

Agenda Item No:	7	
Committee:	Overview & Scrutiny Panel	
Date:	10 December 2018	
Report Title:	Response to the Letter from the Chairman of the Corporate Governance Committee	

1 Purpose / Summary

It was agreed by the Corporate Governance Committee, following their meeting on 20 November 2018, that the Chairman write to the Chairman of the Overview and Scrutiny Committee in relation to the apparent financial deficit outlined in the Statement of Accounts in relation to the trading operations of the; Markets; Port as well as the Light Industrial Units and Business Centre's.

2 Key issues

- The annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting (The Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and based on International Financial Reporting Standards (IFRS).
- The Statement of Accounts and Annual Governance Statement were considered by The Corporate Governance Committee on 27 July 2018
- During the consideration of the Statement of Accounts the Corporate Governance Committee discussed their desire for a response to the fact that the Council's three trading services, namely the Markets, Port as well as the Light Industrial Units and Business Centre's appear to be requiring financial subsidy, rather than being cost neutral.
- This matter was considered further during the meeting of the Corporate Governance Committee on 20 November 2018 where the decision was taken for the Chairman of the Corporate Governance Committee to write to the Chairman of the Overview and Scrutiny Committee requesting this matter be further considered.
- This report provides some commentary to explain the apparent 'deficit' position as identified by the Corporate Governance Committee, which is created when the figures are reported in accordance with the Accounting Code of Practice and why the trading accounts and profitability differs significantly to the reported outturn figures.

3 Recommendations

Members are asked to;

- Note the content of the report including the accounting figures and the required method of reporting.

Wards Affected	All
Forward Plan Reference	
Portfolio Holder(s)	<p>Councillor Chris Boden – Chairman of the Overview and Scrutiny Committee.</p> <p>Councillor Peter Murphy –Portfolio Holder – Markets and Events</p> <p>Councillor Mrs Anne Hay – Portfolio Holder – Finance</p> <p>Councillor David Oliver – Portfolio Holder – Growth, Community Safety and Heritage</p>
Report Originator(s)	<p>Anna Goodall, Head of Governance and Legal Services, agoodall@fenland.gov.uk 01354 622357</p>
Contact Officer(s)	<p>Anna Goodall, Head of Governance and Legal Services, agoodall@fenland.gov.uk 01354 622357</p> <p>Annabel Tighe, Environmental Health Manager atighe@fenland.gov.uk 01354 622497</p> <p>Justin Wingfield, Head of Business and Economy jwingfield@fenland.gov.uk 01354 622472</p> <p>Mark Saunders, Chief Accountant msaunders@fenland.gov.uk 01354 622486</p> <p>Kamal Mehta, Interim Corporate Director & Chief Finance Officer (S.151 Officer) 01354 622201 kamalmehta@fenland.gov.uk</p> <p>Gary Garford, Corporate Director 01354 622373 garygarford@fenland.gov.uk</p>
Background Paper(s)	Fenland District Council Constitution

4 Background

- 4.1 This report is structured by service area and aligned to concerns raised by the Corporate Governance Committee regarding the apparent deficit created through normal accounting practice. Further background financial information is attached as Appendices A-C.

