

**Agenda Item No:** 9.1 **Report No:** 123/17  
**Report Title:** Finance Update – Performance Quarter 1 - 2017/2018  
**Report To:** Cabinet **Date:** 27 September 2017  
**Cabinet Member:** Councillor Bill Giles  
**Ward(s) Affected:** All  
**Report By:** Alan Osborne, Deputy Chief Executive  
**Contact Officer(s)-**

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#### **Purpose of Report:**

To provide an update on the Council's financial performance in Quarter 1 2017/2018 and explain the impact on the current financial position.

#### **Officers Recommendation(s):**

##### **That Cabinet:**

- 1 Agrees the General Fund, Housing Revenue Account, Collection Fund and Treasury Management financial performance for the quarter ended 30 June 2017.
  - 2 Approves the updated 2017/2018 Capital Programme shown in Appendix 2.
  - 3 Agrees the write-off of irrecoverable debts noted in paragraph 8.
  - 4 Endorses the opinion of the Head of Audit and Counter Fraud on the internal control environment at the Council for the year ended 31 March 2017 noted in paragraph 9.
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#### **Reasons for Recommendations**

- 1 A report on financial performance following the end of each quarter 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 Financial Performance – General Fund Revenue budgets

- 3.1 Financial Performance at the end of Quarter 1 (June) 2017/2018 is shown below. Service details are shown at Appendix 1.

	Full year budget £'000	End Quarter 1 profiled budget £'000	End Quarter 1 actual £'000	End Quarter 1 variance £'000
<b>General Fund Summary</b>				
Director of Regeneration and Planning	361	100	(129)	(229)
Director of Service Delivery	8,189	1,986	1,780	(206)
Director of Tourism	663	276	233	(43)
Deputy Chief Executive	4,533	1,052	1,073	21
Corporate costs and income	705	108	252	144
Netting off of Central Support Services recharges included above	(3,303)	0	0	0
Net cost of Service provision	11,148	3,522	3,209	(313)
Contributions to/from Reserves	704	0	0	0
<b>Total cost to be Financed</b>	<b>11,852</b>	<b>3,522</b>	<b>3,209</b>	<b>(313)</b>

- 3.2 Items to note at this stage are:

- spending on staff (adjusted for payments in respect of agency staff providing cover for short-term absences) was £200,000 below budget in Quarter 1. This reflects increased sharing of staff resources with Eastbourne Borough Council, new management structures following completion of Phase 1 of the Joint Transformation Programme and vacancy management ahead of Phase 2.
- income generating activities are performing in line with or exceeding projections eg income from planning fees (£23,000) and trade waste collection (£17,000) higher than the profiled budget.
- spending on one-off projects funded from reserves, including repairs to property assets, is slow at the beginning of the year
- trends in housing benefit awarded and associated government subsidy, which can have a net impact on the net budget will be more identifiable later in the year.

- the timing of Phase 2 of the Joint Transformation Programme will result in the delivery of some of the 2017/2018 savings target (£300,000) being deferred into 2018/2019.

**3.3** The amount held in the General Fund Uncommitted Reserve, which acts as a buffer against negative movements in the budget, is projected to be £2.1m at 31 March 2018 before any adjustment needed in respect of the items listed in paragraph 3.2. The table below shows the projected movements in each Reserve in 2017/2018 and the balance at the end of the year.

	<b>Reserve</b>	<b>Balance at 1 April '17</b> £'000	<b>Contributions &amp; transfers</b> £'000	<b>Commitment</b> £'000	<b>Balance at 31 March '18</b> £'000
1	Strategic Change	(3,668)	(1,473)	3,535	(1,606)
2	Asset Maintenance	(2,591)	(283)	1,092	(1,782)
3	Vehicle and Equipment Replacement	(2,591)	(320)	1,388	(1,523)
4	Economic Regeneration	(274)	0	66	(208)
5	Revenue Grants and Contributions	(401)	0	267	(134)
6	Unallocated	(2,288)	226	0	(2,062)
7	<b>TOTAL</b>	<b>(11,813)</b>	<b>(1,850)</b>	<b>6,348</b>	<b>(7,315)</b>

