

**Agenda Item No:**

**Report No:**

**Report Title: Finance Update**

**Report To: Cabinet**

**Date: 7 July 2014**

**Cabinet Member: Councillor Andy Smith**

**Ward(s) Affected: All**

**Report By: Director of Finance**

**Contact Officer(s)-**

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

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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** Notes that Treasury Management activity since the last report to Cabinet has been consistent with the Council's approved Treasury and Investment Strategy.
- 2** Notes the final position on the General Fund, Housing Revenue Account and Collection Fund accounts for 2013/2014.
- 3** Confirms the allocation of Reserves shown in Appendix 3.
- 4** Notes the Capital Programme outturn for 2013/2014 as shown in Appendix 6.
- 5** Approves the updated 2014/2015 Capital Programme set out in Appendix 7.
- 6** Notes the outcome of the procurement of Banking arrangements as explained in paragraph 5, confirming the appointment of a new Bank.
- 7** Notes the remainder of the report.

**Recommends to Council**

That the Annual Treasury Management Report for 2013/2014 be approved.

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- 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 1 May and 18 June 2014. All activity was consistent with the Council's approved Treasury and Investment Strategies for 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.
- 3.3 Annual Treasury Management Report
  - 3.3.1 Treasury management in local government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. The Council has adopted the 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.
  - 3.3.2 The Annual Report for 2013/2014 is attached at Appendix 2. The Audit and Standards Committee considered the report at its meeting on 23 June 2014, 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 2013/2014 Accounts

- 4.1 The accounts have been closed using the framework approved by Cabinet on 2 June 2014. As previously reported, claims had been made against local authorities by personal search companies for the refund of fees paid for Property Searches, on the grounds that fees set by authorities are incompatible with the Environmental Information Regulations 2004. Settlement was reached with one company during the course of 2013/2014 and it has also been necessary to provide for

another settlement when closing the accounts. The cost of the provision has been met from the contingency and service risk elements of the working balance held at 31 March 2014.

**4.2** The Director of Finance approved the draft Statement of Accounts 2013/2014 on 30 June 2014. The Accounts have been released to the Council's external auditor BDO and are available to the public for inspection. The following paragraphs summarise the key elements of the Council's financial performance for the year.

### **4.3 General Fund**

**4.3.1** The General Fund year end position for 2013/2014 is in line with the budget and remains sufficiently robust to support the Medium Term Financial Strategy.

**4.3.2** The following table gives a high level summary of the changes during the year. [Increases in income or reductions in expenditure compared with the budget are shown as ( ) ].

	£m	£m
1	<b>Budgeted Net Cost of Services 2013/2014</b>	<b>12.568</b>
2	Less budgeted net retained income from Business Rates	(2.109)
3	Sub-total	10.459
4	Section 31 grant income from Business Rates, transferred to Business Rates Equalisation Reserve to offset Collection fund	(0.371)
5	Budget for Service Priorities released in support of the Working Balance	(0.253)
6	One-off income adjustment resulting from cessation of the national Council Tax Benefit arrangements/introduction of Local Council Tax Support Scheme	(0.092)
7	One-off grants and contributions received in year, transferred to Reserves pending use	(0.261)
8	Budget provision for timing of delivery of in-year efficiency savings not required	(0.175)
9	Saving in employee costs through vacancy management.	(0.099)
10	Increased contribution from HRA in recognition of such corporate expenditure as the Agile Working Project.	(0.049)
11	Expenditure on Trade Waste disposal charges lower than budgeted	(0.077)
12	Net impact of Housing Benefit payments/subsidy receivable from DWP	(0.069)
13	Cost of staff severance arrangements which will deliver future savings targets	0.456
14	Approved revenue spend on IT modernisation programme funded from REAM Reserve	0.393
15	Approved revenue spend on Coastal Communities Grant bid funded from Strategic Priority Fund	0.056
16	Income streams (eg car parking) falling short of target	0.226
17	Provision for refund of Property Search fees	0.075
18	Miscellaneous net variations	(0.022)
19	Sub total for reduction in the cost of services	(0.261)
20	<b>Final Net Cost of Services for 2013/2014 before transfer to Reserves</b>	<b>10.197</b>

**4.3.3** The reduction in the cost of services shown in line 19 above, £0.261m, has been used to support a net additional contribution to Reserves of £0.116m and to reduce the call on the working balance by £0.145m compared with the budget.