Markets

- 4.2 A market operates in the towns of March, Whittlesey and Chatteris. The market in Wisbech is managed by the Town Council.
- 4.3 The management and ownership of Wisbech marketplace transferred to Wisbech Town Council in August 2011. At that time Wisbech market realised 50% of the overall markets income.
- 4.4 Following a service review in 2013/14 which realised savings in the region of £42,000, March, Whittlesey and Chatteris markets are now managed by the Council's streetscene team. The officers collect rent, manage any day to day issues, introduce new traders and ensure the sites are open and usable. Managing the markets is a small part of a streetscene officers job which also includes, daily patrols within the towns and rural areas, addressing community issues, investigating and taking enforcement action in relation to environmental crimes such as fly tipping, parking management on the marketplace in March, inspections to ensure cleansing standards are maintained in addition to inspections to ensure safety of memorials.
- 4.5 A market forum is held each year; feedback from this is used to scope the market's action plan for the following year. Actions include management of parking on the market places, use of charity stalls, incentives and advertising.
- 4.6 Most markets are fairly stable in size with regular traders attending. Currently for Whittlesey there are 4 permanent and 3 additional casual stalls, in Chatteris 4 permanent and 1 casual stall and in March 3 permanent and 1 casual stall for March Wednesday and a further 8 permanent stalls on March Saturday. 'Casual' stall holders turn up on an ad-hoc basis and are not licenced. For comparison purposes Wisbech Market was held at least twice a week and attracted around 40-45 stalls per market.
- 4.7 The size of the markets is dictated by the market places themselves and dependent on the location. Chatteris and Whittlesey markets do relatively well with most pitches taken each week and a regular customer base. March Saturday is the busiest market currently and many of the traders have been attending for many years. The Wednesday market currently has low stall holder occupancy, which despite efforts to attract new traders has not seen a marked increase.
- 4.8 March and Whittlesey Market offers the largest space available for stalls. In Whittlesey the pedestrianised Buttercross area could hold comfortably 10 stalls. Occupancy here is currently on average 70%.
- 4.9 March Market Place can comfortably hold 20 stalls. On a Wednesday occupancy is currently as low as 15% and Saturday around 70%.
- 4.10 Chatteris Market is the only town which does not have its own pedestrianised space. Instead the market is held in a layby which offers space for between 5 – 6 stalls. This is normally at full capacity.
- 4.11 To incentivise new traders a '321' offer is in place which offers new traders reduced rent over a 6 week period, designed to help them settle in and build a customer base. Market traders are also offered priority pitches at Council run Four Seasons events.
- 4.12 In 2015 the Comprehensive Service Review (CSR), which took account of staffing costs, supplies and services costs and income identified the markets ran at a deficit in the

region of £4,700 a year. The CSR paper proposed discontinuing support for the markets or working with another provider to deliver markets. These options were not considered further at that time.

- 4.13 Market fees were reviewed fully in 2016 and benchmarked against neighbouring and similar local authorities. We found that in comparison we offered on average a lower rent. We also were able to offer other attractive benefits such as free electricity and trade waste collection which previously constituted an extra charged service. More recently traders have feedback verbally that our rent continues to be good value and the additional facilities are a welcomed incentive.
- 4.14 Over the past 5 years the markets' infrastructure has been improved with new signage, additional enforcement to address local parking issues (March market place), new electricity feed pillars for March in 2017 and Whittlesey in 2018 and a small marketing budget to support with local events to attract customers to the market. Continental markets have been approached from time to time however these travelling markets tend to visit city and busy tourist locations and have not added Fenland to their usual programme.
- 4.15 Premises costs for the markets in 2017/18 include the cost of infrastructure enhancements completed in that financial year. The benefit of these infrastructure enhancements improves the Councils overall offer to stallholders in Whittlesey. Similar works were undertaken in March in 2016/17 as part of the capital programme and the cost of these is accounted for as part of the depreciation charged. Cleaning expenses are also included as part of premises costs. The impact of reducing the current pattern of cleaning (based on four days on four days off) will be realised fully in the financial statements when the charges have been in place for a full year.

