and void repairs is demand led and can be expected to fluctuate during the course of the year.

6 Financial Performance –Business Rates and Council Tax

- 6.1** As previously reported, the outcome of appeals against business rate valuations remains a key risk. Successful appeals can be backdated to 2010. In Quarter 2, 30 appeals were settled, 19 withdrawn and 3 dismissed, with 16 new appeals made to the Valuation Office Agency.
- 6.2** The updated projection of net business rates payable in 2016/2017 is £24.8m, compared with the estimate of £26.2m, with a cumulative deficit of £1.6m at 31 March 2017. This deficit will be recovered from the Government (50%), the Council's General Fund (40%), East Sussex County Council (9%) and East Sussex Fire Authority (1%) in 2017/2018.
- 6.3** In contrast with business rates, the position in respect of the Council Tax Collection Fund remains in line with the budget.

7 Financial Performance – Capital Programme

- 7.1** Appendix 2 gives details of the capital programme spending which is in line with expectations at this stage of the year. Payments of £3.9m have been made by the end of Quarter 2.
- 7.2** There are no variations to the capital programme requiring Cabinet approval.

8 Financial Performance - Treasury Management

- 8.1 Treasury Management investment performance at the end of Quarter 2 is shown in table below, along with the average 7-day London Interbank Bid (LIBID) Rate. All activity was consistent with the Council's approved Treasury and Investment Strategy for 2016/2017.

Type of investment	Average return in Q1 %	Average return in Q2 %	Average return Q1-Q2 %
Fixed term deposits	0.56	0.53	0.51
Treasury Bills	0.42	0.40	0.41
Bonds, certificates of deposit, etc	0.65	0.58	0.62
Money Market Funds	0.59	0.52	0.56
Interest Bearing Accounts	0.40	0.24	0.32
Total investments	0.56	0.52	0.53
7-day LIBID benchmark	0.36	0.20	0.28

- 8.2 No new borrowing was undertaken in the period. Long term borrowing remains at £56.6m.
- 8.3 Investments in Treasury Bills, bonds, certificates of deposits and other tradeable instruments are held securely in Custody accounts in the Council's name. Without custody accounts, which are available from banks and other specialist firms, the Council could not access a significant range of investments meaning that its ability to diversify the portfolio is significantly affected.
- 8.4 Currently the Council has two custody accounts in place. One of these accounts is provided by a supplier which is no longer recommended for use by Arlingclose, the Council's treasury adviser. In order to maintain the opportunity for investment in these instruments, it is recommended that a custody account is opened with an alternative supplier. Financial procedure rules require Cabinet agreement to this action.

Mid Term Treasury Management and Investment Strategy Review

- 8.5 CIPFA's Code of Practice recommends that all councillors are informed of Treasury Management activities at least twice a year. A Mid-year Report for 2016/2017, which covers the period 1 April to 30 September 2016, is attached at Appendix 3. The Report confirms that the key elements of the approved Treasury and Investment Strategy have been complied with during the first half of the year.
- 8.6 Cabinet is asked to recommend that Council approves the Mid-year Report at its meeting on 7 December 2016. The Audit and Standards Committee will be presented with the Report on 28 November 2016 - any comments that it may wish to pass on to Council will be reported verbally.

9 Financial Appraisal - referred to under individual items above.

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

11 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 expenditure 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>

2017/18 Local Government Finance Settlement Consultation Paper

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553819/Post Publication - Draft Settlement Summer Consultation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553819/Post_Publication_-_Draft_Settlement_Summer_Consultation.pdf)

Appendices:

