

Agenda Item No: 9.1 **Report No:** 146/17
Report Title: Finance Update – Performance Quarter 2 - 2017/2018
Report To: Cabinet **Date:** 13 November 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 2 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 September 2017.
- 2 Approves the updated 2017/2018 Capital Programme shown in Appendix 2.
- 3 Agrees the mid-year position for the Council's 2017/2018 Treasury Management and Investment Strategy.
- 4 Agrees the write-off of irrecoverable debts noted in paragraph 8.2.
- 5 Approves the write-off of a housing benefit overpayment noted in paragraph 8.3.

Recommends to Council

That Council approves the Mid-Year Treasury Management Report 2017/2018 at Appendix 3.

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 2 (September) 2017/2018 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 | | | | |
| Director of Regeneration and Planning | 361 | 508 | 328 | (180) |
| Director of Service Delivery | 8,189 | 4,091 | 3,751 | (340) |
| Director of Tourism | 663 | 441 | 396 | (45) |
| Deputy Chief Executive | 4,533 | 1,970 | 2,162 | 192 |
| Corporate costs and income | 705 | 271 | 501 | 230 |
| Netting off of Central Support Services recharges included above | (3,303) | 0 | 0 | 0 |
| Net cost of Service provision | 11,148 | 7,281 | 7,138 | (143) |
| Contributions to/from Reserves | 704 | 0 | 0 | 0 |
| Total cost to be Financed | 11,852 | 7,281 | 7,138 | (143) |

- 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 2. 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. Partially offsetting this, one-off severance costs of £91,000 have been incurred in the year to date.

- income generating activities are generally performing in line with or exceeding projections eg green waste annual collection charges £134,000 compared with an annual budget of £75,000, income from trade waste £16,000 above target.
- the net return from investment properties at Newhaven Square is £45,000 below budget at the end of Quarter 2, as a result of vacant units.
- 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. The projection is unchanged from Quarter 1.

| | Reserve | Balance at 1 April '17 £'000 | Contributions & transfers £'000 | Commitment £'000 | Balance at 31 March '18 £'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 | TOTAL | (11,813) | (1,850) | 6,348 | (7,315) |
| | | | | | |

4 Financial performance – Housing Revenue Account budgets

4.1 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 | (15,224) | (7,612) | (7,612) | 0 |
| Service charges | (1,209) | (603) | (603) | 0 |
| Other income | (200) | (100) | (81) | 19 |
| | (16,633) | (8,315) | (8,296) | 19 |
| Expenditure: | | | | |
| Supervision and Management | 622 | 226 | 162 | (64) |
| Special Services eg sheltered | 1,047 | 486 | 350 | (136) |
| Repairs | 3,880 | 2,051 | 1,606 | (445) |
| Capital financing, etc | 7,852 | (15) | 0 | 15 |
| Central support charges, etc | 3,232 | 0 | 0 | 0 |
| Net cost of Service provision | 16,633 | 2,748 | 2,118 | (630) |
| Contributions to/from Reserves | 0 | 0 | 0 | 0 |
| | 0 | (5,567) | (6,178) | (611) |

- 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 £0.7m lower at the end of Quarter 2 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 90 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 2, which is in line with expectations at this stage of the year. Payments of £2.7m have been made by the end of Quarter 2.
- 6.2** A change to the General Fund Capital Programme, with a total value of £0.230m is required in respect of two park improvement schemes, at Denton and Fort Road, Newhaven. Both of these schemes are fully funded from developers' and other third party contributions.

7 Financial Performance - Treasury Management

- 7.1 Treasury Management investment performance at the end of Quarter 2 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 Q1 % | Average return Q2 % | Average return Q1-Q3 % |
|-------------------------------------|---------------------|---------------------|------------------------|
| Fixed term deposits | 0.34 | 0.22 | 0.28 |
| Treasury Bills | n/a | 0.19 | 0.19 |
| Bonds, certificates of deposit, etc | 0.55 | 0.69 | 0.61 |
| Money Market Funds | 0.32 | 0.29 | 0.31 |
| Interest Bearing Accounts | 0.15 | 0.15 | 0.15 |
| Total investments | 0.44 | 0.34 | 0.31 |
| | | | |
| 7-day LIBID benchmark | 0.11 | 0.11 | 0.11 |

- 7.2 No new long term borrowing was undertaken in the period, and the total of the portfolio remains at £56.6m. No temporary borrowing arrangements were entered into in Quarter 2.
- 7.3 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 2017/2018, which covers the period 1 April to 30 September 2017, 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. It also notes the potential need to borrow up to an additional £27.190m before the end of the financial year, dependent on the delivery of a number of projects within the capital programme, for example the £20.0m loan facilities to Lewes Housing investment Company (LHIC) and Aspiration Homes. The cost to the General Fund of any new borrowing would be offset by income generated from the project eg LHIC would pay interest to the Council on all loans advanced to it.
- 7.4 Cabinet is asked to recommend that Council approves the Mid-year Report at its meeting on 6 December 2017. The Audit and Standards Committee will be presented with the Report on 27 November 2017 - any comments that it may wish to pass on to Council will be reported verbally.