Wisbech Port and Marine Services

- 4.16 The District Council role within Port & Marine service covers the statutory duties relating to the District Council as CHA (Competent Harbour Authority) & SHA (Statutory Harbour Authority) in respect of the management and control of all operations including marine operations of the Port of Wisbech (includes the Ports of Wisbech (PoW) and Sutton Bridge (PSB) and river channel out into The Wash) and to ensure compliance with the requirements of the Port Marine Safety Code, local bye laws and other relevant legislation.
- 4.17 These statutory duties include navigation and pilotage together with maintaining the 'open port status' through the provision and upkeep of the quay and commercial berths. The service also includes non-statutory functions as owner of the port infrastructure, yacht harbour, boat lift, boat storage area, and commercial land. These roles are delivered by a multi-functional Port & Marine team.
- 4.18 Wisbech port is still a busy port, with a regular trade between the Baltic consisting of mainly timber imports. The principal export is scrap metal. Commercial ship numbers at both Wisbech Port and Port Sutton Bridge have been relatively steady over the past 2 years. There is however a national and international trend of larger ships being used to transport cargo and this may act as a physical constraint associated with the River Nene related to length and draught of ships that it is able to accommodate.
- 4.19 It may be helpful to remind Members that Wisbech Port was considered in full by the Overview and Scrutiny Committee on 3 April 2017 as part of the CSR process at which time all aspects of the service and finances were considered. Officers are finalising changes to historic agreements related to the operator of Wisbech port along with updated freight management/income and land lease costs and agreements.
- 4.20 The Marine service has been subject to a series of reviews that resulted in £60,000 of staff savings along with £40,000 of operational savings. As outlined previously the marine

team is now fully multidiscipline so it can operate effectively and efficiently yet still deliver a safe and commercial service.

- 4.21 Members will note the large disparity of income between the years from wind farm income. The Council and marine team worked hard to exploit benefits to the Council from supporting and providing marine services to both the undersea cable laying and the wind turbine erection out in the Wash. This resulted in a significant amount of income over the years totalling £615,800 which was received in the profile below:

Wind Farm Income					
2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
£138,200	£142,600	£87,800	£12,500	£19,700	£215,000

Unfortunately this major construction project is now complete therefore wind farm income is relatively small and relates to in the main maintenance visits.

Light Industrial Units and Business Centre's

- 4.22 It is important for Members to recognise that the Business Centres and the Light Industrial Units to a lesser extent are provided as incubator units. This means they spawn new businesses that are generally just starting up or moving from home working. Therefore the constant 'churn' of occupation is expected as successful companies grow and move onto larger premises in the area. Therefore measuring success is not directly related to occupancy at any one time.
- 4.23 One of the key priorities of the FDC Business Plan relates to the Economy, which includes the promotion and development of business premises to encourage investment, job creation and skills diversification. In support of this priority, the Council owns and operates The Boathouse Business Centre in Wisbech, South Fens Business Centre in Chatteris, together with a number of light industrial units which are located in Wisbech (New Drove, Boleness Road & Venture Court); March (Longhill Road) and Chatteris (Prospect Way & South Fens Enterprise Park).
- 4.24 The Business Premises Team manages the Council's business premises for start-up and existing small and medium sized enterprise (SME's). The Business Premises estate comprises 82 serviced office suites and 69 light industrial units. The estate provides over 93,150ft² (8,650m²) of business space together with meeting and conferencing facilities at the Business Centres which provides secure, high quality environments for businesses to grow and flourish.
- 4.25 In line with the Council's efficiency agenda and its commitments contained within the [Asset Management Plan 2017-20](#), the business premises estate is managed intensively on a financially efficient basis, with staff operating the business centres and providing administrative support to the Marine Services Team. There is a continued culture of innovation and diversification within the Team in an effort to reduce voids, increase income and maintain occupancy.
- 4.26 One of the Team's key tools is ensuring better utilisation of existing space, which includes creating new lettable space at The Boathouse Business Centre, together with subdivision (into smaller suites) of a large and difficult 'to let' office suite at South Fens Business Centre. Other ventures include the roll out of 'Virtual Office' provision (which provides a professional address and use of the Business Centre facilities for a subscription fee to non-tenant businesses). Services start from £20 per month, whilst utilising existing staff to effectively minimise additional on-costs.

