

South Lakeland District Council
Overview and Scrutiny Committee 01 February 2019
Cabinet 6 February 2019
Council 26 February 2019
Corporate Financial Monitoring Quarter 3, 2018/19

Portfolio: Finance Portfolio Holder
Report from: Assistant Director Resources (Section 151 Officer)
Report Author: Lee Hurst – Chief Accountant
Wards: All
Forward Plan: Not applicable

1.0 Expected Outcome

1.1 It is expected that Members note the projected year end position based on performance to the end of Quarter 3 2018/19 and that Council approve the changes to the 2018/19 revenue budget as outlined in the report.

2.0 Recommendation

2.1 It is recommended that Overview and Scrutiny Committee:-

(1) **Note the contents of the report**

2.2 It is recommended that Cabinet:

(1) **Note the contents of the report;**

(2) **Request that Council approve the budget changes to increase the income and expenditure budgets by £140k as outlined in paragraph 3.5.1.**

2.3 It is recommended that Council:

(1) **Note the contents of the report; and**

(2) **Approve the budget changes to increase the income and expenditure budgets by £140k as outlined in paragraph 3.5.1.**

3.0 Background and Proposals

3.0.1 **Revenue – Appendix 1** sets out the revenue variances to date. Overall, at the end of Quarter 3, budget monitoring has identified a forecast year-end underspend of £260k. In addition, there are projected to be £273k of carry forward requests. Trends identified in these budget monitoring results have been fed into the 2019/20 budget setting process.

3.0.2 **Capital – Appendix 2** sets out the position on the capital programme. The capital budget at Quarter 2 2018/19 stood at £9.795m. Carry forwards to 2019/20 of £1.557m relating to the ERDF Flood Alleviation scheme and £300k relating to the

Cross-a-moor Affordable Housing scheme and an increase to the Millerground Play scheme of £12k due to additional funding were approved by Council on the 18th December as part of the updated Capital Programme submitted with the 2019/20 Draft Budget. This results in a 2018/19 capital programme of £7.950m at the end of Quarter 3. Expenditure against this programme to the end of Quarter 3 was £3.205m. There is anticipated to be significant expenditure during Quarter 4 and £0.458m of further re-profiling has been identified. A revised programme is presented as part of the budget process, including any new schemes prioritised against the available funding.

3.0.3 **Treasury – Appendix 3** provides an update on Treasury management for the quarter. There is one issue to report in terms of compliance with the approved Treasury Management Strategy relating to counterparty limits. This is covered in paragraph 3.7.4. Investments have performed better than the relevant benchmarks except in relation to long-term core investments due to the change in interest rates. No repayment of existing borrowing or new borrowing is anticipated up to the end of the financial year.

3.1 Revenue Variances by Assistant Director

3.1.1 **Appendix 1** provides the detail of the revenue variances for each Assistant Director's service area. The projected out-turn is for a net underspend of £260k. Further detail is provided below in **Table 1** and paragraphs a) to e) below.

Table 1: Summary by Assistant Director Service Area

AD area	Expenditure Budget Full Year £000	Income Budget Full Year £000	Expenditure Variance to Date £000	Income Variance to Date £000	Overall Variance to Date £000	Out-turn projection £000	Year-end Carry Forward £000
Resources (a)	23,772	-20,170	-85	-73	-158	-140	0
Performance and Innovation (b)	2,056	-71	-61	4	-57	-53	-57
Strategic Development (c)	8,533	-4,365	-192	22	-170	67	-216
Neighbourhood Services (d)	15,074	-8,506	-72	11	-61	-2	0
Corporate (e)	244	-16,206	0	-53	-53	-132	0
Total GF	49,679	-49,318	-410	-89	-499	-260	-273
Net General Fund Before Corporate Savings Target	361						
Corporate Savings Target (para. 3.3.1)	(361)						
Net GF	0						

- a **Resources** – The current projection is for a £140k underspend at year-end. This relates to a number of variances, as set out in **Appendix 1**. The main reasons are:
- £15k underspend in Legal Services relating to vacant posts.
 - A £39k overspend on salaries in Finance due to backfilling of a business critical post with agency staff which was required to meet the statutory accounts closure deadline.
 - The Revenues and Benefits service projects a £24k overspend due to additional costs of running the old system.
 - Additional Council Tax Support administration grant of £27k.

