

South Lakeland District Council
Overview and Scrutiny Committee

Friday, 16 August 2019

Cabinet 11 September 2019

Council 9 October 2019

Corporate Financial Monitoring Quarter 1, 2019/20

Portfolio:	Andrew Jarvis - Finance and Resources Portfolio Holder
Report from:	Helen Smith – Finance Lead Specialist and Section 151 Officer
Report Author:	Claire Read – Finance Specialist
Wards:	(All Wards)
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 1 2019/20 and officers planned actions to ensure a balanced budget by the end of the financial year.

2.0 Recommendation

- 2.1 **It is recommended that Overview and Scrutiny Committee note the contents of the report;**
- 2.2 **It is recommended that Cabinet note the contents of the report;**
- 2.3 **It is recommended that Council note the contents of the report.**

3.0 Background and Proposals

- 3.0.1 As a result of the new leadership structure from April 2019 the finance team have split and re-allocated the budgets approved in February 2019 to the new Operational Leads and Lead Specialists. In some cases it is expected that elements of existing budgets will be split between two or more lead officers in the future but for simplicity a single lead officer is responsible for the budget for now.

Salary budgets have been split into the new structure, but the remainder of the departmental costs relating to Phase 1 of Customer Connect have not yet been split and all departmental costs relating to Phase 2 have remained unchanged. There will be further splitting and re-combining of budgets during the remainder of this financial year.

- 3.0.2 **Revenue – Appendix 1** sets out the revenue variances to date. The approved net revenue budget for 2019/20 set by Council in February 2019 was £14m which included a Customer Connect savings target of £740k and a vacancy factor savings target of £593k. Additionally, carry forward requests of £510k were approved by Cabinet on the 24 April 2019. Expenditure budgets have been increased in accordance with those approved carry forwards along with the matching funding from reserves.

Overall, at the end of quarter 1, budget monitoring has identified a forecast year-end overspend of £262k but, of course, it is still very early in the financial year. At the same time in 2018/19 we were predicting an overspend of £132k and went on to achieve a £9k underspend at outturn.

Trends identified in these budget monitoring results will be fed into the 2020/21 budget setting process.

3.0.3 **Capital – Appendix 2** sets out the position on the capital programme. The capital budget for 2019/20 approved by Council in February 2019 was £12.339m. Re-profiling of spend into 19/20 totalling £3.144m was reported to Cabinet 24 April 2019.

Additional grant-funded expenditure of £873k has subsequently been requested giving a 2019/20 capital programme of £16.356m. The updated capital programme was approved by Council on 23 July 2019. Expenditure against the programme to the end of quarter 1 was £1.027m.

It is very early in the financial year with many projects still at the specification or tender stage but we are actively reviewing and challenging the timing of capital expenditure and progress will be monitored closely. A revised capital programme will be submitted as part of the budget setting process.

3.0.4 **Treasury – Appendix 3** provides an update on Treasury management for the quarter. All activity in quarter 1 has been within the approved limits. Investments have performed better than the relevant benchmarks. No repayment of existing borrowing or new borrowing is anticipated up to the end of the financial year.

3.0.5 **Overview and Scrutiny Follow up** – Appendix 4 includes responses to questions raised at the meeting on 12 July 2019, regarding 2018/19 outturn.

3.1 Revenue Variances by Leadership Team

3.1.1 **Appendix 1** provides the detail of the 2019/20 quarter 1 (Q1) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£104k. Further detail is provided below in **Table 1** and paragraphs a. to j. below.