- 4.27 In terms of the financial context, the Business Premises estate produced an operating surplus of £83,500 in 2017/18, which represents a gross profit margin of just over 10%. Between 2016/17 and 2017/18 rental income increased by 2% (just over £13,000) and conference and meeting room income decreased by a modest 3% (£3,200). The continued management of the Business Premises estate remains robust, resilient to change and innovative in adopting efficient practices aiming to secure additional income.

5 Financial Information

- 5.1 Appendices A, B and C contain a further financial break down for each of the trading activities associated with the Markets, Port and Marine Services in addition to the Light Industrial Units and Business Centre's. The financial figures also provide some commentary regarding how the figures are reported in accordance with the Accounting Code of Practice and why the trading accounts and profitability differs significantly to the reported outturn figures.
- 5.2 In addition to the financial figures, it is worthy of note that there are also a number of other considerations which are less easy to quantify in relation to the provision of these services.
- 5.3 Additional benefits include the increased visitor numbers to our Fenland towns and the wider economic benefit markets and non-statutory marine services bring to the respective towns. The provision of business incubator units is considered to have wider economic benefits in relation to job creation and employment, vibrancy and sustainability of our market towns as well as attracting work aged residents into the area. The Council has considered these additional benefits to be a key priority in relation to the achievement of the aspirations outlined in the Business Plan.

6 Recommendations

- 6.1 Members are asked to note the content of the report in response to the letter from the Chairman of the Corporate Governance Committee.

APPENDIX A

<u>Port</u> (Note 1)	2017/18 £	2016/17 £
<u>Direct Costs</u>		
Employee Cost (Inc On Costs)	520,470	549,926
Premises Costs	169,763	98,724
Transport	61,252	55,709
Supplies and Services	168,900	114,459
Third Party Payments	4,521	3,888
Total Direct Costs	924,905	822,706
<u>Income Received</u>		
Harbour and Light Dues	-186,697	-182,639
Pilotage and Boarding	-285,271	-281,489
Wharfage	-62,936	-52,467
Towing	-40,206	-22,574
Conservancy	-149,229	-147,635
Wind Farm Fees and Charges	0	-214,966
Yacht Harbour Fees and Charges	-99,777	-103,132
Environment Agency Contribution	-20,000	0
Insurance reimbursement (Note 2)	-156,202	0
Other Income	-82,397	-21,724
Total Income	-1,082,715	-1,026,625
Operating Surplus for the Year (reported to members via performance reporting and CSR)	-157,810	-203,919
Support Costs recharge (Note 3)	91,010	91,798
Net Operating Surplus	-66,800	-112,121
<u>Accounting Adjustments (Note 4)</u>		
IAS 19 Adj (Pensions)	60,602	-5,042
Accumulated Absences Adjustment	2,482	4,369
Depreciation	308,099	309,437
<u>Other Adjustments</u>		
Pilot Pension Fund adjustment (Note 5)	114,157	678,868
Rents classified as Investment Property Income in Accounts (Note 6)	7,800	7,800
Total Accounting and Other Adjustments	493,140	995,432
Deficit as per Statement of Accounts	426,340	883,311

Notes:

1. The Port Service consists of the Council's Statutory Harbour Authority responsibilities, Commercial activities and the Yacht Harbour.
2. The insurance reimbursement relates to settlement of an insurance claim at the Port. This off-sets

expenditure relating to the claim incurred over the previous year.

3. Support Costs consists of recharges from ICT, Accountancy, Assets & Projects, Accommodation, Legal, Health & Safety, Human Resources & Payroll, Internal Audit and Customer Services. The individual recharges from these services are based on a variety of apportionment methods. The total cost of these services are apportioned across all 'front-line' services.
4. Accounting adjustments are made each year to the service accounts as required by International Accounting Standards and the CIPFA Code of Practice. Government regulations require these adjustments to be 'reversed out' of the accounts (in a separate part of the Statements) so there is no impact on the Council Taxpayer.
5. These accounting adjustments were required to reflect the liability of the Council to the Pilots' National Pension Fund. This has now been settled and no further adjustments are required.
6. Income derived from 'Investment Properties' is required to be reported as a separate note in the Statement of Accounts. Investment Properties are defined as assets held exclusively to derive rental income and/or to realise expected increases in the underlying value of the asset.