- A £105k underspend identified as a result of a corporate review of Pension and National Insurance rates.
 - £20k underspend due to unclaimed Members allowances. This is due to specific Members not claiming and so no recurring saving has been identified.
- b **Performance and Innovation** - The current projection is a £53k underspend with £57k of requested carry-forwards. The full list of variances is detailed in **Appendix 1**. The main reasons are:
- A net £22k overspend on salaries due to part back-filled vacant posts in Customer Services resulting in a net underspend of £21k and a £43k overspend in Digital Innovations as a result of an extension to temporary posts critical to digital transformation.
 - A number of variances within Information Services leading to a £44k underspend, £32k of which is currently subject to a carry forward request to fund fixed-term posts in 2019/20.
 - An underspend of £8k in Policy and Performance relating to vacancies partially offset by payments for additional responsibilities and exceptional effort under the interim management arrangements.
 - An underspend of £80k on Community Grants and activities, £25k of which is subject to a potential carry forward request. The underspend relates to various unallocated grant pots.
- c **Strategic Development** - There is currently a £67k forecast overspend, with variances detailed in **Appendix 1**, and £216k of requested carry-forwards. The main reasons for the projected out-turn are:
- A £74k underspend on the Grange Lido project which is the subject of a carry forward request to complete the project in the next financial year. This is due to the timing of the project, and preliminary work will not be completed this financial year due to a minor delay in the tender process.
 - Underspend of £16k due to £36k saving on vacant office cleaning posts offset by a £20k shortfall in rental income. Alternatives are currently being worked up with a consideration of the longer-term impact of the Customer Connect 'Places' (office accommodation) programme being taken into account.
 - A net underspend of £12k relating to salaries in Development Management and Development Implementation.
 - A demand led income shortfall of £29k relating to Building Control, this trend is to be expected in the context of reduced planning fee income due to fewer applications being processed.
 - A projected underspend of £38k in relation to the Community Housing Fund scheme due to delays in implementation. This underspend will be transferred back to the Community Housing Fund Reserve at the year end and therefore does not constitute an out-turn saving.
 - Development Control salary overspend of £24k and income shortfall of £128k relating to planning applications. This variance is considerably lower than that reported in Quarter 2 monitoring as the requested reductions in budget of £118k have now been actioned. Future year's budgets have been reduced in line with expected volumes.
 - A potential underspend of £20k is reported in relation to general Economic Development support and funding initiatives. This could be required to complete work in the new year and may be required to be requested to be carried forward.
 - A forecast underspend of £24k of the self-build and custom-build register element of the Housing and Enabling service.