Table 1: Summary by Service 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
Strategy	2,570	(12)	(5)	2	(3)	0
Performance, Innovation and Commissioning	1,431	(9)	(14)	8	(7)	6
Support Services (a)	1,483	(240)	(12)	2	(10)	35
Finance (b)	18,745	(17,323)	48	(4)	44	(95)
Human Resources (c)	(63)	(3)	(21)	1	(20)	(55)
Legal , Governance and Democracy (d)	1,849	(33)	(19)	0	(19)	(15)
Digital (e)	0	0	(23)	0	(23)	(31)
Customer and Locality Services (f)	5,465	(6,522)	(28)	6	(22)	79
Specialist Services (g)	8,058	(1,235)	32	35	67	89
Case Management (h)	3,511	(905)	(82)	14	(68)	(70)
Delivery and Commercial Services (i)	9,220	(2,990)	(7)	48	40	194
Corporate Items (j)	13,018	(35,275)	0	0	0	(33)
Total GF	65,287	(64,547)	(131)	112	(19)	104

Table 2 below shows the estimated general fund position at the end of 2019/20, taking into account the Customer Connect savings target of £740k and the progress to date in delivering those savings from Phase 1 of Customer Connect. Phase 2 of Customer Connect is still being costed with savings to be identified later in the financial year to meet the whole £740k target.

Table 2 General Fund Position

	2019/20 £000
Net General Fund Before Corporate Savings Target	740
Phase 1 Customer Connect Savings	(582)
Outturn Projection	104
Net projected General Fund Balance before Phase 2	262

- a **Support Services** – The current projection is for a £35k overspend due to customer connect transitional costs for redundant staff working their notice and pay protection.
- b **Finance** – The current projection is for a £95k underspend at year-end. This relates to a £190k saving arising from the re-tendering of the insurance contract, offset by £54k in Customer Connect transition costs and £52k on interim cover identified as service critical.
- c **Human Resources** - The current projection is a £55k underspend, due to vacant posts partially offset by interim cover.
- d **Legal, Governance and Democracy** - There is currently a £15k underspend forecast due to unclaimed member’s allowances. Any underspend at the end of the financial year as a result of unclaimed allowances will be transferred to the Personal Financial Resilience reserve, as approved by Council on 26 February 2019.
- e **Digital** – The current projection is a £31k underspend, due to vacant posts.
- f **Customer and Locality Services** – The current projection is for a £79k overspend. The main reasons for the projected overspend are
 - Car Parks overall overspend of £40k made up of ,a £67k demand led income shortfall on car park income, £14k overspend on rates bills offset by a £41k underspend on salaries due vacant posts and £48k in Customer Connect transition costs.
 - Lakes overall overspend of £31k made up of £11k demand led shortfall expected on jetty berths and a potential £20k shortfall on encroachment rent income.
 - Parks have a £41k underspend due to additional income related to a backdated recharge to Cumbria County Council for grounds maintenance to highways and grass verges.
- g **Specialist Services** – The current projection is for a £89k overspend. This is made up of a small number of variances across the service as detailed in **Appendix 1**. The main reasons for the projected overspend is:
 - An overspend of £50k on agency cover for development control until Phase 2 recruitment is complete. Despite the staff turnover planning is still meeting its targets and the overspend is being partially offset by an expected £13k demand led surplus on planning income.

- Customer Connect phase 1 transitional costs of £35k.
 - A £27k demand led income shortfall on building control fees for approvals and inspections.
 - A £18k demand led shortfall in land charges income
 - A £28k underspend on Housing Enabling due to vacant post part offset by agency costs.
- h **Case Management** – there is currently a £70k underspend forecasted due to salary savings due to vacant posts in Community Services
- i **Delivery and Commercial Services** - the current projection is for a £194k overspend. This is made up of a number of variances across the service and these are:
- A salary overspend of £153k in Kerbside Recycling, due to use of agency staff to ensure service delivery and not meeting the 4% vacancy target (£99k). Use of agency staff is lower this year compared to 2018/19, following a restructure.
 - A projected shortfall £103k on sale of materials due to current market prices of materials
 - A £42k projected overspend on transport repairs and maintenance.
 - A £17K potential overspend on fuel.
 - A £40k potential underspend on salaries for building cleaners.
 - A £47k underspend on health and safety salaries due to a vacant post part offset by consultancy costs of c£28k.
 - A £60k projected underspend in tipping and disposal charges offset by a projected shortfall on £24k on kerbside recycling credits.
- j **Corporate** – The current projection is for a £33k underspend as a result 2018/19 capital spend being lower than budgeted leading to a lower Minimum Revenue Provision charge in 2019/20.

