

Agenda Item No:

Report No:

Report Title: Finance Update

Report To: Cabinet

Date: 2 June 2014

Cabinet Member: Councillor Andy Smith

Ward(s) Affected: All

**Report By: Director of Finance
John Magness**

Contact Officer(s)-

**Name(s): John Magness
Post Title(s): Director
E-mail(s): john.magness@lewes.gov.uk
Tel No(s): 01273 484468**

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 Notes that 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. the General Fund working balance at 31 March 2014 is set at £2,415,600 (the amount anticipated when setting the 2014/2015 budget).
 - b. any General Fund surplus in 2014/2015 not required to support the working balance is transferred into the Change Management element of the Change Management and Spending Power Reserve.
 - c. The Interest Equalisation element of the REAM Reserve is transferred into the Change Management element of the Change Management and Spending Power Reserve.
- 3 Notes the remainder of the report

That Cabinet recommends to Council:

- 4 That a Business Rates Equalisation Reserve be established for the purpose of equalising balances over financial years, between the General Fund and the Collection Fund statutory accounts.

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 Appendix 1 gives details of the Treasury Management activity between 22 March 2014 and 30 April 2014. All activity was consistent with the Council's approved Treasury and Investment Strategies for 2013/2014 and 2014/2015.
- 3.2 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 Service Priorities Budget

The 2014/2015 General Fund budget includes £390,000 as funding for Service Priorities as identified during the course of the year. All expenditure is to be non-recurring. The following sums have been allocated to date and confirmed by the Nexus Board:

Priority	£
Civic Platform Project	5,000
Intercultural Cities Project	4,105
Audio Podcast Project	200
Total	9,305

5 Closure of 2013/2014 Accounts

- 5.1 At the time of writing this report, work to close the 2013/2014 accounts was nearing completion. A detailed report on the final General Fund, Housing Revenue Account and Capital Programme financial outturn for the year will be made to the next meeting of the Cabinet.
- 5.2 The General Fund year end position for 2013/2014 remains sufficiently robust to support the Medium Term Financial Strategy target of no tax rises through to 2015/2016. In the light of this, it is recommended that the General Fund working balance at 31 March 2014 is set at £2,415,600 (the amount anticipated when setting the 2014/2015 budget). It is also

recommended that any General Fund surplus in 2013/2014 not required to support the working balance is transferred into the Change Management element of the Change Management and Spending Power Reserve.

- 5.3** The Revenue Equalisation and Asset Maintenance (REAM) Reserve includes an element earmarked for 'Interest Equalisation' ie to provide a buffer for the General Fund against reductions in returns from the Council's Treasury Management activity. Now that the Council has sold its holding in LBI, removing the uncertainty of its future recovery, it is no longer a priority to retain this balance. It is recommended that the balance (projected to be £0.29m at 31 March 2015) is now earmarked as funding to support the cost of the Council's Change Management Programme which includes the payment for capitalised pension strain costs when they arise.
- 5.4** Following the introduction of the Business Rates Retention system, the amount that the Council sets aside to fund the loss of income which arises if valuation appeals made by businesses are successful, results in a cost to the General Fund.
- 5.4.1** In closing the accounts, a number of different approaches are available for projecting the impact of appeals that businesses have made in 2013/2014 or previous years. Research is currently being undertaken so that the approach taken in finalising the 2013/2014 accounts is both consistent with that used by other local authorities, provides the best estimate of the potential liability, and at the same time ensures that the General Fund is not unduly disadvantaged.
- 5.4.2** In closing down the first year's retained business rates accounts we have identified timing differences in settling up the balances between the General Fund and the Collection Fund. It is likely that the Collection Fund will have a debit balance of £308,000 (LDC share) in 2013/2014 and the General Fund will have a credit balance of £371,000 (attributed to retained business rates.) Part of the reason for this difference is the mechanism by which the Government reimburses the cost of its Autumn Statement policies affecting business rates.
- 5.4.3** The next opportunity to adjust the 2013/2014 Collection Fund debit balance is when the 2015/2016 business rates estimates are submitted to the Government in January 2015. Transferring the General Fund balance (attributed from business rates) into a new "Business Rates Equalisation Reserve" will help manage balances over time, between the General Fund and the Collection Fund statutory accounts.