- Homelessness and the Hostel overall is projected to be £7k over budget. This is made up of a £37k income shortfall due to changes in the way Supporting People grant is allocated by the County Council, £10k salary overspend due to not meeting the corporate vacancy target, and a £40k surplus on the Social Lettings scheme. A further £70k surplus relating to the Social Letting scheme is likely to be requested to be carried forward for use in reviewing current service provision. The Social Lettings scheme is currently unbudgeted as budgets were approved to be removed by Council during the 2018/19 budget setting process. A reversal of Government policy has led to this service continuing and a request to establish interim budgets for 2018/19 is outlined in section 3.5.
 - Local Plans is forecast to underspend on salaries by 26k due to vacant posts. There is also a £34k underspend on flood risk assessments due to delays in in Environment Agency Flood Modelling and this sum is subject to a potential carry-forward request in order to complete the assessments in 2019/20.
 - £13k underspend on the Museum management fee. The method of provision of this service is currently under review and future budgets will be amended accordingly. This underspend may be required to fund any potential costs relating to the implementation of the new arrangements.
 - Higher than budgeted New Homes Bonus in year is expected to lead to a £14k income surplus.
 - Sundry (Investment) Properties has a forecast income shortfall on £14k due to un-let units.
- d **Neighbourhood Services** - Overall the year end position is this is projected to be in line with the budget. This is made up of a number of variances across the service as detailed in **Appendix 1**. The main reasons for the projected underspend are:
- A £46k salary underspend in Community Services due to vacant posts.
 - Car parking income is projected to overachieve its budget by £117k.
 - Community Leisure is reporting a potential underspend of £25k due to the discontinuation of a number of County Council partnerships including British Cycling, Sports Development, and Active Travel.
 - A £20k income shortfall relating to Lake Windermere moorings due to a small number of jetty births not being let due to both the exceptionally dry weather and external market pressures. A capital scheme to dredge the births to improve access has been submitted.
 - A £25k underspend relating to Parks due to a Green Spaces Officer and apprentice vacancy.
 - A £52k overspend on Street Cleansing. The corporate vacancy saving will not be met leading to a salaries overspend of £28k. Furthermore, fuel costs are projected to be overspent by £24k due to the larger fleet.
 - The Transport service is forecasting a £11k overspend on vehicle repairs due to the additional number of vehicles in the fleet.
 - Kerbside Recycling is projected to overspend by £128k. This is due to a number of variances within the service. There is a £80k overspend forecast on salaries as the corporate vacancy savings target will not be met. This is a service where full staffing is essential to maintain the service. A £17k shortfall on recycling credits is expected due to the impact of the hot summer on green waste, but as a result tipping and disposal costs will be £20k lower than expected. Sale of recycling materials is expected to underachieve its income budget target by £86k due to low demand and low price for the materials but this is partially offset by a £35k underspend on advertising due to delays in projects.

- e **Corporate items** – Corporate items, which include the Council’s funding through taxation and grants, investment interest income and expenditure, and movements to and from reserves are currently forecast to be in £132k underspent.
- Investment interest income forecasts are for a surplus of £27k. Budgets do not include the recent interest rate rise and this surplus reflects the improved performance. Future year’s budgets have been updated as part of the budget setting process.
 - Retained Business Rates income is expected to be £62k lower than budgeted. This is explained in paragraph 3.8.3.
 - A review of the Minimum Revenue Provision, the charge to revenue for the unfinanced element of capital expenditure, has identified a probable underspend of £167k due to re-phasing of the capital programme. As capital schemes slip to later years the charge to revenue also moves.

3.2 Analysis of employee budgets

- 3.2.1 The position on employee costs at Quarter 3 is summarised in **Table 2** below. The total variance against the Quarter 3 profiled budget is an underspend of £154k, 1.4% of the year to date budget. This saving is over and above the 4% vacancy saving built in to all direct employee cost budgets.

Table 2: Employee costs

Full year budget £000	Profiled budget £000	Actual to date £000	Variance to date £000	Variance %
14,630	10,969	10,815	-154	1.4%

- 3.2.2 To date, the profiled vacancy factor of £420k has been achieved as net vacancy savings after the vacancy factor stand at £741k, but also included in table 2. above is expenditure on contract and agency staff. The total overspend to date on this element of employee costs was £484k (£638k expenditure against a profiled budget of £154k). This expenditure on contract and agency staff equates to 5.9% of the total spend on employee costs up to Quarter 3. The majority of this relates to the Waste and Recycling service (£160k), Development Control (£148k), and the hostel (£48k) where compensating savings on security will be used to cover some of the costs, Legal Service (£33k) and Revenues and Benefits (£33k). There is also a £132k overspend to date on allowances such as overtime, exceptional effort and merit payments. That said, along with a number of smaller savings, the cumulative effect of vacancy management is now taking effect and this results in an overall net underspend of £154k to date.