Appendix 1 – Financial performance Quarter 2 by service

Appendix 2 – Capital Programme 2016/2017 – Quarter 2

Appendix 3 – Mid-year Treasury Management Report 2016/2017

Financial Performance Quarter 2 – Service details

	Full year budget £'000	End Quarter 2 profiled budget £'000	End Quarter 2 actual £'000	End Quarter 2 variance £'000
Service Delivery				
Housing and Environment				
: Regulatory Services – Licensing	(188)	(94)	(76)	18
: Regulatory Services - Public Health	53	38	37	(1)
: Regulatory Services - Food Safety	3	2	(5)	(7)
: Regulatory Services - Health and Safety	13	(1)	0	1
: Regulatory Services - Port Health	2	1	1	0
: Community Safety	9	4	(9)	(13)
: Emergency Planning	23	11	11	0
: Homelessness	150	118	63	(55)
: Housing Strategy, Enabling and Advice	20	10	4	(6)
: Private Sector Housing Renewal	11	6	(2)	(8)
: Solar Panel installations	(147)	(64)	(118)	(54)
: Salaries, management, admin costs	2,668	1,348	1,318	(30)
Sub-total	2,617	1,379	1,224	(155)
Planning and Revenues				
: Building Control	(342)	(171)	(175)	(4)
: Coast Protection	8	10	7	(3)
: Flood Defence	143	72	51	(21)
: Development Control	(817)	(405)	(466)	(61)
: Street Naming	8	4	4	0
: Regulatory Services - Environmental Protection	21	11	13	2
: Council Tax Support Scheme Mgt	15	8	(18)	(26)
: Local Tax Collection - Council Tax	(55)	54	79	25
: Local Tax Collection - Business Rates	(134)	(132)	(122)	10
: Housing Benefit Administration	82	41	(78)	(119)
: Housing Benefit	(460)	(295)	(230)	65
: Salaries, management, admin costs	1,945	983	989	6
Sub-total	414	180	54	(126)
Customer Service				
: Regulatory Services - Animal and Pest Control	19	9	5	(4)
: Cemeteries	(15)	(10)	(18)	(8)
: Open Spaces	353	183	160	(23)
: Sports and Playing Fields	243	107	106	(1)
: Vehicle Workshop	402	209	215	6
: Salaries, management, admin costs	1,225	618	589	(29)
Sub-total	2,227	1,116	1,057	(59)
Waste and Recycling				
: Recycling	998	531	558	27
: Waste Collection	919	494	436	(58)
: Street Cleansing	651	378	361	(17)
: Management and administration	389	195	183	(12)
: Robinson Road facility	78	55	43	(12)
Sub-total	3,035	1,653	1,581	(72)

	Full year budget £'000	End Quarter 2 profiled budget £'000	End Quarter 2 actual £'000	End Quarter 2 variance £'000
Service Delivery Total	8,293	4,328	3,916	(412)
Business Strategy and Development				
Business Strategy and Performance				
: Voluntary Sector Support	212	158	163	5
: Salaries, management, admin costs	493	248	211	(37)
Sub-total	705	406	374	(32)
Regeneration and Investment				
: Tourism	131	73	112	39
: Culture and Heritage: Arts Development	7	3	0	(3)
: Economic Development	444	222	134	(88)
: Newhaven Enterprise Centre	(140)	(67)	(54)	13
: Salaries, management, admin costs	245	124	109	(15)
Sub-total	687	355	301	(54)
Strategic Policy				
: Planning Policy	25	13	13	0
: Planning Policy – Conservation	0	0	0	0
: Salaries, management, admin costs	444	225	176	(49)
Sub-total	469	238	189	(49)
Business Strategy and Development total	1,861	999	864	(135)
Corporate Services				
Property and Facilities				
: Investment Properties	(197)	(77)	(85)	(8)
: Industrial Estates	(669)	(333)	(340)	(7)
: Property Portfolio/Regeneration	0	0	13	13
: Public Conveniences	221	110	112	2
: Culture and Heritage - Newhaven Fort	110	84	57	(27)
: Indoor Leisure – Wave	511	372	360	(12)
: Car Parking	(350)	(258)	(282)	(24)
: Office Accommodation	465	306	259	(47)
: Salaries, management, admin costs	384	193	212	19
Sub-total	475	397	306	(91)
Legal Services	417	211	248	37
Democratic Services				
: Democratic Representation	254	128	126	(2)
: Electoral Registration	79	40	39	(1)
: Elections – LDC	8	4	4	0
: Elections – other	0	0	0	0
: Local Land Charges	(90)	(45)	(23)	22
: Salaries, management, admin costs	366	184	181	(3)
Sub-total	617	311	327	16

	Full year budget £'000	End Quarter 2 profiled budget £'000	End Quarter 2 actual £'000	End Quarter 2 variance £'000
Human Resources				
: Recruitment and Training	146	73	55	(18)
: HR service	250	125	128	3
Sub-total	396	198	183	(15)
Information Technology	1,420	801	790	(11)
Finance				
: Treasury Management	58	41	41	0
: Salaries, management, admin costs	675	339	319	(20)
Sub-total	733	380	360	(20)
Audit, Fraud and Procurement	266	134	127	(7)
Corporate Services Total	4,324	2,432	2,341	(91)
Corporate Strategy and Programmes				
: Corporate Management	160	80	146	66
: Organisational Development	120	60	70	10
: Salaries, management, admin costs	560	283	200	(83)
Corporate Strategy and Programmes total	840	423	416	(7)
Corporate costs and income				
Contributions to the HRA re shared items	166	0	0	0
Interest payments and receipts	(180)	(90)	(73)	17
Town and Parish Council grant	201	101	101	0
Service Priority budget and savings target	(316)	(158)	0	158
Pensions accounting	215	108	96	(12)
Provision for Debt Repayment	330	0	0	0
	416	(39)	124	163
Netting off of Central Support Services recharges included above	(3,942)	0	(186)	(186)
Net cost of Service provision	11,792	8,143	7,475	(668)
Contributions to/from Reserves	805	0	0	0
Total cost to be Financed	12,597	8,143	7,475	(668)
Government Grants	(3,171)	(1,585)	(1,585)	0
Council Tax	(6,996)	0	0	0
Retained Business Rates	(2,430)	0	0	0
Total Financing	(12,597)	(1,585)	(1,585)	0