## 4 Financial performance – Housing Revenue Account budgets

**4.1** Financial performance at the end of Quarter 1 is shown on the next page.

	<b>Full year budget</b> <b>£'000</b>	<b>End Quarter 1 profiled budget</b> <b>£'000</b>	<b>End Quarter 1 actual</b> <b>£'000</b>	<b>End Quarter 1 variance</b> <b>£'000</b>
<b>Housing Revenue Account Summary</b>				
Income:				
Rents	(15,224)	(3,806)	(3,806)	0
Service charges	(1,209)	(307)	(307)	0
Other income	(200)	(50)	0	50
	<b>(16,633)</b>	<b>(4,163)</b>	<b>(4,113)</b>	<b>50</b>
Expenditure:				
Supervision and Management	622	111	81	(30)
Special Services eg sheltered	1,047	230	153	(77)
Repairs	3,927	1,025	593	(432)
Capital financing, etc	7,852	(8)	0	8
Central support charges, etc	3,185	0	0	0
Net cost of Service provision	<b>16,633</b>	<b>1,358</b>	<b>827</b>	<b>(531)</b>
Contributions to/from Reserves	0	0	0	0
	<b>0</b>	<b>(2,805)</b>	<b>(3,286)</b>	<b>(481)</b>

- 4.2** Spending and income is generally in line with service budgets. Spending on responsive and void repairs is demand led and can be expected to fluctuate during the course of the year.

## **5 Financial Performance –Business Rates and Council Tax**

- 5.1** Business rates – the forecast for net collectable rates in 2017/2018 is £0.6m lower at the end of Quarter 1 compared with the projection made when setting the budget. However, the Council's share of retained business rates income (taking into account Government grants in respect of small business rates relief, growth within the Enterprise Zone, etc) is consistent with the budget of £2.96m. There are significant risks associated with retained business rates income, with more than 110 appeals against the 2012 rating list remaining to be settled by the Valuation Office Agency (VOA), and uncertainty over the number of appeals against the 2017 rating list received by the VOA.
- 5.2** Council tax – the forecast for net collectable council tax in 2017/2018 is consistent with the projection made when setting the budget.

## **6 Financial Performance – Capital Programme**

- 6.1** Appendix 2 gives details of the capital programme spending in Quarter 1, which is in line with expectations at this stage of the year. Payments of £0.9m have been made in Quarter 1.
- 6.2** At its meeting in September 2016, Cabinet approved the development of 2 or 3 affordable homes on an HRA site in Ashington Gardens, Peacehaven (Site A). This approval included a budget of £400,000 for the project, of which 30% would be financed from Right to Buy sale receipts retained under the Government's '1-4-1' replacement programme. Since September further feasibility work has been undertaken and there is capacity to increase the delivery to 6 affordable homes in total by building on this and a neighbouring site (Site B) in Ashington Gardens. Site B is a similar area of amenity land next to current Council HRA properties.
- 6.3** The current estimate of the cost of delivering 6 homes would be up to £1,200,000 (again 30% would be financed from retained Right to Buy receipts) although the aim is that the overall cost is expected to come below this figure as the project is aimed at utilising an established firm to deliver efficiencies through modular housing techniques. This variation in the capital programme is shown at Appendix 2 line 1.
- 6.4** There are two minor changes to the General Fund Capital Programme, with a total value of £4,500, in respect of Malling Recreation Ground Skateboard Park and Coastal Defences. Payments of Community Infrastructure Levy receipts made to Town and Parish councils in accordance with the approved scheme are also included for completeness.
- 6.5** In March 2017 Cabinet agreed to allocate in the capital programme up to £20m in total as loan funding for the delivery of new mixed tenure homes by Lewes Housing Investment Company and a Joint Housing Investment

Partnership vehicle with Eastbourne Borough Council. Following the incorporation of the company and partnership in June/July 2017, the capital programme has been updated (Appendix 2 line 11) in line with Cabinet's previous decision.

## 7 Financial Performance - Treasury Management

- 7.1 Treasury Management investment performance at the end of Quarter 1 is shown in the 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 2017/2018.

Type of investment	Average return Q4 2016/17 %	Average return Q1 2017/18 %
Fixed term deposits	0.31	0.33
Treasury Bills	0.42	n/a
Bonds, certificates of deposit, etc	0.56	0.55
Money Market Funds	0.36	0.32
Interest Bearing Accounts	0.15	0.15
<b>Total investments</b>	<b>0.45</b>	<b>0.44</b>
<b>7-day LIBID benchmark</b>	<b>0.21</b>	<b>0.11</b>

- 7.2 No new long term borrowing was undertaken in the period, and the total of the portfolio remains at £56.6m. 4 temporary borrowing arrangements were entered into in Quarter 1 to cover cashflow requirements arising from property acquisitions pending the receipt of external contributions. The maximum amount of temporary borrowing at any one time was £7m.

