

Agenda Item No: 9.1 **Report No:** 95/16
Report Title: Finance Update – Performance Report 2015/2016
Report To: Cabinet **Date:** 4 July 2016
Cabinet Member: Councillor Bill Giles
Ward(s) Affected: All
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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 final position on the General Fund, Housing Revenue Account and Collection Fund accounts for 2015/2016.
- 2 Confirms the allocation of Reserves at 31 March 2016 shown in Table 6.
- 3 Agrees the Capital Programme outturn for 2015/2016 as shown in Appendix 2.
- 4 Approves the updated 2016/2017 Capital Programme set out in Appendix 3.

Recommends to Council

- 5 That the Annual Treasury Management Report for 2015/2016 (Appendix 1) be approved.
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Reasons for Recommendations

- 1 It is essential to ensure that the Council has a sound financial base so that it can respond effectively to changing demand for statutory and discretionary services, reducing income levels, including Government funding, and inflationary pressures on expenditure. Reports to Cabinet through the year, including quarterly financial performance reports, ensure that the Council's financial health is kept under continual review.
- 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 December and 31 May 2016 is summarised in Table 1. All activity was consistent with the Council's approved Treasury and Investment Strategies for 2015/2016 and 2016/2017.

Table 1 - recent investment activity

Type of investment	Number of new investments	Number of matured investments	Average on deposit £m	Average return %
Short term deposits	17	21	6.25	0.406
Long term deposits	Nil	Nil	0.00	0.000
Treasury Bills	29	35	8.95	0.504
Covered bonds	1	0	0.10	0.755
Money Market Funds	daily		4.37	0.575
Interest Bearing Accounts			2.05	0.350

- 3.2** As reported to Cabinet in February 2016, given the risk and continued low returns from short-term unsecured bank investments, the Treasury Strategy for 2016/2017 enables the Council to diversify into more secure and/or higher yielding asset classes. The Council's Treasury Advisor, Arlingclose, reaffirmed the importance of diversification at a meeting with officers in early May 2016. Subsequently, £1m was invested in an AAA rated 'covered bond' issued by Abbey National, at an initial interest rate of 0.755%, maturing on 5 April 2017.
- 3.3** No new borrowing was undertaken in the period. Long term borrowing remains at £56.6m.
- 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.

- 3.5** The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services 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.
- 3.6** The Annual Report for 2015/2016 is attached at Appendix 1. The Audit and Standards Committee considered the report at its meeting on 20 June 2016, 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 2015/2016 Accounts

4.1 The Council's 2015/2016 Accounts have now been closed. The Director of Corporate Services approved the draft Statement of Accounts on 29 June 2016. The Accounts have been released to the Council's external auditor BDO and are available to the public for inspection.

4.2 General Fund

4.2.1 The General Fund year end position for 2015/2016 is in line with the forecast made when updating the Medium Term Financial Strategy at the time of preparing the 2016/2017 budget..

4.2.2 Table 2 shows the final net expenditure/income for 2015/2016 analysed by management area, the format used in the Quarterly financial performance reports to Cabinet during the year.

Table 2 - General Fund Services net expenditure

(a)	(b) 2015/16 budget £'000	(c) 2015/16 actual £'000	(d) = (c)–(b) variance £'000
Management area			
Service Delivery	6,088	6,532	444
Business Strategy and Development	2,064	1,474	(590)
Corporate Services	5,136	4,437	(699)
Corporate Costs	1,047	1,102	55
	14,335	13,545	(790)
Project costs included above funded from Reserves	(1,663)	(1,187)	476
Netting-off of reallocated costs included above	(1,374)	(1,618)	(244)
Net cost of service provision	11,298	10,740	(558)

4.2.3 Table 2 indicates that net spending on services was £0.558m lower than budgeted.

4.2.4 Table 3 below summarises the variations which led to this overall net saving. The key variations are consistent with those reported to Cabinet in the Quarterly Finance reports through the year.

