

**South Lakeland District Council
Council**

Tuesday, 17 December 2019

Corporate Financial Update Quarter 2, 2019/20

Portfolio:	Finance and Resources Portfolio Holder
Report from:	Section 151 Officer
Report Author:	Claire Read – Finance Specialist
Wards:	(All Wards)
Forward Plan:	Budget and Policy Framework Decision included in the Forward Plan as published on 1 October 2019

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 2 2019/20 and officers planned actions to ensure a balanced budget by the end of the financial year.
- 1.2 That the attached updates to the capital programme and procurement schedule are approved.

2.0 Recommendation

- 2.1 It is recommended that Council;
 - (1) Note the contents of the report and Appendices 1-3 and 6;
 - (2) Approve the updated Capital Programme at Appendix 4;
 - (3) Approve the updated Procurement Schedule at Appendix 5 and delegation to Officers

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. This is a moving situation and the budgets reflect the current position of services, which have changed from quarter 1.

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 2, budget monitoring has identified a forecast year-end overspend of £422k, this includes the saving target for phase 2 of customer connect, which is to be identified later in the financial year and transition costs of implementing phase 1 of customer connect. Since the initial Q2 update report was prepared for Overview and Scrutiny Committee and Cabinet the phase 2 job offers have been made. As a result the allocation for redundancy costs is capable of funding the transition costs associated with staff changes. This will reduce the forecasted year-end overspend to £218k before the savings target for phase 2 and to £60k if phase 2 savings are achieved, as is expected.

At the same time in 2018/19 we reported a total of £612k in overspends and outstanding savings target. We then went on to achieve an underspend of £9k at outturn. Excluding savings targets the overspend in year is estimated to be £264k against an overspend of £251k in 2018/19.

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 July 2019 was £16.4m. Table 4 below summarises requests to update the capital programme including the £325k purchase of land at Dowker Lane, Kendal, the re-profiling from 2018/19 of Ulverston Town Hall grant and various minor adjustments. Expenditure against the programme to the end of quarter 2 was £2.292m.

Following the review of the capital programme with leads and portfolio holders £10.6m of re-profiling has been identified and is included in the revised capital programme in **Appendix 4** for Council to approve.

- 3.0.4 **Treasury – Appendix 3** provides an update on Treasury management for the quarter. 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 **Updated Procurement Schedule – Appendix 5** since April 2016 the Council's Constitution has permitted officers to conduct and conclude the contracting processes without further approval providing it is in line with the Procurement Schedule, to be approved by Council at least annually. Where a procurement process is over budget then approval will still be required in accordance with the Financial Procedure Rules. Where an officer seeks approval for a waiver or exemption under the Contract Procedure Rules this is also included in the Procurement Schedule. An updated Procurement Schedule for 2019/20 is attached at Appendix 5 which includes some additional procurement exercises not approved in July 2019.
- 3.0.6 **Budget Update – Appendix 6** An update is included in this report on the impact of the Government spending review on the Council's budget for 2020/21 and the latest timetable for preparing and approving the budgets for 2020/21 – 2024/25 is attached at Appendix 6.

3.1 Revenue Variances by Leadership Team

- 3.1.1 **Appendix 1** provides the detail of the 2019/20 quarter 2 (Q2) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£264k. Further detail is provided below in **Table 1** and paragraphs a. to l. 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 (a)	6,579	(25)	(31)	5	(26)	(34)
Performance, Innovation and Commissioning (b)	1,452	(2)	(29)	1	(28)	(54)
Support Services (c)	1,429	(240)	6	(1)	5	35
Finance (d)	18,745	(17,324)	45	(8)	37	(108)
Human Resources (e)	(63)	(3)	(54)	2	(52)	(70)
Legal , Governance and Democracy (f)	1,849	(33)	20	(1)	19	41
Digital (g)	0	0	6	0	6	22
Customer and Locality Services (h)	1,924	(392)	1	(20)	(19)	26
Specialist Services (i)	4,200	(1,228)	34	27	61	110
Case Management (j)	3,629	(905)	(100)	4	(96)	(90)
Delivery and Commercial Services (k)	12,928	(9,100)	36	112	148	419
Corporate Items (l)	12,658	(35,338)	(1)	(6)	(7)	(33)
Total GF	65,330	(64,590)	(67)	115	48	264

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 and is expected 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	264
Net projected General Fund Balance before Phase 2 – as reported to Overview and Scrutiny Committee and Cabinet	422
Proposed use of Customer Connect budget to fund transition cost	(204)
Anticipated savings from Phase 2 of Customer Connect	(158)
Net projected General Fund Balance reflected expected Phase 2 Customer Connect changes	60

- a. **Strategy** – the current projection is for a £34k underspend due to
- A £28k underspend on Housing Enabling due to vacant post part offset by agency costs.