APPENDIX B

<u>Light Industrial Units and Business Centre's</u>	2017/18	2016/17
	£	£
<u>Direct Costs</u>		
Employee Cost (Inc On Costs)	233,876	171,998
Premises Costs	349,253	346,013
Supplies and Services	98,221	79,579
Third Party Payments	49,683	48,423
Total Direct Costs	731,033	646,013
<u>Income Received</u>		
Rents	-676,955	-663,945
Boathouse Room Hire	-56,610	-53,927
South Fens Room Hire	-42,144	-48,042
Other Income	-38,831	-43,451
Total Income	-814,539	-809,364
Operating Surplus for the Year (reported to members via performance reporting and CSR)	-83,506	-163,352
Support Costs recharge (Note 1)	250,530	257,878
Net Operating Deficit	167,024	94,526
<u>Accounting Adjustments (Note 2)</u>		
IAS 19 Adj (Pensions)	29,874	-6,148
Accumulated Absences Adjustment	-1,001	2,755
Depreciation	138,681	137,377
Revaluation of Assets	-28,264	-14,459
<u>Other Adjustments</u>		
Rents classified as Investment Property Income in Accounts (Note 3)	21,896	7,900
Total Accounting and Other Adjustments	161,186	127,425
Deficit as per Statement of Accounts	328,210	221,951

Notes:

1. Support Costs consists of recharges from ICT, Accountancy, Assets & Projects, Accommodation, Legal, Health & Safety, Human Resources & Payroll, Internal Audit and Customer Services. The individual recharges from these services are based on a variety of apportionment methods. The total cost of these services are apportioned across all 'front-line' services.
2. Accounting adjustments are made each year to the service accounts as required by International Accounting Standards and the CIPFA Code of Practice. Government regulations

require these adjustments to be 'reversed out' of the accounts (in a separate part of the Statements) so there is no impact on the Council Taxpayer.

3. Income derived from 'Investment Properties' is required to be reported as a separate note in the Statement of Accounts. Investment Properties are defined as assets held exclusively to derive rental income and/or to realise expected increases in the underlying value of the asset.

APPENDIX C

<u>Markets</u>	2017/18	2016/17
	£	£
<u>Direct Costs</u>		
Employee Cost (Inc On Costs)	26,167	28,133
Premises Costs	54,612	40,087
Supplies and Services	1,025	843
Total Direct Costs	81,805	69,064
<u>Income Received</u>		
Fees and Charges and Other Income	-23,701	-27,617
Total Income	-23,701	-27,617
Operating Deficit for the Year (reported to members via performance reporting and CSR)	58,104	41,447
Support Costs recharge (Note 1)	18,630	18,585
Net Operating Deficit	76,734	60,032
<u>Accounting Adjustments (Note 2)</u>		
IAS 19 Adj	3,457	-564
Accumulated Absences Adjustment	-101	249
Depreciation	4,283	644
Total Accounting Adjustments	7,639	329
Deficit as per Statement of Accounts	84,373	60,361

Notes:

1. Support Costs consists of recharges from ICT, Accountancy, Assets & Projects, Accommodation, Legal, Health & Safety, Human Resources & Payroll, Internal Audit and Customer Services. The individual recharges from these services are based on a variety of apportionment methods. The total cost of these services are apportioned across all 'front-line' services.
2. Accounting adjustments are made each year to the service accounts as required by International Accounting Standards and the CIPFA Code of Practice. Government regulations require these adjustments to be 'reversed out' of the accounts (in a separate part of the Statements) so there is no impact on the Council Taxpayer.