3.3 Savings, deficit and 2019/20 budget setting cycle

- 3.3.1 As part of the 2018/19 budget process, £361k of savings were built into the base budget to be delivered through vacancy management in the lead in to the Customer Connect programme. Since the Quarter 2 Corporate Financial Monitoring Report a great deal of work has been undertaken by Corporate and Operational managers and by the Finance Team to address the then reported deficit. As outlined in paragraph 3.0.1, Corporate Financial Monitoring has now forecast an underspend of £260k by the financial year end. This leaves savings of around £101k to be found by 31st March 2019. Furthermore, there are currently £273k of further underspends subject

to potential carry-forward requests which could contribute to meeting the savings target if the requests are refused.

- 3.3.2 Further Customer Connect savings of £740k for 2019/20 and £1.550m from 2020/21 onwards have been identified as part of the updated Customer Connect business case and the updated Medium Term Financial Plan both approved by Council during July. Detailed profiling of the exact timings of when these further future savings will be delivered is currently being undertaken by the programme manager and information on performance against these targets and the interaction with other budget variances reported earlier in this report will be reviewed in future budget monitoring reports and through Customer Connect programme monitoring.
- 3.3.3 An efficiency programme is also being developed to assess other areas that could deliver savings or additional income. This will ensure that robust proposals are in place to meet any savings targets over and above the £1.550m to be delivered from the Customer Connect programme.
- 3.3.4 Over the coming weeks budget holders will be asked to formally submit their carry forward requests, in consultation with their Assistant Director, for consideration by Corporate Management Team and the relevant Portfolio Holder. These will then be submitted to Council at its meeting on the 26 February for formal approval and inclusion in the 2019/20 budget.

3.4 Changes to Revenue budgets under delegation

- 3.4.1 Certain budget changes, such as virements below set limits and the use of certain reserves, are delegated to officers of the Council. There have been a number of changes to budgets under these delegated powers since the Quarter 2 report, and these are as follows:
- £40k has been transferred from the Statutory Duties Reserve to fund planning appeals.
 - £21k has been transferred from the Community Housing Fund Reserve to fund a rural housing needs study, and a feasibility study.

3.5 Revenue budget change request

- 3.5.1 As part of the 2018/19 Budget Setting process, Council agreed the removal of budgets in relation to the Social Lettings scheme as Government had announced an end to the initiative. Subsequently, a reversal of Government policy has led to the Council continuing to provide this service. No budgets exist for this service, but we continue to incur expenditure and receive income in the form of Housing Benefit to cover the costs of lettings. It is therefore necessary to establish interim budgets for the remainder of 2018/19 to ensure proper authority to incur expenditure is in place. Therefore Cabinet are asked to request that Council approve the creation of a £140k expenditure budget for the Social Lettings scheme along with a corresponding £140k income budget for only the 2018/19 financial year, with a commitment from management to review service provision in future years.

3.6 Capital programme

- 3.6.1 The capital programme reported at Quarter 2 totalled £9.795m which included £3.249m of carry forwards from 2017/18 and additional schemes totalling £1.686m approved by Council on the 24th July 2018 including the ERDF Flood Alleviation Scheme and the Customer Connect Business Case. The latest version of the capital

programme was presented to Council on the 18 December 2018. At that meeting, carry forwards to 2019/20 of £1.557m relating to the ERDF Flood Alleviation scheme and £300k relating to the Cross-a-moor Affordable Housing scheme, plus an increase to the Millerground Play scheme of £12k due to additional funding, were approved as part of the updated capital programme submitted with the 2019/20 Draft Budget. This results in a 2018/19 capital programme of £7.950m at the end of Quarter 3.

3.6.2 Spend against the £7.950m programme to the end of Quarter 3 was £3.205m with a further £1.188m committed expenditure through purchase orders. There is anticipated to be significant expenditure during Quarter 4 and £0.458m of further re-profiling has also been identified as part of the budget monitoring process. Council will be requested to approve the updated capital programme reflecting this re-profiling on the 26 February 2019 as part of the 2019/20 Budget Setting report.

