

Report to:	Cabinet
Date:	2 July 2018
Title:	Finance Update – Performance Report - 2017/2018
Report of:	Deputy Chief Executive
Cabinet member:	Councillor Bill Giles (Cabinet Member for Finance)
Ward(s):	All
Purpose of report:	To explain the Council’s financial performance in 2017/2018 and outline the impact on the Council’s current financial position.
Decision type:	Key
Officer recommendation(s):	<p>(1) Agrees the financial position on the General Fund, Housing Revenue Account and Collection Fund accounts for 2017/2018.</p> <p>(2) Confirms the allocation of Reserves at 31 March 2018 shown in paragraph 2.9</p> <p>(3) Agrees the Capital Programme outturn for 2017/2018 as shown in Appendix 2.</p> <p>(4) Approves the updated 2018/2019 Capital Programme set out in Appendix 3.</p> <p>(5) Approves the write-off of irrecoverable debts noted in paragraph 4.5.</p>
	Recommends to Council
	(6) That the Annual Treasury Management Report for 2017/2018 (Appendix 4) be approved.
Reasons for recommendations:	<p>(1) At the end of the financial year, Cabinet should review the impact of the financial performance on its current financial position, determine the level of Reserves available for use and variations, if any, which may be required to the revenue budget or capital programme.</p> <p>(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 (the Code) prepared by CIPFA (the Chartered Institute of</p>

Public Finance and Accountancy) and adopted by the Council. The Code requires the Council to receive an Annual Treasury Management Report at the end of each financial year.

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1 Introduction

- 1.1 The Council's 2017/2018 Accounts have now been closed and are currently subject to audit by the Council's external auditor, BDO. When it meets on 17 July 2018, the Audit and Standards Committee will be asked to approve the Statement of Accounts 2017/2018 and to delegate authority to the Deputy Chief Executive to make any final changes proposed by BDO.
- 1.2 The Accounts and Audit Regulations 2015 require the Deputy Chief Executive and councillors to certify and approve an audited set of accounts for publication by no later than 31 July. This timescale is shorter than previous years by two months and is extremely challenging. The Regulations required draft accounts to be released to BDO and made available for inspection by 31 May, a month sooner than previously. A delay in receiving valuation information from an external valuer combined with additional pressures resulting from the implementation of a new corporate finance system prevented draft accounts from being released by the deadline. At the time of writing this report the final stages of work were being completed ahead of releasing complete draft accounts to BDO.

2 General Fund 2017/2018

- 2.1 The General Fund year end position for 2017/2018 is in line with the forecast made when updating the Medium Term Financial Strategy at the time of preparing the 2018/2019 budget, and with the quarterly performance reports made to Cabinet during the course of the year.

2.2 Table 1 shows the final net expenditure/income for 2017/2018 analysed by management area, the format used in the Quarterly financial performance reports to Cabinet during the year.

Table 1 - General Fund Services Net expenditure

(a)	(b) 2017/18 budget £'000	(c) 2017/18 actual £'000	(d) = (c)– (b) variance £'000
Management area			
Director of Regeneration and Planning	361	48	(313)
Director of Service Delivery	8,209	8,515	306
Director of Tourism	663	591	(72)
Deputy Chief Executive	4,533	5,036	503
Corporate costs and income	685	1,634	949
Netting off of Central Support Services recharges included above	(3,303)	(3,855)	(552)
Net cost of Service provision	11,148	11,969	821

2.3 Table 1 indicates that net spending on services was £821,000 more than budgeted. Details of each service are given at Appendix 1. Table 2 below summarises the variations which led to the overall net increase in cost against budget. The key variations are consistent with those reported to Cabinet in the Quarterly Finance reports through the year. Those reports noted that trends in housing benefit awarded and the associated Government subsidy receivable can have a net impact on the General Fund: in 2017/2018, the net budget variation, £0.283m, was less than 1% of the total value of benefits awarded, £5.918m.

Table 2 - General Fund summary of variations

	£'000	£'000
One-off costs associated with voluntary severance	535	
Temporary staff pending JTP transition	832	
Recharge to HRA re above	(363)	
Net increase in employee costs		1,004
Additional expenditure:		
- Recycling incl cost of rolling out co-mingled collection	368	
- JTP (net of HRA share)	439	
- Housing Benefits	283	
- Commercial and industrial estate premises costs	199	
- Business Rates income maximisation commission	65	
- Legal action costs	97	
		1,451
Reduced Service income:		220
Sub-total to next page		2,675

Sub-total from previous page	£'000	£'000
		2,675
Reduced Service expenditure		
- Temporary accommodation	(64)	
- Newhaven Enterprise Zone start up	(63)	
- Other services	(105)	
- Reserve funded projects deferred to 2018/19	<u>(229)</u>	(461)
Increased Service income		
- Specific Govern't grants & contributions net of use	(340)	
- Waste Collection including Green Waste	(189)	
- CIL income administration share	(132)	
- Car Parking	(59)	
- Taxi Licensing	(56)	
- Other Services	<u>(188)</u>	(964)
Service Priority, transition and capital finance budgets not called on		(429)
Total		<u>821</u>

2.4 In addition to spending on services, contributions to Reserves were made in 2017/2018 as shown in Table 3. Further details are given in Table 5.