6 HRA Borrowing Programme 2015/2016 and 2016/2017

- 6.1** In the Autumn Statement of December 2013, the Government announced that it would raise the 'borrowing cap' on local authority Housing Revenue Account (HRA) borrowing by £300m and that the funding would be available through a competitive bidding programme involving the Local Enterprise Partnerships.
- 6.2** In April 2014, the Department for Communities and Local Government (DCLG) published their bidding document, 'Local Growth Fund – Housing Revenue Account Borrowing Programme (2015/16 and

2016/17)'. It explains that the Government wishes to support schemes that maximise the following sources of funding:

- bringing forward own land for scheme development;
- receipts generated through the disposal of existing stock; in particular, high value stock;
- other sources of cross-subsidy, including surpluses from existing stock, activities and income;
- other sources of funding or means of reducing the costs, such as free or discounted public land (in addition to local authority land) and other contributions, such as from the New Homes Bonus or Section 106 commuted sums.

Local authorities that are able to deliver the most additional affordable housing units, either directly or in partnership with others, and are therefore able to offer good value for money, are more likely to be successful.

6.3 The Government expects all bids to be consistent with the Local Enterprise Partnership's Strategic Economic Plan and is offering local authorities two bidding options:

- making a firm, per scheme, bid for borrowing to support capital expenditure in either of the two financial years or across them
- submitting an expression of interest with an outline of the estimated borrowing required, per scheme, in 2016/2017, with a firm bid to be submitted at a later date, depending on the outcomes of the initial bidding round

6.4 At the time of writing this report, options for this Council's bid are being developed. The deadline for submitting a bid is 16 June 2014. The Leader of the Council and Cabinet Member for Corporate Services will authorise the bid prior to its submission.

7 Financial Appraisal - referred to under individual items above.

8 Sustainability Implications

I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a budget monitoring report.

9 Legal Implications

There are no legal implications arising from this report.

10 Risk Management Implications

10.1 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.

- 10.2** 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.

11 Equality Screening

The Equality Screening process for this Report took place in April 2014. No potential negative impacts were identified.

12 Background Papers

Department for Communities and Local Government (DCLG) published their bidding document, 'Local Growth Fund – Housing Revenue Account Borrowing Programme (2015/16 and 2016/17)

<https://www.gov.uk/government/publications/local-growth-fund-housing-revenue-account-borrowing-programme-2015-to-2016-and-2016-to-2017>

Appendix

Appendix 1 - Statement of Investment Activity: 22 March to 30 April 2014

**Statement of Treasury Management Activity:
22 March to 30 April 2014**

1. Fixed Term Deposits

Loan	Counterparty	Principal £	From	To	Capital O/s £	Capital Repaid £	Interest Rate %
Current investments at 30 April 2014							
216013	Conwy County Borough Council	2,000,000	29 Nov 13	30 May 14	2,000,000		0.450
216213	Nationwide Building Society	1,000,000	07 Nov 13	07 May 14	1,000,000		0.530
218314	Nationwide Building Society	1,000,000	28 Apr 14	30 Jun 14	1,000,000		0.440
	Total				<u>4,000,000</u>		
Investments that have matured since last report							
217213	Nationwide Building Society	1,000,000	24 Jan 14	24 Apr 14		1,000,000	0.470
217713	Nationwide Building Society	1,000,000	28 Mar 14	28 Apr 14		1,000,000	0.400
217814	Debt Management Office	1,750,000	01 Apr 14	04 Apr 14		1,750,000	0.250
217914	Debt Management Office	5,000,000	01 Apr 14	09 Apr 14		5,000,000	0.250
218014	Debt Management Office	1,500,000	15 Apr 14	17 Apr 14		1,500,000	0.250
218114	Debt Management Office	1,500,000	15 Apr 14	25 Apr 14		1,500,000	0.250
218214	Debt Management Office	1,000,000	25 Apr 14	30 Apr 14		1,000,000	0.250
	Total					<u>12,750,000</u>	

2. Money Market Funds

	Average held £'000	Average Net return %
Goldman Sachs Sterling Liquid Reserves Fund	422	0.51
Deutsche Managed Sterling Fund	650	0.51

3. Deposit Accounts

	Average held £'000	Interest rate %
Co-operative Bank Public Sector Reserve Acc	15	Minimal
Santander UK plc Business Reserve Account	2,799	0.40
Bank of Scotland Corporate Deposit Account	2,900	0.40

4. Treasury Bills

	Purchased	£'000	Return %
Held at 30 April 2014 - £Nil			

5. Borrowing

No new long term borrowing undertaken in the period.
Long-term loans outstanding £56.6m.