Table 3 - General Fund summary of variations

	£'000	£'000
One-off costs associated with voluntary severance	168	
Reduced cost of salaries	<u>(337)</u>	
Net reduction in employee costs		(169)
Additional expenditure:		
- Housing benefit cost net of subsidy	203	
- Borrowing costs	29	
- Waste and recycling fleet costs	45	
- Planning service incl appeals and Local Plan	<u>102</u>	
		379
Reduced Service income:		
- Recyclate sales, etc		192
Reduced Service expenditure		
- Support for business	(370)	
- Operational building costs	(59)	
- Recruitment and training	<u>(61)</u>	
		(490)
Increased Service income		
- Government funding for new initiatives, etc	(248)	
- Car parking	(131)	
- Planning fees	(117)	
- Solar panel installations FIT income	(41)	
- Sale of surplus assets	<u>(40)</u>	
		(577)
Miscellaneous Service expenditure/income variations		63
Capital projects funded from revenue		44
Total		<u>(558)</u>

4.2.5 In addition to spending on services, contributions to Reserves were made in 2015/2016 as shown in Table 4. Further details are given in Table 6.

Table 4 - Contributions to Reserves

(a)	(b) 2015/2016 Budget £'000	(c) 2015/2016 Actual £'000	(d) =(c) – (b) Variance £'000
Net cost of Service provision	11,298	10,740	(558)
Transfers to Reserves	2,466	2,422	(44)
Total cost to be financed	13,764	13,162	(602)

4.2.6 The reduction in the amount transferred to Reserves shown in Table 4, £44,000, is primarily the result of activities where balances are retained to smooth out costs between years eg building control.

4.2.7 Table 5 shows the sources of General Fund financing in 2015/2016.

Table 5 - General Fund financing

(a)	(b) 2015/2016 Budget £'000	(c) 2015/2016 Actual £'000	(d) =(c) – (b) Variance £'000
Retained Business Rates	(3,007)	(3,316)	(309)
Non-specific Government Grants	(3,662)	(3,663)	(1)
Council Tax	(6,697)	(6,697)	0
Use of Uncommitted Reserve	(398)	0	398
Total Financing	(13,764)	(13,676)	88

4.2.8 An additional £309,000 in income has been generated from the business rates retention system in 2015/2016. Local businesses were entitled to higher levels of small business rate and retail rate relief entitlement than had been anticipated, and the Council was compensated for the consequent reduction in collectable business rates by an increase in grant from the Government. The decrease in business rates due also led to a reduction in the Council's payments into the East Sussex Business Rates Pool. This improvement in income in 2015/2016 is largely temporary because the reduction in business rates due has led to a Business Rates Collection Fund deficit at 31 March 2016 which is higher than forecast – this increased deficit is to be recovered in future years from the General Fund.

4.2.9 When setting the 2015/2016 budget, it was agreed that £398,000 should be utilised from the General Fund balance (uncommitted reserve). The positive performance against the budget in 2015/2016 means that this use of the Uncommitted Reserve is not needed.

4.2.10 General Fund Reserves

- i Table 6 lists the contributions to and use of each General Fund Reserve in 2015/2016, and the balance held at the end of the year. It also identifies the anticipated movement on each Reserve in

2016/2017, reflecting the approved General Fund budget and the capital programme.

Table 6 - Reserves 2016/2017

Ref	Reserve	Balance at 1 April 2015	Contribution/transfer 2015/2016	Use 2015/2016	Balance at 31 March 2016	Contribution/transfer 2016/2017	Use 2016/2017	Projected Balance at 31 March 2017
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
	General Fund							
1	Strategic Change	(2,357)	(2,666)	1,366	(3,657)	(2,346)	4,589	(1,414)
2	Asset Maintenance	(2,444)	(512)	303	(2,653)	(303)	731	(2,225)
3	Vehicle and Equipment Replacements	(2,490)	(320)	370	(2,440)	(320)	1,315	(1,445)
4	Economic Regeneration	(352)	0	1	(351)	0	73	(278)
5	Revenue Grants and Contributions pending use	(284)	(14)	45	(253)	0	70	(183)
6	Unallocated Reserve	(3,680)	575	0	(3,105)	813	0	(2,292)
7	General Fund Sub-total	(11,607)	(2,937)	2,085	(12,459)	(2,156)	6,778	(7,837)
	HRA							
8	Major Repairs Reserve	(1,112)	(4,939)	3,412	(2,639)	(4,954)	5,464	(2,129)
9	HRA Balance	(2,638)	(88)	0	(2,726)	0	0	(2,726)
10	Total	(15,358)	(10,093)	5,497	(17,824)	(7,110)	12,242	(12,692)

ii Variations in the use of reserves to fund revenue spending in 2015/2016 comprise:

	£'000
Reduced use:	
Use of Uncommitted Reserve not required	(398)
Support for shared services	(31)
Support for business/business rates discount scheme	(219)
Funding of one-off surveys and reports	(110)
Flood projects	(96)
LEAP scheme	(83)
Property maintenance	(135)
Increased use:	
New homes project (transfer from capital programme)	454
Newhaven UTC (transfer from capital programme)	123
Use of grant funding received in previous years	45
Miscellaneous variations:	(26)
Total	476

In those cases where reserves have not been required to support project spend in 2015/16, for example the LEAP scheme, the balance is held over into 2016/2017.

4.3 Housing Revenue Account

4.3.1 The HRA outturn for 2015/2016 produced a net surplus of £88,000 compared with a deficit of £491,000 projected when setting the budget for the year, a net positive variation of £579,000. Table 7 summarises the main variations compared with that projection.

Table 7 - HRA variations

	£'000
Increased spend on Revenue Repairs and Maintenance	230
Reduced spend on Capital Repairs and Maintenance	(770)
Reduced Service Management cost including salaries	(154)
Deferral of project costs into 2016/2017	(484)
Reduced spend on cleaning and grounds maintenance	(81)
Reduction in non-staff costs at sheltered schemes	(25)
Increased contribution to corporate costs	91
Increased allowance for doubtful debts	128
Increase in contribution to Major Repairs Reserve	521
Miscellaneous net variations	(35)
Total variation)	(579)

4.3.2 Active management of planned and responsive repairs (which are accounted for as revenue expenditure) alongside major repairs, replacements and improvements (which fall within the HRA capital programme) has been in place. Variations in the HRA capital programme are explained elsewhere in this report.

4.3.3 The projected spend on Service Management included an allocation of £544,000 for external support to progress specialist projects such as a property condition survey of the housing stock and the analysis of its results to inform the updating of the Housing Business Plan. This major project was deferred until summer/autumn 2016. Actual spending in the year on specialist external support was £60,000, with the unspent resources being retained within the HRA Balance at the end of the year.

4.3.4 The projected spend included £821,000 as revenue funding of the 2015/2016 HRA Capital Programme, including expenditure on the Robinson Road housing development. The initial costs of that project have been funded from capital receipts and do not require revenue funding. The required revenue contribution towards HRA capital projects is £51,000.

4.3.5 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. The total contribution made is higher than the original budget to reflect the current cost of replacing these components. This increase is consistent with the projection made at the time of setting the 2016/2017 HRA budget. The Major Repairs Reserve is used to fund capital expenditure.

4.3.6 The net surplus generated in 2015/2016 is added to the Housing Revenue Account balance, £2,726,000 at 31 March 2016. Table 8 identifies the components of the balance. The Special Projects element of the balance will provide funding in 2016/2017 for the stock condition survey, revenue costs associated with the development of new Council-owned homes and costs of the Council's Joint Transformation Programme which can be attributed to the HRA.

Table 8 - HRA Balance

	£'000
1 General Working Balance	1,043
2 Special Projects	1,408
3 Self Insurance	275
4 Total	2,726

4.4 Collection Fund

4.4.1 The actual balance on the Council Tax Collection Fund at 31 March 2016 was a surplus of £1.528m, compared with a surplus of £1.090m which had been estimated at the time of setting the Council Tax for 2016/2017. This positive variation, at 0.7% of income, reflects growth in the taxbase, changes in entitlement to discounts and a decrease in the value of Council Tax Reduction Scheme awards compared with the projection. The variation is well within the acceptable level of tolerance given that the total annual amount of Council Tax due was £60.6m. The earliest that this additional surplus can be distributed is during 2017/2018. 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 2016/2017 Council Tax amounts. Approximately 16% of the surplus will be returned to this Council.