Table 3 – Contributions to Reserves

(a)	(b) 2017/2018 Budget £'000	(c) 2017/2018 Actual £'000	(d) =(c) – (b) Variance £'000
Net cost of Service provision	11,148	11,969	821
Net Transfers to Reserves	704	601	(103)
Total cost to be Financed	11,852	12,570	718

2.5 The £103,000 reduction in the net amount transferred to Reserves shown in Table 3, comprises £740,000 additional transfers into Reserves (primarily the result of transferring resources between the revenue budget and capital programmes to match expenditure and the transfer of Government grants received in 2017/18 ahead of future years' spending) offset by £843,000 increased use (primarily due to the costs associated with the JTP programme and rollout of a co-mingled recycling service).

2.6 Table 4 shows the sources of General Fund financing in 2017/2018.

Table 4 - General Fund financing

(a)	(b) 2017/2018 Budget £'000	(c) 2017/2018 Actual £'000	(d) =(c) – (b) Variance £'000
Retained Business Rates	(1,331)	(1,572)	(241)
Non-specific Government Grants	(3,165)	(3,673)	(508)
Council Tax	(7,356)	(7,356)	0
Total Financing	(11,852)	(12,601)	(749)

2.7 Income from retained business rates, including Government grants received as compensation for the impact of Government measures which reduced the rates that businesses pay (eg small business rates relief) was £241,000 more than budgeted. This benefit to the General Fund is largely transitional, however, with the deficit on the Business Rates Collection Fund at the end of year being higher than anticipated (see paragraph 4.2 below). The additional income from Government Grants stemmed from higher amounts of reliefs and discounts awarded to business ratepayers than anticipated at the beginning of the year, the cost of which is reimbursed to the Council. In order to smooth business rates movements between years, this additional grant income (£453,000) has been added to the Strategic Change Reserve along with the saving in tariff payable to the Government compared with the budgeted amount, £140,000.

2.8 The overall net movement between costs to be financed and available financing is a surplus of £31,000 as shown in Table 5. This surplus is added to General Fund uncommitted reserve.

Table 5 - General Fund financing

(a)	(b) 2017/2018 Budget £'000	(c) 2017/2018 Actual £'000	(d) =(c) – (b) Variance £'000
Total cost to be Financed	11,852	12,570	718
Total Financing	(11,852)	(12,601)	(749)
Net movement	0	(31)	(31)

2.9 General Fund Reserves

Table 6 lists the contributions to and use of each General Fund Reserve in 2017/2018, and the balance held at the end of the year. It also identifies the anticipated movement on each Reserve in 2018/2019, reflecting the approved General Fund budget and the capital programme (see below). Use of the Asset Maintenance Reserve in 2018/2019 has been increased by £73,000 to finance a phased programme of revenue repairs at the indoor leisure facilities for which the Council is responsible as landlord.

Table 6 - Reserves 2017/2018 and 2018/2019 projection

Ref	Reserve	Balance at 1 April 2017	Contribution/transfer 2017/2018	Use 2017/2018	Balance at 31 March 2018	Contribution/transfer 2018/2019	Use 2018/2019	Projected Balance at 31 March 2019
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
	General Fund							
1	Strategic Change	(3,668)	(2,711)	3,029	(3,350)	(874)	1,839	(2,385)
2	Asset Maintenance	(2,591)	(343)	266	(2,668)	(283)	1,643	(1,308)
3	Vehicle and Equipment Replacements	(2,591)	772	374	(1,445)	(320)	577	(1,188)
4	Economic Regeneration	(274)	(80)	54	(300)	(373)	0	(673)
5	Revenue Grants and Contributions pending use	(400)	(191)	195	(396)	0	0	(396)
6	Unallocated Reserve	(2,288)	(31)	0	(2,319)	0	0	(2,319)
7	General Fund Total	(11,812)	(2,584)	3,918	(10,478)	(1,850)	4,059	(8,269)