## **4.4 Reserves and the General Fund Balance**

**4.4.1** The total movement and year end position on each of the General Fund Reserves is attached at Appendix 3. This incorporates transfers between reserves agreed by Cabinet in June 2014. In total, £10.014m was held in the General Fund at 31 March 2014 (with a further £1.424m held in the HRA Housing Repairs Reserve). Appendix 3 also shows the projected balance held by each of the Reserves at 31 March 2015, after taking into account approved contributions to and the use of reserves in 2014/2015.

**4.4.2** Budget Carry Forward Reserve:

- Under the Council's financial management arrangements, Service Managers are able to request that unspent budgets are carried forward at the year end provided that each budget is then to be used for its originally intended purpose.
- The Chief Executive and Director of Finance have approved the carry forward of four budgets with a total value of £0.074m at 31 March 2014.

**4.4.3** Change Management and Spending Power Reserve

- Appendix 4 sets out the movements in this Reserve. At its last meeting, Cabinet agreed that any General Fund surplus not required to support the working balance, as well as the Interest Equalisation element of the REAM Reserve should be transferred into this Reserve when closing the accounts. These transfers are incorporated in the Unallocated Balance, £0.456m at 31 March 2014 (line 16).
- As previously agreed, the Reserve has been used to fund the one-off costs to the General Fund of staff severance payments, reducing the Unallocated Balance by £0.456m (line 16).
- The Reserve had included £0.483m (line 9) to support the cost of implementing energy savings initiatives in the Council's office buildings. The office rationalisation programme, together with measures taken at Southover House as part of the overall refurbishment work (eg the installation of low energy lighting) mean that this allocation is no longer required, and it has been released back into the Unallocated Balance.

**4.4.4** Revenue Equalisation and Asset Maintenance (REAM) Reserve

- Appendix 5 sets out the movements in this Reserve. For accounting purposes it includes (line 22) the General Fund share of the retained Business Rates in 2013/2014 that we received as a section 31 grant following the Chancellors Autumn 2013 announcement to double small business rates relief; pending Council's formal approval of a new Reserve for this purpose.
- As agreed, the allocation held for Interest Equalisation (line 16) has been transferred to the Change Management and Capacity Reserve.

- The Government grant received to redress the impact of Severe Weather is held in the Reserve (line 21) pending its use.

**4.4.5** The General Fund balance stands at £2.341m. This puts the Council in a strong position to deal with the transformational change expected over the next few years.

#### **4.5 Housing Revenue Account (HRA)**

**4.5.1** The HRA outturn for 2013/2014 produced a net deficit of £0.739m, compared with a net deficit of £0.651m projected in February 2014 at the time of setting the 2014/2015 budget. A summary of the main variations is shown below.

	£m
1 Reduction in rent income	0.293
2 Reduction in service charge income	0.056
3 Increased spend on Repairs and Maintenance	0.174
4 Reduced spend on 'Special Services' eg utility costs in communal areas	(0.167)
5 Reduction in funding requirement for Capital Programme	(0.945)
6 Increase in contribution to Major Repairs Reserve	0.674
7 Miscellaneous net variations	0.003
<b>8 Total variation (increase in net deficit)</b>	<b>0.088</b>

**4.5.2** The reduction in rent and service charge income (line 2) is the result of a technical accounting requirement in respect of the treatment of income in the last week of the financial year. A compensating adjustment is made to the income receivable for 2014/2015.