4.4.2 The actual balance on the Business Rates Collection Fund at 31 March 2016 was a deficit of £2.009m (of which this Council's share will be £0.81m) compared with a deficit of £1.559m which had been estimated at the time of setting the 2016/2017 budget. This increased deficit is largely the result of increased entitlement to small business rate relief and appeals against business rate valuations, which are beyond the Council's control and remain a key risk:

- in March 2016 (after the Quarter 3 financial report to Cabinet), the rateable value of a business in Newhaven was reduced on appeal from £0.50m to £0.39m, backdated to 1 April 2010. The appeal generated a refund of £0.33m to the ratepayer in 2016/2017, reducing total income from business rates, and increasing the in-year deficit.

- at 31 March 2016, 210 appeals against the LDC rating list were yet to be settled. The provision for business rates appeals has been increased by £0.25m to £1.9m at 31 March 2016.

4.5 Debts written off

4.5.1 Financial Procedure Rules authorise the Director of Corporate Services 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.

4.5.2 In 2015/2016, 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	25,140
Housing Benefit overpayments	93,380
Housing Rents	23,370
Council Tax	42,620
Business Rates	51,160
Total	235,670

4.6 Capital Programme 2015/2016 and 2016/2017

4.6.1 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.

4.6.2 Table 9 summarises the final position of the 2015/2016 Capital Programme. Appendix 2 gives a detailed analysis.

Table 9 - Capital Programme 2015/2016 Summary

	£'000
Original allocation for year	15,666
Variations agreed in year including allocations c/fwd from 2014/15	10,493
Revised allocation for the 2015/2016 year and beyond	26,159
Further variations (explained in paragraph 4.6.3)	(3,298)
Final allocation	22,861
Less: Actual spend in 2015/16	(12,283)
Remaining allocations to be used in 2016/17 and beyond	10,578

4.6.3 In some cases, further variations to the allocations previously agreed during 2015/2016 are necessary. Details of the most significant changes noted on Appendix 2 are shown in Table 10:

Table 10 - 2014/2015 Capital Programme variations

Lines 1 to 29	HRA Capital Programme. There are a number of amendments to the individual elements of the programme which has been managed as a whole and in conjunction with the revenue budget for planned and responsive repairs. Spending in some programme areas has been deferred pending the outcome of the stock condition survey. The total cost of the programme has reduced by £1,225,000. No homes became available for purchase under the right to buy buy-back arrangements in the year.
Line 68	University Technical College. The Council made contributions towards the construction of the UTC, the Riverside Walk at the site and (outside the capital programme) the UTC start-up cost. A contingency allowed for possible overruns on the build cost has not been called on and the associated funding is released into the Strategic Change Reserve.
Line 72	Photovoltaic (PV) Panel Housing Installation Programme. The Government made a significant reduction in the PV Feed in Tariff in January 2016, reducing the cost-effectiveness of installations after that date. The Council ceased its programme at that time, with PV installations completed on 600 homes. The cost of the programme is covered by General Fund prudential borrowing.
Line 78	Saxon House shared office facility. The Council's final contribution towards the cost of constructing and equipping Saxon House came in under budget, reducing the call on prudential borrowing in 2015/2016.
Lines 86 and 87	Vehicle replacements envisaged when the 2015/2016 programme was originally drafted have not been actioned pending the introduction of operational changes to the Waste and Recycling Services. Funding for future replacement is retained within an earmarked Reserve.

4.6.4 The Capital Programme for 2016/2017 (Appendix 3) has been updated to include the amounts brought forward from 2015/2016. There are no other proposed variations to the programme.

5 Financial Appraisal - referred to under individual items above.

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

7 Risk Management Implications

7.1 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.

7.2 The Council's Medium Term Financial Strategy includes challenging savings targets through to 2019/2020, to be delivered through a number of measures including the Joint Transformation Programme. There is a risk that the measures are not fully achieved on a timely basis, putting further pressure on reserves and balances. This risk can be mitigated through strong project management and review.

8 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.

9 Background Papers

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

Appendices

Appendix 1 – Annual Treasury Management Report 2015/2016

Appendix 2 – Capital Programme 2015/2016

Appendix 3 – Capital Programme 2016/2017