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 2, 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 | 17,800 |
| Housing Benefit overpayments | 16,910 |
| Housing Rents | 7,690 |
| Council Tax | 16,850 |
| Business Rates | 34,980 |
| Total | 94,230 |

- 8.3** Cabinet is recommended to approve the following write-off where continuing recovery action is no longer considered to be appropriate:

- Housing Benefit overpayment, period July 1994 to February 2009. The claimant was found to have been overpaid in excess of £100,000 as a result of the under-declaration of capital and failure to declare the earnings of his wife who was employed by his business. The overpayment can only be recovered from the claimant himself. Significant repayments have been made, reducing the outstanding debt to £28,077. The claimant is now permanently housed in a nursing home and there is very little prospect of further recovery action being successful.

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 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>

Appendices:

Appendix 1 – Financial performance Quarter 2 by service

Appendix 2 – Capital Programme 2017/2018

Appendix 3 – Mid-year Treasury Management Report 2017/2018

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 |
|--|------------------------------|--|----------------------------------|------------------------------------|
| Director of Regeneration and Planning | | | | |
| Assets and Property | | | | |
| : Investment Properties | (518) | (252) | (215) | 37 |
| : Industrial Estates | (669) | (335) | (239) | 96 |
| : Public Conveniences | 222 | 108 | 107 | (1) |
| : Car Parking | (409) | (265) | (292) | (27) |
| : Office Accommodation | 448 | 282 | 195 | (87) |
| : Solar Panel installations | (154) | (21) | (48) | (27) |
| : Depots | 116 | 72 | 71 | (1) |
| Sub-total | (964) | (411) | (421) | (10) |
| Planning | | | | |
| : Development Control | (847) | (191) | (201) | (10) |
| : Planning Policy | 105 | 53 | (14) | (67) |
| : Planning Policy - Conservation | 0 | 0 | 0 | 0 |
| Sub-total | (742) | (138) | (215) | (77) |
| Regeneration | | | | |
| : Economic Development | 323 | 176 | 131 | (45) |
| : Newhaven Enterprise Centre | (160) | (66) | (44) | 22 |
| : Property Portfolio/Regeneration | 0 | 0 | 69 | 69 |
| : Street Naming | 7 | 4 | (4) | (8) |
| Sub-total | 170 | 114 | 152 | 38 |
| Salaries and Administration | | | | |
| : Corporate Property | 431 | 213 | 275 | 62 |
| : Strategic Policy | 457 | 226 | 125 | (101) |
| : Planning | 776 | 388 | 311 | (77) |
| : Regeneration | 233 | 116 | 101 | (15) |
| Sub-total | 1,897 | 943 | 812 | (131) |
| Director total | 361 | 508 | 328 | (180) |
| Director of Service Delivery | | | | |
| Community | | | | |
| : Building Control | (317) | (159) | (146) | 13 |
| : Regulatory Services - Travellers sites | 17 | 18 | 17 | (1) |
| : Community Safety | 20 | 10 | (10) | (20) |
| : Voluntary Sector Support | 219 | 160 | 143 | (17) |
| : Town and Parish Council grant | 171 | 171 | 171 | 0 |
| Sub-total | 110 | 200 | 175 | (25) |

| | Full year budget £'000 | End Quarter 2 profiled budget £'000 | End Quarter 2 actual £'000 | End Quarter 2 variance £'000 |
|--|------------------------------|--|----------------------------------|------------------------------------|
| Environmental Health and Licensing | | | | |
| : Regulatory Services - Licensing | (186) | (93) | (95) | (2) |
| : Regulatory Services - Public Health | 36 | 20 | 13 | (7) |
| : Regulatory Services - Food Safety | 3 | 2 | 1 | (1) |
| : Regulatory Services - Environmental Protection | 21 | 14 | 11 | (3) |
| : Regulatory Services - Health and Safety | 11 | (2) | 0 | 2 |
| : Regulatory Services - Port Health | 2 | 1 | 1 | 0 |
| : Regulatory Services - Animal and Pest Control | 30 | 15 | 9 | (6) |
| : Coast Protection | 15 | 11 | 9 | (2) |
| : Flood Defence | 145 | 141 | 34 | (107) |
| : Cemeteries | (31) | (19) | 1 | 20 |
| Sub-total | 46 | 90 | (16) | (106) |
| Housing (General Fund) | | | | |
| : Homelessness | 99 | 126 | 59 | (67) |
| : Housing Strategy, Enabling and Advice | 60 | 30 | 2 | (28) |
| : Private Sector Housing Renewal | 1 | 0 | (2) | (2) |
| : Contributions to the HRA re shared items | 159 | 0 | 0 | 0 |
| : Housing Benefit Administration | 81 | 40 | (41) | (81) |
| : Housing Benefit | (462) | (361) | (361) | 0 |
| Sub-total | (62) | (165) | (343) | (178) |
| Local Taxation | | | | |
| : Council Tax Support Scheme Mgt | 15 | 32 | 25 | (7) |
| : Local Tax Collection - Council Tax | (52) | 62 | 48 | (14) |
| : Local Tax Collection - Business Rates | (133) | (1) | 16 | 17 |
| Sub-total | (170) | 93 | 89 | (4) |
| Parks and Playing Fields | | | | |
| : Open Spaces | 365 | 177 | 139 | (38) |
| : Sports and Playing Fields | 247 | 100 | 102 | 2 |
| Sub-total | 612 | 277 | 241 | (36) |
| Waste and Recycling | | | | |
| : Recycling | 835 | 395 | 424 | 29 |
| : Waste Collection | 907 | 257 | 204 | (53) |
| : Street Cleansing | 628 | 337 | 310 | (27) |
| : Vehicle Workshop | (195) | (100) | 9 | 109 |
| Sub-total | 2,175 | 889 | 947 | 58 |
| Salaries and Administration | | | | |
| : Customer Services - Revenues and Benefits | 1,256 | 620 | 599 | (21) |
| : Housing and Environmental Health | 2,621 | 1,298 | 1,327 | 29 |
| : Hub, Mobile Team and Parks | 1,240 | 610 | 554 | (56) |
| : Waste and Recycling | 360 | 179 | 178 | (1) |
| Sub-total | 5,478 | 2,707 | 2,658 | (49) |
| Director total | 8,189 | 4,091 | 3,751 | (340) |