**4.5.3** Variations in the HRA capital programme are explained elsewhere in this report. As a result of these variations, a reduced level of funding is required from the revenue account (line 5).

**4.5.4** 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. An updated valuation of the housing stock has led to an increase in the amount which is to be set aside each year for depreciation and held in the Major Repairs Reserve to fund future capital expenditure.

**4.5.5** The net deficit generated in 2013/2014 is funded from the Housing Revenue Account balance, £2.728m at 31 March 2014. The components of the balance are as follows:

		£m
1	General Working Balance	0.898
2	Capital Expenditure	0.373
3	Budgets Carried Forward	0.084
4	Special Projects	0.907
5	Agile Working IT Project	0.059
6	Service Charges	0.132
7	Self Insurance	0.275
8	<b>Total</b>	<b><u>2.728</u></b>

**4.5.6** On 23 May 2014, the Government published guidance to be followed by local housing authorities when setting rents for 2015/2016 and subsequent years. In 2013, the Government had consulted on changes to rent setting and, as expected, has decided to bring to an end the current system whereby individual rents have been steadily moving to a 'formula rent' level over a number of years. From 1 April 2015, the guidance is that increases should be restricted to the annual change in Consumer Price Inflation plus 1%. The Council had opposed this change of approach.

**4.5.7** Officers are currently engaging with TOLD (the tenants' representative group) to consider the options which are available for rent setting, and impact on the HRA, in the lead in to the 2015/2016 budget round.

#### **4.6 The Collection Fund Balance**

**4.6.1** The actual balance on the Council Tax Collection Fund at 31 March 2014 was a surplus of £0.678m, compared with a surplus of £0.401m which had been estimated at the time of setting the Council Tax for 2014/2015. This variance, at just under 0.5% of income, is well within the acceptable level of tolerance given that the total annual amount of Council Tax due exceeded £57.2m. The earliest that this Collection Fund balance can be distributed is during 2015/2016. 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 2014/2015 Council Tax amounts. Approximately 16% of the surplus will be returned to this Council.

**4.6.2** The actual balance on the Business Rates Collection Fund at 31 March 2014 was a deficit of £0.771m. The debit balance arises for technical reasons as explained in the Finance Update report to the last meeting of the Cabinet. The Council's share, £0.308m, will be matched with the credit balance in the Business Rates Equalisation Reserve in 2015/2016.

#### **4.7 Capital Programme 2013/2014 and 2014/2015**

**4.7.1** 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.

**4.7.2** The 2013/2014 detailed Capital Programme outturn position is shown at Appendix 6 and summarised below:



	<b>£'000</b>
Original allocation for year	6,152
Variations agreed in year including allocations c/fwd from 2012/13	9,342
Revised allocation for the 2013/2014 year and beyond	15,494
Further variations (explained in paragraph x.x)	(1,536)
Final allocation	13,958
Less: Actual spend in 2013/14	10,504
Remaining allocations to be used in 2014/15	<u>3,454</u>

**4.7.3** In some cases, further variations to the allocations previously agreed during 2013/2014 are necessary. Details of the most significant changes noted on Appendix 6 are as follows:

Lines 1 to 30	HRA Capital Programme. There are a number of amendments to the individual elements of the programme which has been managed as a whole. The total cost of the programme has reduced by £256,650 as a result of a technical change in accounting treatment – salary costs are no longer attributed to individual projects within the capital programme but are now simply accounted for in the HRA as support to the capital programme.
Lines 31 to 40	Additional spending on Emergency Repair Grants has been met by a minor transfer from the Disabled Facilities Grants allocation and the deletion of the residual allocation for Best Project Fees
Lines 68 to 69	Coastal Defence Works. The work at Unit 13B Peacehaven Groynes 1 to 17 has been completed and no further payments are due . Work at Groynes 18 to 19 was delayed by the contractor, and final payments of £8,711 are expected to be made in 2014/2015.
Line 72	As previously reported, the Council has utilised £33,000 Air Quality Grant funding from DEFRA to part fund an ESCC scheme to improve traffic flows in the centre of Lewes.
Line 78	The allocation of £25,000 to improve fire protection measures at the former IT suite at 4 Fisher St is no longer required following the transfer of the facility to Southover House
Lines 81 to 87	Agile Working Project – IT elements. This major programme of updating the Council's IT and communications network and equipment is being managed holistically: although spending against individual components of the programme has varied, total spending remains within budget.
Lines 88 to 92	Agile Working Project – Building elements. The major refurbishment of Southover House has been completed with £45,420 contingency remaining unused and carried forward into 2014/2015 as potential funding for enhancements to team zones, etc as a result of organisational changes and to support IT changes.
Line 93	Planning Archive Records Scanning – for technical accounting reasons, the funding for this project, which is progressing, has been transferred to the Revenue Budget
Line 104	As noted in paragraph 4.4.3 above, a specific allocation of funding for Energy Savings Efficiencies in the Council's office buildings is no longer required.
Line	Major grant-funded investment in the refuse collection fleet took

105	place in 2012/2013 on the introduction of food waste collection. A review of recycling arrangements will commence shortly. Consequently, vehicle replacements envisaged when the programme was original drafted have not been required. Funding for future replacements is retained within an earmarked Reserve.
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**4.7.4** The Capital Programme for 2014/2015 (Appendix 7) has been updated to include the amounts brought forward from 2013/2014. Other recommended variations are as follows:

Line 36	The replacement of the sports hall roof at Lewes Leisure Centre has been agreed previously by Cabinet, and the Capital Programme is now updated accordingly.
Lines 51 and 52	As previously agreed, a property swap is to take place with the Council acquiring The Maltings and associated car park in Lewes from East Sussex County Council in exchange for Southover Grange. For technical reasons, it is necessary to treat the swap as two separate transactions: the Capital Programme is therefore updated to show the cost of The Maltings including Stamp Duty Land Tax which will be applicable to the acquisition, to be financed from capital receipts generated from the disposal of Southover Grange.
Line 58	The Capital Programme is updated to include the gross cost of the Electric Vehicle Charging Points installation programme, which is fully funded from Government grant as explained in a previous report to Cabinet.
Lines 59 and 60	Following recent severe weather, it has been necessary to replace a number of windows at Newhaven Fort. The cost of this work is to be funded from the Newhaven Fort Refurbishment Reserve.
Line 63	The Capital Programme is updated to incorporate the gross cost of the Newhaven Growth Quarter Project, £2.225m. As previously reported, the majority of the cost is funded by the Government's Coastal Communities Fund (£1.9m), supplemented by a contribution of £0.150 m from ESCC and the remaining amount (£0.175m) from the Strategic Priority Fund.

## **5 Banking Arrangements**

- 5.1** At its meeting on 6 January 2014, Cabinet agreed that the Council should join with a procurement exercise with other East Sussex District and Borough Councils to appoint a common bank. This followed the decision of the Cooperative Bank to withdraw from the local authority market sector.
- 5.2** The East Sussex Procurement Hub based at Wealden District Council managed the tender exercise, taking into account the requirements of each authority, including Crawley Borough Council which also chose to participate. At the time of writing this report, all tenders had been evaluated and the outcome was soon to be notified to the competing banks, triggering the required 10 day 'standstill' period.



**5.3** It is expected that a verbal update will be made at the Cabinet meeting, to confirm the appointment of the new bank. The transfer of this Council's banking arrangements are anticipated to take place through summer/autumn 2014.

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

## **7 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.

## **8 Legal Implications**

There are no legal implications arising from this report.