- A £10k underspend in development plans related to the Neighbourhood planning grant.
- b. **Performance Innovation and Commissioning** – the current projection is for an underspend of £54k due to vacant posts.
 - c. **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.
 - d. **Finance** – The current projection is for a £107k underspend at year-end. This relates to a £190k saving arising from the re-tendering of the insurance contract, offset by £53k in Customer Connect transition costs and £56k on interim cover identified as service critical less £17k underspend on vacant post.
 - e. **Human Resources** - The current projection is a £70k underspend, due to vacant posts partially offset by interim cover.
 - f. **Legal, Governance and Democracy** – The current projection is for a £41k overspend due to
 - Customer Connect phase 1 transitional costs of £22k
 - A £34k overspend on employee related costs of which £13.5k is the vacancy saving budget which will not be achieved.
 - There is also 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.
 - g. **Digital** – The current projection is a £22k overspend due to extension of the fixed term Digital Development officers post.
 - h. **Customer and Locality Services** – The current projection is for a £25k overspend. The main reasons for the projected overspend are
 - Customer Connect phase 1 transitional costs of £48k
 - Parks have a £27k underspend due to additional income related to a backdated recharge to Cumbria County Council for grounds maintenance to highways and grass verges.
 - i. **Specialist Services** – The current projection is for a £109k overspend. The main reasons for the projected overspend are:
 - 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 £25k demand led income shortfall in land charges income
 - j. **Case Management** – there is currently a £90k underspend forecasted due to salary savings due to vacant posts in Community Services
 - k. **Delivery and Commercial Services** - the current projection is for a £419k overspend. This is made up of a number of variances across the service and these are:
 - A salary overspend of £170k 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 £107k on sale of materials due to current market prices of materials
 - Car Parks overall overspend of £65k made up of a £77k demand led income shortfall on car park income, £14k overspend on rates bills offset by a £26k underspend on salaries due vacant posts.
 - Lakes overall overspend of £65k made up of £13k demand led shortfall expected on moorings due to a reduction in sites let and a potential £52k shortfall on encroachment rent income.
 - A £32k overspend on markets, £22k due to shortfall in income and £10k to cover salaries until end of March 2020.
 - A £24k projected overspend on transport repairs and maintenance.
 - A £24k potential overspend on public halls due to salary overspend on casual staff to cover long term sickness and vacancy saving which will not be achieved.
 - A £47k underspend on health and safety salaries due to a vacant post part offset by consultancy costs of c£29k.
 - A £40k underspend on salaries for building cleaners
- I. **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 £14.62m to reflect savings from phase 1 of Customer Connect.
- 3.2.2 The total variance against the half year profiled budget is an overspend of £34k, 0.50% 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	%
14,617	7,284	7,318	34	0.5%

- 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 £509k against a profiled budget of £32k. This expenditure on contract and agency staff equates to 6.96% of the total spend on employee costs in quarter 1. The majority of this relates to development control (£176k) and the Waste and Recycling service (£68k). It is expect 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 update

- 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 have been 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. The Government carried out a single-year Spending Review in September 2019 which will delay the major changes to local government funding for 12 months.
- 3.3.4 The original budget timetable anticipated the 2020/21 to 2024/25 draft budget would be reported to Cabinet on 27th November 2019. Due to the calling of the General Election for 12th December 2019 the draft budget will be reported to the rescheduled meeting of Cabinet on 20 December 2019. The Cabinet report will be circulated to all members when the Cabinet agenda is published and there will be a briefing before Council on 17th December 2019 on the Council Plan and Budget.
- 3.3.5 Before the General Election was called the Government published a technical consultation on their proposals for a one-year local government funding settlement for 2020/21 broadly based on the 2019/20 funding. The budget report to be considered by Cabinet on 20th December will be based on this technical consultation document. The timing of the provisional and final settlement will not be confirmed until after the General Election.
- 3.3.6 Updates on the detailed budget will be reported in accordance with the budget timetable as is shown at Appendix 6.

3.4 Capital programme

- 3.4.1 As at quarter one the revised capital programmed was valued at £16.355m, since then the following adjustments have been made and the capital programme now stands at £17.582m:

Table 4: Capital Programme changes since February 2019

	£000
2019/20 Capital Programme Q1	16,355.8
Transfer of Second Homes Reserve Balance to Affordable Homes	92.0
Re-profile of Ulverston Town Hall Budget to 2019/20	495.0
Burton Heritage scheme re-profile over 2 years from 3 years	73.8
Purchase of Dowker Lane Car Park Approved Cabinet 17/07/19	325.0
Lottery Funding for Abbot Hall Play Area, gross up expenditure budget	30.0
Hallgarth play area funding from Suez Community Trust	9.0
Yew tree Play Park funding from Walney Wind Farm	10.8
Residents Assoc. cont. to Greenbank & Castlefield Play area, gross up	25.3
National Lottery Funding for Greenbank & Castlefield play area, gross up	20.0
DFG budget increased to reflect actual finding from Government	74.3

Virement from IT reserve to KIT90 for new data centre	60.0
Lottery Funding for Rayrigg meadow play area, gross up expenditure budget	10.0
Windermere & Bowness Civic Society Funding for Biskey Howe	1.2
2019/20 Capital Programme Q2 before re-profiling	17,582.2
Re-profiling to later years	10,593.9
2019/20 Capital Programme Q2	6,988.3

3.4.2 Spend against the £17.582m programme to the end of quarter 2 was £2.292m with a further £1.320m committed expenditure through purchase orders. Re-profiling of £10.6m has been identified following a review of the programme with leads and portfolio holders and this is included in the revised capital programme in **Appendix 4** along with the changes in table 4 above.