Table 3: Summary of capital programme and expenditure

	Full Year Budget £000	Expenditure £000	Budget Remaining £000	Requires re-profiling £000
Performance and Innovation	765	133	632	0
Strategic Development	3,317	1,208	2,109	126
Neighbourhood Services	3,868	1,864	2,004	332
Total	7,950	3,205	4,745	458

3.6.3 Details of the re-profiling identified to date are provided below. **Appendix 2** contains further comments and updates on all capital schemes. The main schemes identified for re-profiling are:

- Disabled Toilet Improvements: £40k to be re-profiled. A public consultation is yet to take place and therefore the expenditure will not be incurred until 2019/20.
- Commuted Sums Affordable Housing: £86k re-profiling required. £30k of approved grants will not be paid out until next financial year and the remaining £56k requires suitable applications and so also needs carrying forward.
- Play Areas: various schemes totalling £174k to be re-profiled. Schemes either still in the process of sourcing funding or are out to tender. All spend will fall in 2019/20.
- Vehicle Purchase: £158k to be re-profiled. Additional recycling vehicle will not be delivered until the new financial year.

3.7 Treasury Management

3.7.1 **Appendix 3** contains an overview of the Council's position against the agreed indicators and limits. There is one issue to report in terms of compliance with the approved Treasury Management Strategy relating to counterparty limits. This is covered in paragraph 3.7.4.

3.7.2 To date the Council's investments have performed well against market expectations. Furthermore, the Bank of England base rate increased by a quarter per cent to 0.75% on the 2 August but investment interest income and expenditure budgets have not been increased for this in the current financial year. Budget monitoring has therefore forecast a £27k income surplus on investment interest as a result of the rate rise. Future year's budgets have been updated as part of the budget setting process.

3.7.3 Overall the Council's investments are outperforming the average benchmark rate. However Core (Long-Term) investments are 0.05% below the benchmark rate of 0.76%. This is as a result of the timing of investments maturing and the timing of the last rate rise. Borrowing is not expected to change and no repayment is planned at the current time, due to market conditions.

3.7.4 During the quarter we exceeded the counterparty limit with one of our Money Market Funds by £1.2 million. This was identified and corrected the next day. The situation arose as a result of an administrative error with a deal being listed under the wrong fund on our internal investment record. Operational procedures have been amended in the short-term to avoid this happening again. In the long-term officers are looking at using an online Money Market Fund Portal for managing money market investments. Such a portal will display daily account balances and provide warning messages and prevent limits being exceeded.

3.8 Collection Fund

3.8.1 **Table 4** below sets out the Quarter 3 performance on local tax collection. The Council Tax Collection figure at 31 December 2018 is 86.36%, this is 0.18% higher when compared to the same period last year. This is the first time this year that collection has been above target. Due to the system conversion at the beginning of 2018, the direct debit tapes were run early and a larger than usual amount were returned unpaid. This has now been rectified and it is expected that collection will remain above target next month.

3.8.2 The Non Domestic Rates (NDR) collection rate figure at the end of Quarter 3 is 82.29% which is 0.06% lower than last year. As reported last quarter, it was expected that NDR collection would continue to improve and this is proving to be the case.

Table 4: Local Taxation Collection Rate

Percentage Collected Quarter 2	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Council Tax	87.07	86.71	86.54	86.14	86.18	86.36
Business Rates	87.90	84.33	84.22	82.55	82.35	82.29

3.8.3 As previously reported at Quarter 2, monitoring of the business rate retention scheme has identified a reduction in business rates collectable for 2018/19 of £461k (1.1%), largely due to an increase in small business rate relief. This is offset by a reduction in the provision for appeals of £306k mainly due to a number of large appeals being withdrawn. Overall, after adjustments for levy and income from the pool, it is expected that the net income retained by the Council will be £62k lower than estimated.