3.2 Analysis of employee budgets

3.2.1 The position on employee costs at quarter 1 is summarised in Table 2 below. The full year budget has been reduced from £15.12m to £14.56m to reflect savings from phase 1 of Customer Connect.

3.2.2 The total variance against the quarter 1 profiled budget is an overspend of £72k, 2% of the year to date budget. This includes the 4% vacancy saving built in to all direct employee cost budgets. The use of the 4% vacancy saving against all salaries will be reviewed as part of the 2020/21 budget setting process to assess if it is reasonable to apply the saving to rota-based services where absences have to be covered by overtime or agency staff.

Table 3: Employee costs

Full year budget	Profiled budget	Actual to date	Variance	Variance
£000	£000	£000	£000	%
14,557	3,557	3,629	72	2%

3.2.3 Included in table 2 above is expenditure on contract and agency staff. The total spend on this element of employee costs was £209k against a profiled budget of £4k. This expenditure on contract and agency staff equates to 5.77% of the total spend on employee costs in quarter 1. The majority of this relates to development control (£87k) and the Waste and Recycling service (£29k). It is expected that once Customer Connect Phase 1 is embedded and Phase 2 is implemented that the majority of these temporary roles will be replaced with employees.

3.3 Savings and 2020/21 budget setting cycle

3.3.1 As part of the 2019/20 budget process, further Customer Connect savings of £740k were identified. We are currently showing a saving from phase 1 of the staff programme of £582k in salary savings. Phase 2 is currently being recruited to and further savings are expected once the final structure for phase 2 is in place.

3.3.2 The budget setting process for 2020/21 onwards has already begun with the preparation of the Medium Term Financial Plan (MTFP) and the approval of the Budget Strategy by Council on 23 July 2019. Budget Change Bids will be requested and it is anticipated that options to deliver a balanced 2020/21 budget will be presented to Cabinet on 27 November 2019. These options will include the impact of future budget pressures and any potential recurring savings that are identified from the 2019/20 budget monitoring.

3.3.3 As was highlighted in the Medium Term Financial Plan approved by Council on 23 July 2019 there is higher than usual uncertainty around future funding from the Government from April 2020 when the current multi-year settlement expires. This is largely due to the potential timing of Brexit and the change in Prime Minister. An update on this position will be reported as part of the Quarter 2 financial monitoring report.

3.4 Capital programme

3.4.1 As outlined earlier, further to the £12.339m capital programme approved in February 2019 as part of the 2019/20 budget, Re-profiling of £3.114m into 2019/20 was reported to cabinet at its meeting on the 24 April 2019. Council on 23 July 2019 approved a revised capital programme to include the following adjustments:

Table 4: Capital Programme changes since February 2019

	£000
2019/20 Capital Programme as per Council report Feb 2019	12,338.7
Carry Forwards approved April 2019	3,144.1
Coastal Communities Fund	818.3
Income contribution Abbot Hall playground - gross up exp budget	32.2
Lottery funding of Maryfell playground	10.0
Income for Nobles Rest	1.3
Lottery funding for Rayrigg Meadow play area	10.0
Windermere & Bowness Civic Soc funding for Biskey Howe	1.2
2019/20 Capital Programme Q1	16,355.8

3.4.2 Spend against the £16.4m programme to the end of quarter 1 was £1.027m with a further £1.313m committed expenditure through purchase orders. No re-profiling has been identified to date.

Table 5: Summary of capital programme and expenditure

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000	Changes required to 2019/20 £000	Anticipated re-profiling £000
Support Services	588	0	588	0	0
Digital	87	35	51	0	0
Specialist Services	3,505	0	3,505	0	0
Delivery and Commercial Services	6,483	327	6,156	0	0
Strategy	5,098	497	4,601	580	0
Customer and Locality Services	595	168	427	0	0
Grand Total	16,356	1,027	15,329	580	0

3.4.3 **Appendix 2** contains further comments and updates on all capital schemes.