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	16	572	0	0
Digital	147	38	109	0	0
Specialist Services	3,505	0	3,505	(3,045)	3,045
Delivery and Commercial Services	6,808	1,137	5,671	(4,549)	4,508
Strategy	5,824	821	5,003	(3,000)	3,000
Customer and Locality Services	710	280	430	0	0
Grand Total	17,582	2,292	15,290	(10,594)	10,553

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

3.5 Use of Reserves

Decisions to use reserves, within limits and in accordance with the purpose of the reserve, are delegated to officers and reported in the next quarterly finance update.

The following decisions have been made during quarter 2:

- i. IT reserve – £60k has been approved to increase the spend in 2019/20 on replacement IT hardware. Hardware is renewed on a rolling programme and fluctuates from year-to-year.
- ii. Cumbria NNDR Pool Reserve - £50k for professional and technical support to the ERDF Kendal flood relief scheme .
- iii. Cumbria NNDR Pool Reserve - £40k to support increased demand for legal services to improve the prompt delivery of housing and economic development decisions.
- iv. Cumbria NNDR Pool Reserve - £25k for Climate Change work to support Council Plan priorities around energy efficiency and a sustainable economy through green technology.

All of these requests can be accommodated within the existing balances on each reserve.

3.6 Treasury Management

- 3.6.1 **Appendix 3** contains an overview of the Council's position against the agreed indicators and limits.
- 3.6.2 To date the Council's investments have performed well against market expectations. With all investments performing in excess of their benchmarks. There is still considerable uncertainty over what the Bank of England will do next with rates depending on Brexit. The budget was set with the expectation of a stable base rate, so officers will be monitoring this closely.
- 3.6.3 During the last quarter one investment was made in excess of the counterparties lending limit. As per the procedure this was raised with the portfolio holder and Section 151 officer, following which action was taken to call back the amount over the counterparty limit and the Council was overexposed for 5 working days, there has been no cost for this except for the loss of interest income on the amount over the counterparty limit for the 5 days.

3.7 Collection Fund

- 3.7.1 **Table 5** below sets out the half year performance on local tax collection. The Council Tax Collection figure at 30 September 2019 is 58.25%, an increase of 0.02% compared to the same period last year.
- 3.7.2 The Non-Domestic Rates (NDR) collection rate figure is 56.06% which is 0.33% higher than the same time last year and represents the first increase in recovery over the last 6 years.

Table 6: Local Taxation Collection rate

Percentage Collected Quarter 1	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Council Tax	58.60	58.64	58.20	58.31	58.23	58.25
Business Rates	57.97	57.73	56.07	55.93	55.73	56.06

3.8 Sundry Debts

- 3.8.1 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	13	24	34	94	1,096
Total value of invoices/credit notes raised	24,014	4,606	5,028	5,087	5,699	3,289
Collection Rate (%)	99.68	99.72	99.52	99.33	98.25	66.68

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, 66% of debt has been recovered this is up from 61% at the same time in 2018/19. The table below splits down in more detail the age profile of the current outstanding debts.

Table 8: Age profile of 2019/20 invoices

2019/20 Invoices	£000
6 months overdue	42
5 months overdue	25
4 months overdue	4
3 months overdue	16
2 months overdue	27
1 month overdue	743
Not yet due	239
Total end of Quarter 2	1,096

The majority of the 1 month overdue amount is made up of 1 invoice for recycling credits from the county council.

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 for Appendices 1-3 .

5.2 The capital programme (Appendix 4) has been updated for proposed changes in projects as set out above.

5.3 The Procurement Schedule (Appendix 5) is not updated – this reduces the efficiency of the Council by requiring individual reports and decisions for tender exercises. This also increases the time taken to let contracts.

5.4 The budget timetable (Appendix 6) has been prepared to meet the statutory deadline for budget setting and existing planned meetings. Alternative timescales would require additional meetings to be organised.

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 Finance and resource information is 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

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Detailed Revenue Budget Monitoring
2	Detailed Capital Budget Monitoring
3	Treasury Management Review
4	Revised 2019/20+ Capital Programme
5	Revised 2019/20 Procurement Schedule
6	2020/21 Budget Timetable

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	28/10/2019
Section 151 Officer	28/10/2019
Monitoring Officer	28/10/2019
CMT	28/10/2019

Circulated to	Date sent
Lead Specialist	28/10/19
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	28/10/19
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	27/11/19
Council	17/12/19