## **9 Risk Management Implications**

**9.1** 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.

**9.2** 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.

## **10 Equality Screening**

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

## **11 Background Papers**

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

**Appendices** Appendix 1 - Statement of Investment Activity: 1 May to 18 June 2014  
Appendix 2 – Annual Treasury Management Report 2013/2014  
Appendix 3 – Statement of Reserves and use to 31 March 2015  
Appendix 4 – Change Management and Spending Power Reserve  
Appendix 5 – Revenue Equalisation and Asset Maintenance Reserve  
Appendix 6 – Capital Programme 2013/2014  
Appendix 7 – Capital Programme 2014/2015

**Statement of Treasury Management Activity:  
1 May to 18 June 2014**

**1. Fixed Term Deposits**

Loan	Counterparty	Principal £	From	To	Capital O/s £	Capital Repaid £	Interest Rate %
<b>Current investments at 18 June 2014</b>							
218314	Nationwide Building Society	1,000,000	28 Apr 14	30 Jun 14	1,000,000		0.440
218814	Barclays Bank plc	1,000,000	7 May 14	7 Jul 14	1,000,000		0.410
218914	Barclays Bank plc	1,000,000	7 May 14	7 Aug 14	1,000,000		0.440
219414	Nationwide Building Society	1,000,000	30 May 14	29 Aug 14	1,000,000		0.480
219814	Debt Management Office	1,000,000	5 Jun 14	25 Jun 14	1,000,000		0.250
219914	Debt Management Office	1,500,000	11 Jun 14	23 Jun 14	1,500,000		0.250
220014	Barclays Bank plc	1,000,000	12 Jun 14	13 Oct 14	1,000,000		0.490
220114	Debt Management Office	1,750,000	16 Jun 14	23 Jun 14	1,750,000		0.250
	<b>Total</b>				<u>9,250,000</u>		
<b>Investments that have matured since last report</b>							
216213	Nationwide Building Society	1,000,000	07 Nov 13	07 May 14		1,000,000	0.530
218414	Debt Management Office	2,000,000	1 May 14	7 May 14		2,000,000	0.250
218514	Debt Management Office	2,000,000	1 May 14	8 May 14		2,000,000	0.250
218614	Debt Management Office	2,250,000	1 May 14	9 May 14		2,250,000	0.250
219014	Debt Management Office	2,500,000	8 May 14	12 May 14		2,500,000	0.250
219114	Debt Management Office	3,000,000	9 May 14	19 May 14		3,000,000	0.250
219214	Debt Management Office	2,500,000	12 May 14	22 May 14		2,500,000	0.250
219314	Debt Management Office	2,600,000	15 May 14	22 May 14		2,600,000	0.250
216013	Conwy County Borough Council	2,000,000	29 Nov 13	30 May 14		2,000,000	0.450
218714	Barclays Bank Plc	1,000,000	7 May 14	9 Jun 14		1,000,000	0.380
219614	Debt Management Office	2,500,000	2 Jun 14	10 Jun 14		2,500,000	0.250
219714	Debt Management Office	1,000,000	2 Jun 14	12 Jun 14		1,000,000	0.250
219514	Debt Management Office	2,500,000	2 Jun 14	19 Jun 14		2,500,000	0.250
	<b>Total</b>					<u>26,850,000</u>	

**2. Money Market Funds**

	Average held £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	958	0.52
Deutsche Managed Sterling Fund	908	0.52

**3. Deposit Accounts**

	Average held £'000	Interest rate %
Co-operative Bank Public Sector Reserve Acc	Nil	Minimal
Santander UK plc Business Reserve Account	2,553	0.40
Bank of Scotland Corporate Deposit Account	2,617	0.40

**4. Treasury Bills**

	Purchased	£'000	Return %
<b>Held at 18 June 2014 -</b>			
UK Treasury Bills 0% 07 Jul 2014	09 Jun 14	2,000	0.300
UK Treasury Bills 0% 07 Jul 2014	09 Jun 14	2,000	0.330

## 5. Borrowing

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