## 8 Debts written off

- 8.1 Financial Procedure Rules authorise the Deputy Chief Executive to write-off a debt which is below £10,000 or where the amount involved is claimable in bankruptcy or liquidation proceedings. Cabinet or Council approval is required to write off a single debt in excess of £10,000 or £50,000 respectively. It is important to ensure that only those debts for which a realistic prospect of recovery exists remain active, and the Council's external auditor can be expected to review this as part of the statutory audit of accounts. There is nothing to prevent the Council from reinstating a debt, following its write-off, if new information comes to light about the debtor's circumstances.
- 8.2 In Quarter 1, the following amounts have been written off in total when action to recover individual debts has proved to be unsuccessful or uneconomic to pursue. No individual case was in excess of £10,000.

	Total value £
Sundry debtors	0
Housing Benefit overpayments	1,180
Housing Rents	8,720
Council Tax	2,610
Business Rates	24,420
<b>Total</b>	<b>36,930</b>

## 9 Opinion of the Head of Audit and Counter Fraud on the Internal Control Environment at Lewes District Council for the year ended 31 March 2017

As part of the Council's management of risk and key controls, the Head of Audit and Counter Fraud 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."*

## 10 Audit of 2016/2017 Accounts

**10.1** As reported to Cabinet in July 2017, 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 26 September. In an 'audit closing' meeting with officers BDO indicated that they anticipate issuing:

- an 'unmodified' opinion on the financial statements for the year ended 31 March 2017. This means that BDO consider that the Council's accounts present fairly its financial activity in the year and position at 31 March 2017.
- an 'unmodified' opinion on the Council's use of resources for the year ended 31 March 2017. This means that BDO consider that in all significant respects the Council had proper arrangements to ensure that it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

- 10.2** 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 2016/2017, 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.

**11 Financial Appraisal** - referred to under individual items above.

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

**13 Risk Management Implications**

- 13.1** 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.

- 13.2** An additional risk 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.

**14 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>

**Appendices:**

Appendix 1 – Financial performance Quarter 1 by service

Appendix 2 – Capital Programme 2017/2018

## Financial Performance Quarter 1 – Service details

	Full year budget £'000	End Quarter 1 profiled budget £'000	End Quarter 1 actual £'000	End Quarter 1 variance £'000
<b>Director of Regeneration and Planning</b>				
<b>Assets and Property</b>				
: Investment Properties	(518)	(147)	(158)	(11)
: Industrial Estates	(669)	(168)	(170)	(2)
: Public Conveniences	222	41	31	(10)
: Car Parking	(409)	(203)	(223)	(20)
: Office Accommodation	448	74	37	(37)
: Solar Panel installations	(154)	5	13	8
: Depots	116	16	18	2
Sub-total	(964)	(382)	(452)	(70)
<b>Planning</b>				
: Development Control	(847)	(96)	(122)	(26)
: Planning Policy	106	26	9	(17)
: Planning Policy - Conservation	0	0	0	0
Sub-total	(741)	(70)	(113)	(43)
<b>Regeneration</b>				
: Economic Development	323	103	72	(31)
: Newhaven Enterprise Centre	(160)	(24)	(28)	(4)
: Property Portfolio/Regeneration	0	0	12	12
: Street Naming	7	2	0	(2)
Sub-total	170	81	56	(25)
<b>Salaries and Administration</b>				
: Corporate Property	431	106	107	1
: Strategic Policy	457	113	64	(49)
: Planning	775	194	151	(43)
: Regeneration	233	58	58	0
Sub-total	1,896	471	380	(91)
Director total	361	100	(129)	(229)
<b>Director of Service Delivery</b>				
<b>Community</b>				
: Building Control	(317)	(79)	(71)	8
: Regulatory Services - Travellers sites	18	18	17	(1)
: Community Safety	20	5	5	0
: Voluntary Sector Support	219	106	48	(58)
: Town and Parish Council grant	171	86	85	(1)
Sub-total	111	136	84	(52)