3 Housing Revenue Account 2017/2018

3.1 As shown in Table 7 the HRA outturn for 2017/2018 was a net cost of £933,000. At the time that the budget was set, a break-even position was projected, excluding an appropriate share of costs associated with the JTP project which would be made when the Council's overall JTP costs could be reasonably apportioned between the General Fund and HRA. The HRA holds a 'Special Projects' contingency within its overall reserve balance, and it was intended to utilise that contingency to finance the JTP costs. With the conclusion of JTP Phase 2 that position has now been reached and an apportionment of £1,020,000 of all costs incurred to date has now been made. This includes both capital expenditure (IT software, hardware, system implementation, telephony, etc) and revenue expenditure (consultancy, employee severance costs, etc). As planned, all HRA JTP costs have been financed from the Special Projects contingency. Table 8 summarises the main variations compared with that projection.

Table 7 - Housing Revenue Account Summary 2017/2018

(a) Service area	(b) 2017/18 budget £'000	(c) 2017/18 actual £'000	(d) = (c)-(b) variance £'000
Income:			
Rents	(15,224)	(15,245)	(21)
Service charges	(1,231)	(1,208)	23
Contributions towards expenditure	(200)	(244)	(44)
	<u>(16,655)</u>	<u>(16,697)</u>	<u>(42)</u>
Expenditure:			
Repairs and maintenance	4,892	5,130	238
Supervision and Management	1,708	1,452	(256)
Special Services eg sheltered	1,382	1,227	(155)
Rents, rates, etc	245	268	23
Provision for debt repayment	807	807	0
HRA share of corporate costs	576	846	270
Net interest and debt management	1,872	1,806	(66)
	<u>11,482</u>	<u>11,536</u>	<u>54</u>
Net cost of Service provision	(5,173)	(5,161)	12
JTP capital expenditure	0	626	626
Transfer to Major Repairs Reserve	5,173	5,468	295
Net cost for year	(0)	933	933
JTP costs above financed from Special Projects element of HRA Reserve	0	(1,020)	(1,020)
Net credit (to be added to Special Projects element of HRA Reserve)	0	(87)	(87)

Table 8 - HRA variations

	£'000	£'000
Increased income		
- rents	(22)	
- contributions	(46)	
- interest receivable	<u>(22)</u>	(90)
Increased expenditure		
- employees including support services	112	
- allowance for uncollectable rents	36	148
Reduced expenditure		
- Repairs and replacements	(171)	
- Grounds maintenance, cleaning, environmental enhancements	(48)	
- external advice	(95)	
- interest payments	(40)	(354)
JTP		
- capital expenditure financing	626	
- employee costs	168	
- corporate recharges	<u>226</u>	1,020
Increase in contribution to Major Repairs Reserve		295
Miscellaneous net variations		<u>(86)</u>
Total variation		933

3.2 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 2018/2019 HRA budget. The Major Repairs Reserve is used to fund capital expenditure. The movements in the Major Repairs Reserve are shown in Table 9.

Table 9 – Major Repairs reserve

	£'000
1 Balance 1 April 2017	(4,934)
2 Used for capital expenditure in year	4,370
3 Contributions from Revenue in year	(5,468)
4 Balance 31 March 2018	(6,032)

3.3 The overall change in the Housing Revenue Account Reserve in 2017/2018 was a reduction of £933,000. The balance in the Reserve at 31 March 2018 is £1,939,000. Table 10 identifies the components of the balance. The Special Projects element of the balance will continue to provide funding in 2018/2019 for costs of the Council's Joint Transformation Programme which can be attributed to the HRA.

Table 10 - HRA Balance

	1 April '17 £'000	In year £'000	31 Mar '18 £'000
1 General Working Balance	(1,500)	0	(1,500)
2 Special Projects	(1,097)	933	(165)
3 Self Insurance	(275)	(0)	(275)
4 Total	(2,872)	933	(1,939)

4 Collection Fund 2017/2018

4.1 The actual balance on the Council Tax Collection Fund at 31 March 2018 was a surplus of £0.781m, compared with a surplus of £0.839m which had been estimated at the time of setting the Council Tax for 2018/2019. This positive variation, at less than 0.1% 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 £67.9m. The earliest that this additional surplus can be distributed is during 2019/2020. 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 2018/2019 Council Tax amounts. Approximately 15% of the surplus will be returned to this Council.

4.2 The actual balance on the Business Rates Collection Fund at 31 March 2018 was a deficit of £1.949m (of which this Council's share will be £0.779m) compared with a deficit of £0.780m which had been estimated at the time of setting the 2018/2019 budget. This increased deficit is largely the result of increases in transitional, mandatory charitable and empty property relief being awarded, as well as increased provisions for non-collectable debt and the settlement of appeals against the 2017 rating list. Additional growth in business rates income within the Newhaven Enterprise Zone was £0.398m. This growth is top-sliced from total business income in 2017/2018 (increasing the overall Collection Fund deficit) and will pass to the Council in 2018/19 for an investment programme to be discussed with the LEP.