3.4.4 In prior years there has been significant re-profiling of the capital programme. The profiling of the existing programme will be actively reviewed and challenged as part of the 2020/21 budget process. Any recommendations around re-profiling will only be made when this review is complete.

3.5 Treasury Management

3.5.1 There are no issues to report in terms of compliance with the approved Treasury Management Strategy for the quarter. **Appendix 3** contains an overview of the Council's position against the agreed indicators and limits.

3.5.2 To date the Council's investments have performed well against market expectations. There are some indications that the bank rate could be cut again as low as 0.25% in the event of a no deal Brexit, this view has started to gain traction with investment rates starting to fall off their recent levels. The budget was set with the expectation of a stable base rate, so officers will be monitoring this closely.

3.5.3 All investment activity has been within the approved limits in the quarter. Investment return continues to outperform the benchmarks in the current environment. Borrowing is not expected to change and no repayment is planned at the current time, due to market conditions.

3.6 Collection Fund

3.6.1 **Table 5** below sets out the quarter 1 performance on local tax collection. The Council Tax Collection figure at 30 June 2019 is 30.23%, an increase of 0.11% compared to the same period last year.

3.6.2 The Non-Domestic Rates (NDR) collection rate figure is 29.25% which is 0.33% lower than last year. The table below shows the NDR quarter 1 collection rate has generally been decreasing each year for the past 5 years, a large part of this is due to the increasing numbers of business opting to pay over 12 instalments rather than the 10 that were the maximum permitted until regulations changed in April 2014, resulting in payments being due in February & March and so being paid in quarter 4.

Table 6: Local Taxation Collection rate

Percentage Collected Quarter 1	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Council Tax	30.16	30.62	30.14	30.65	30.12	30.23
Business Rates	31.10	30.95	29.77	29.90	29.58	29.25

3.7 Sundry Debts

3.7.1 The aim of this section is to describe the current debt position and to provide assurance over collection performance. **Table 6** below summarises the current collection rate on sundry debts:

Table 7: Summary of collection

	2014/15 and earlier £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 to date £000
Debt outstanding	76	14	25	37	111	304
Total value of invoices/credit notes raised	24,014	4,606	5,028	5,087	5,699	1,825
Collection Rate (%)	99.68	99.70	99.50	99.27	98.05	83.36

An analysis of outstanding sundry debts reveals that over 99% of debts have been recovered in years up to 2017/18.

98% of the debt for 2018/19 has been recovered, of the outstanding amount 35% is due to one invoice for dangerous structure work, 15% for encroachment invoices and 7% for premises licences. There are instalment plans in place for some of these debts and 35% of the total due on these accounts had been paid in year.

In the current year to date, 83% of debt has been recovered. The table below splits down in more detail the age profile of the current outstanding debts.

Table 8: Age profile of 2018/19 invoices

2018/19 Invoices	£000
3 months overdue	75
2 months overdue	68
1 month overdue	86
Not yet due	125
Total end of Quarter 1	354

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 view of Q1 financial performance. The overall impact assessment of the choices and decisions required to set the annual budget is undertaken at budget setting time.

7.6 There are no additional health, social, economic and 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 view of Q1 financial performance. 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

Claire Read, Finance Specialist, Claire.Read@southlakeland.gov.uk, 01539 793152

Helen Smith, Finance Lead Specialist and S151 Officer, h.smith@southlakeland.gov.uk, 01539 793147

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
Appendix 4	Overview and Scrutiny follow up

Background Documents Available

Name of Background document	Where it is available
2019/20 Budget Book including MTFP projections	https://tinyurl.com/y2ecr5ja
Budget Setting Report	https://tinyurl.com/y2ecr5ja
Medium Term Financial Plan 2019/20-2023/24	https://tinyurl.com/y48ka7kk

Tracking Information

Signed off by	Date sent
Legal Services	18/07/2019
Section 151 Officer	16/07/2019
Monitoring Officer	18/07/2019
CMT	18/07/2019

Circulated to	Date sent
Human Resources Manager	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	26/07/2019
Ward Councillor(s)	N/A
Committee	16/08/2019
Executive (Cabinet)	11/09/2019
Council	09/10/2019