	Full year budget £'000	End Quarter 1 profiled budget £'000	End Quarter 1 actual £'000	End Quarter 1 variance £'000
<b>Environmental Health and Licensing</b>				
: Regulatory Services - Licensing	(186)	(47)	(41)	6
: Regulatory Services - Public Health	36	13	12	(1)
: Regulatory Services - Food Safety	3	1	1	0
: Regulatory Services - Environmental Protection	21	10	4	(6)
: Regulatory Services - Health and Safety	11	(1)	0	1
: Regulatory Services - Port Health	2	0	1	1
: Regulatory Services - Animal and Pest Control	30	8	6	(2)
: Coast Protection	15	6	3	(3)
: Flood Defence	145	70	0	(70)
: Cemeteries	(31)	(16)	(14)	2
Sub-total	46	44	(28)	(72)
<b>Housing (General Fund)</b>				
: Homelessness	99	63	55	(8)
: Housing Strategy, Enabling and Advice	60	15	(2)	(17)
: Private Sector Housing Renewal	1	0	(2)	(2)
: Contributions to the HRA re shared items	159	0	0	0
: Housing Benefit Administration	81	20	(40)	(60)
: Housing Benefit	(462)	(180)	(180)	0
Sub-total	(62)	(82)	(169)	(87)
<b>Local Taxation</b>				
: Council Tax Support Scheme Mgt	15	16	13	(3)
: Local Tax Collection - Council Tax	(52)	31	25	(6)
: Local Tax Collection - Business Rates	(133)	(1)	4	5
Sub-total	(170)	46	42	(4)
<b>Parks and Playing Fields</b>				
: Open Spaces	365	81	66	(15)
: Sports and Playing Fields	247	40	34	(6)
Sub-total	612	121	100	(21)
<b>Waste and Recycling</b>				
: Recycling	835	198	287	89
: Waste Collection	907	50	(6)	(56)
: Street Cleansing	628	169	159	(10)
: Vehicle Workshop	(195)	(50)	6	56
Sub-total	2,175	367	446	79
<b>Salaries and Administration</b>				
: Customer Services - Revenues and Benefits	1,256	310	287	(23)
: Housing and Environmental Health	2,621	649	638	(11)
: Hub, Mobile Team and Parks	1,240	305	301	(4)
: Waste and Recycling	360	90	79	(11)
Sub-total	5,477	1,354	1,305	(49)
Director total	8,189	1,986	1,780	(206)

	Full year budget £'000	End Quarter 1 profiled budget £'000	End Quarter 1 actual £'000	End Quarter 1 variance £'000
<b>Director of Tourism</b>				
<b>Tourism</b>				
: Tourism	147	49	47	(2)
: Culture and Heritage: Arts Development	7	2	1	(1)
Sub-total	154	51	48	(3)
<b>Wave Leisure</b>				
: Culture and Heritage - Newhaven Fort	103	51	53	2
: Indoor Leisure - Wave	406	174	132	(42)
Sub-total	509	225	185	(40)
Director total	663	276	233	(43)
<b>Deputy Chief Executive</b>				
<b>Corporate Services</b>				
: Emergency Planning	24	6	0	(6)
: Organisational Development	120	30	148	118
: Treasury Management	55	8	11	3
: Local Land Charges	(86)	(35)	(39)	(4)
Sub-total	113	9	120	111
<b>Democratic Services</b>				
: Democratic Representation	270	67	65	(2)
: Electoral Registration	77	19	13	(6)
: Elections - LDC	8	2	2	0
: Elections - other	0	0	0	0
Sub-total	355	88	80	(8)
<b>Central and Support Services</b>				
: Business Strategy and Performance	554	138	87	(51)
: Legal Services	423	46	97	51
: Finance	650	163	164	1
: Audit and Counter Fraud	266	66	52	(14)
: Democratic Services	368	91	93	2
: Information Technology	1,420	418	360	(58)
: HR service	254	0	1	1
: Recruitment and Training	130	33	19	(14)
Sub-total	4,065	955	873	(82)
Director Total	4,533	1,052	1,073	21
<b>Corporate costs</b>				
: Corporate Management	180	45	29	(16)
: Corporate Management Team	501	124	95	(29)
: Interest payments and receipts	(180)	(15)	41	56
: Revenue financing of capital expenditure	210	0	0	0
: Pensions accounting	229	57	87	30
: Provision for Debt Repayment	177	0	0	0

	Full year budget £'000	End Quarter 1 profiled budget £'000	End Quarter 1 actual £'000	End Quarter 1 variance £'000
: Service Priority budget and savings target	(412)	(103)	0	103
	705	108	252	144
Netting off of Central Support Services recharges included above	(3,303)	0	0	0
Net cost of Service provision	11,148	3,574	3,209	(313)
Contributions to/from Reserves	704	0	0	0
Total cost to be Financed	<b>11,852</b>	<b>3,522</b>	<b>3,209</b>	<b>(313)</b>
<b>Financing</b>				
: Council Tax	(7,356)	0	0	0
: Retained Business Rates	(2,367)	0	0	0
: Government Grants	(2,129)	(532)	(532)	0
Total Financing	<b>(11,852)</b>	<b>(532)</b>	<b>(532)</b>	<b>0</b>