5 Debts Written Off 2017/2018

5.1 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.

5.2 Table 11 summarises the amounts written off in total when action to recover individual debts has proved to be unsuccessful or uneconomic to pursue. Any case in excess of £10,000 was approved by Cabinet during the course of the year.

Table 11 – Amounts written off

	Total value £
Sundry debtors	43,810
Housing Benefit overpayments	211,900
Housing Rents	19,010
Council Tax	45,480
Business Rates	102,120
Total	422,320

6 Capital Programme 2017/2018 and 2018/2019

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.

6.2 Table 12 summarises the final position of the 2017/2018 Capital Programme. Appendix 2 gives a detailed analysis.

Table 12 - Capital Programme 2017/2018 Summary

	£'000
Original allocation for year	14,679
Variations agreed in year including allocations c/fwd from 2017/18	11,754
Revised allocation for the 2017/2018 year and beyond	26,433
Further variations (explained in paragraph 6.3)	(675)
Final allocation	25,758
Less: Actual spend in 2017/18	(9,555)
Remaining allocations to be used in 2018/19 and beyond	<u>16,203</u>

6.3 In some cases, further variations to the allocations previously agreed during 2017/2018 are necessary. Details of the most significant changes noted on Appendix 2 are shown in Table 13:

Table 13 - 2017/2018 Capital Programme variations

HRA Capital Programme	
Line 2	New Homes – the construction of new homes on former garage sites was completed in 2017/18 with a small underspend against the allocation. A provision of £185,000 had been made to enable the re-purchase of homes sold under Right to Buy. No suitable opportunity arose in 2017/18.
Line 3	Improvements to stock - there are a number of amendments to individual elements of the programme (increased spend on fire precaution works and kitchen/bathroom replacements, reduced spend on heating system replacements and engineering works to roads and footpaths, etc) which has been managed as a whole and in conjunction with the revenue budget for planned and responsive repairs. The net variation represented a reduction of just over 7% against the £6.3m total value of the programme. This results in a reduced call on the Major Repairs Reserve with the unused financing carried forward.
General Fund Capital Programme	
Line 14	North Street Quarter – an increase in the allocation is required to match the timing of expenditure incurred on this project.
Lines 15 and 18	Joint Transformation Programme/IT Equipment Replacement – a transfer has been made between these two inter-related allocations to reflect the actual nature of expenditure incurred.
Line 16	Waste and Recycling Review – a reduction in the allocation is necessary to finance the cost of revenue expenditure incurred in rolling out changes to the Recycling service.
Line 19	Coastal Defence: New Forest District Council is the lead authority for a programme of coastal monitoring in South East England. Costs, which are funded by DEFRA, are apportioned between local authorities in the region pro-rata to the length of coastline. This Council's share for 2017/18 was £49,000.

6.4 The Capital Programme for 2018/2019 (Appendix 3) has been updated to include the amounts brought forward from 2017/2018. Proposed variations to the 2018/2019 programme comprise:

- Robinson Road (line 26): an allocation of £170,000 is required to ensure that the site is safe and secure and fit for purpose following the changes in the Recycling service.
- Asset Management (line 29): a minor increase is made to the allocation following the receipt of tenders for work to be carried out at Lewes Cemetery Chapel.
- Coastal Defence Works (line 36): an allocation is made for the expected cost of the coastal monitoring programme led by New Forest District Council (see above).

7 Treasury Management

7.1 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.

7.2 The Annual Report for 2017/2018 is attached at Appendix 4. The Audit and Standards Committee will consider the report at its meeting on 17 July 2018. Cabinet is asked to recommend that Council approves the Annual Report, subject to any appropriate comments that the Audit and Standards Committee may wish to make.

8 Corporate plan and council policies

There are no implications for the Council plan or council policies arising from this report.

7 Financial appraisal

This is addressed in the paragraphs above.

8 Legal implications

There are no legal implications arising from this report.

9 Risk management implications

There are no legal implications arising from this report.

10 Equality analysis

This 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.

11 Appendices

Appendix 1 – General Fund expenditure and income 2017/2018: service analysis

Appendix 2 – Capital Programme 2017/2018

Appendix 3 – Updated Capital Programme 2018/2019

Appendix 4 – Annual Treasury Management Report 2017/2018

12 Background papers

Treasury Strategy Statement 2017/2018

Lewes District Council Draft Statement of Accounts 2017/2018 (subject to audit)