3.9 Sundry Debts

- 3.9.1 The aim of this section is to describe the current sundry debt position and to provide assurance over collection performance. **Table 5** below summarises the current collection rate on sundry debts:

Table 5: Summary of collection

	2013/14 and earlier £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 to date £000
Debt outstanding	70	8	16	33	51	488
Total value of invoices/credit notes raised	19,206	4,808	4,606	5,028	5,087	4,690
Collection Rate (%)	99.7%	99.8%	99.6%	99.4%	99.0%	89.6%

An analysis of outstanding sundry debts reveals that over 99% of debts have been recovered in years up to 2016/17, and 99% of debts in 2017/18. In the current year to date, 89% of debt has been recovered. Of the current year's outstanding debt of £488k, 60% of the debt is now 1 month overdue. The table below splits down in more detail the age profile of the current outstanding debts.

Table 6: Age profile of 2018/19 invoices

2018/19 Invoices	£000
Over 6 months overdue	23
6 months overdue	24
5 months overdue	4
4 months overdue	3
3 months overdue	28
2 months overdue	69
1 month overdue	294
Not yet due	43
Total end of Quarter 3	488

- 3.9.2 Of the £294k of debt that is 1 month overdue, £250k is owed by reliable local authority partners and is expected to be paid in a matter of weeks. Outstanding encroachment invoices for all years have remained at a similar level to Quarter 2, at around £75k. £15k of the debt over 6 months old relates to invoices which have instalment payment plans arranged.

4.0 Consultation

- 4.1 Senior management, budget holders and the Finance Portfolio Holder have been consulted.

5.0 Alternative Options

- 5.1 There are no alternative options.

6.0 Links to Council Priorities

6.1 Regular budget monitoring forms part of the corporate governance arrangements that support all Council priorities.

7.0 Implications

Financial, Resources and Procurement

7.1 Financial and resource information are contained within the report.

Human Resources

7.2 There are no direct Human Resources implications of the report.

Legal

7.3 There are no direct legal implications of the report.

Health, Social, Economic and Environmental

7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No

7.5 If you have not completed an Impact Assessment, please explain your reasons: This report is an historic review of financial performance to the end of Q3. The overall impact assessment of the choices and decisions required to set the annual budget is undertaken at budget setting time.

7.6 Summary of health, social, economic and environmental impacts: There are no additional Health, Social, Economic or Environmental impacts as a result of the report.

Equality and Diversity

7.7 Have you completed an Equality Impact Analysis? No

7.8 If you have not completed an Impact Assessment, please explain your reasons: This report is an historic review of financial performance to the end of Q3. The overall impact assessment of the choices and decisions required to set the annual budget is undertaken at budget setting time.

7.9 Summary of equality and diversity impacts: There are no additional Equality impacts as a result of the report.

Risk

Risk	Consequence	Controls required
Not effectively managing budgets could lead to overspending.	Possible legal challenge, audit qualification and ultra vires expenditure.	Scrutiny of budgets through review of monitoring reports.
Recurring pressures or savings are not identified	Medium Term Financial Planning may not reflect the future impact of current issues.	Regular monitoring of budgets in year to inform the MTFP and annual budget setting process.

Contact Officers

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Appendices Attached to this Report

Appendix No.	Name of Appendix
Appendix 1	Detailed Revenue Budget Monitoring
Appendix 2	Detailed Capital Budget Monitoring
Appendix 3	Treasury Management Review

Background Documents Available

Name of Background document	Where it is available
2018/19 Budget Book including MTFP projections	https://tinyurl.com/ybarr92t
2017/18 Budget Setting Report	https://tinyurl.com/y7h7ehne
Medium Term Financial Plan 2019/20-2023/24	https://tinyurl.com/ya988w5b

Tracking Information

Signed off by	Date sent
Legal Services	N/A
Section 151 Officer	17/01/2019
Monitoring Officer	N/A
SMT	17/01/2019

Circulated to	Date sent
Assistant Director	17/01/2019
Human Resources Manager	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	17/01/2019
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	06/02/2019
Council	26/02/2019