| | Full year budget £'000 | End Quarter 2 profiled budget £'000 | End Quarter 2 actual £'000 | End Quarter 2 variance £'000 |
|--|------------------------------|--|----------------------------------|------------------------------------|
| Director of Tourism | | | | |
| Tourism | | | | |
| : Tourism | 147 | 83 | 100 | 17 |
| : Culture and Heritage: Arts Development | 7 | 3 | 8 | 5 |
| Sub-total | 154 | 86 | 108 | 22 |
| Wave Leisure | | | | |
| : Culture and Heritage - Newhaven Fort | 103 | 76 | 67 | (9) |
| : Indoor Leisure - Wave | 406 | 279 | 221 | (58) |
| Sub-total | 509 | 355 | 288 | (67) |
| Director total | 663 | 441 | 396 | (45) |
| Deputy Chief Executive | | | | |
| Corporate Services | | | | |
| : Emergency Planning | 24 | 12 | 0 | (12) |
| : Organisational Development | 120 | 60 | 286 | 226 |
| : Treasury Management | 55 | 40 | 41 | 1 |
| : Local Land Charges | (86) | (58) | (61) | (3) |
| Sub-total | 113 | 54 | 266 | 212 |
| Democratic Services | | | | |
| : Democratic Representation | 270 | 135 | 130 | (5) |
| : Electoral Registration | 77 | 38 | 28 | (10) |
| : Elections - LDC | 8 | 4 | 6 | 2 |
| : Elections - other | 0 | 0 | 0 | 0 |
| Sub-total | 355 | 177 | 164 | (13) |
| Central and Support Services | | | | |
| : Business Strategy and Performance | 554 | 275 | 115 | (160) |
| : Legal Services | 423 | 208 | 308 | 100 |
| : Finance | 650 | 325 | 319 | (6) |
| : Audit and Counter Fraud | 266 | 132 | 104 | (28) |
| : Democratic Services | 368 | 183 | 181 | (2) |
| : Information Technology | 1,420 | 424 | 559 | 135 |
| : HR service | 254 | 127 | 107 | (20) |
| : Recruitment and Training | 130 | 65 | 39 | (26) |
| Sub-total | 4,065 | 1,739 | 1,732 | (7) |
| Director Total | 4,533 | 1,970 | 2,162 | 192 |
| Corporate costs | | | | |
| : Corporate Management | 180 | 90 | 78 | (12) |
| : Corporate Management Team | 501 | 249 | 175 | (74) |
| : Interest payments and receipts | (180) | (29) | 31 | 60 |
| : Revenue financing of capital expenditure | 210 | 52 | 0 | (52) |
| : Pensions accounting | 229 | 115 | 217 | 102 |
| : Provision for Debt Repayment | 177 | 0 | 0 | 0 |

| | Full year budget £'000 | End Quarter 2 profiled budget £'000 | End Quarter 2 actual £'000 | End Quarter 2 variance £'000 |
|--|------------------------------|--|----------------------------------|------------------------------------|
| : Service Priority budget and savings target | (412) | (206) | 0 | 206 |
| | 705 | 271 | 501 | 230 |
| Netting off of Central Support Services recharges included above | (3,303) | 0 | 0 | 0 |
| Net cost of Service provision | 11,148 | 7,281 | 7,138 | (143) |
| Contributions to/from Reserves | 704 | 0 | 0 | 0 |
| Total cost to be Financed | 11,852 | 7,281 | 7,138 | (143) |
| Financing | | | | |
| : Council Tax | (7,356) | 0 | 0 | 0 |
| : Retained Business Rates | (2,367) | 0 | 0 | 0 |
| : Government Grants | (2,129) | (1,065) | (1,065) | 0 |
| Total Financing | (11,852) | (1,065) | (1,065) | 0 |