

South Lakeland District Council
Council
Tuesday 25 February 2020
Corporate Financial Update Quarter 3, 2019/20

Portfolio: Finance and Resources Portfolio Holder
Report from: Section 151 Officer
Report Author: Claire Read – Finance Specialist
Wards: (All Wards);
Forward Plan: N/A

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 2019/20 and officers planned actions to ensure a balanced budget by the end of the financial year.
- 1.2 That members approve the requested budget virement as detailed in paragraph 3.4.

2.0 Recommendation

2.1 It is recommended that Council;

2.1.1 Note the contents of the report and Appendices 1-3

2.1.2 Confirm agreement of phase 1 transition cost virement as identified in paragraph 3.4.

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.

During January all departmental costs relating to Phase 2 including salaries, have been split and recombined into new service areas.

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 match funding from reserves.

Overall, at the end of quarter 3, budget monitoring has identified a forecast year-end underspend of £15k.

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

3.0.2 **Capital – Appendix 2** sets out the position on the capital programme. The capital budget for 2019/20 approved by Council in November 2019 was £6.988m. Table 4 below summarises requests to update the capital programme totalling £140.5k as a result of additional external funding for several schemes. Expenditure against the programme to the end of quarter 3 was £3.206m.

3.0.3 **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.

3.1.1 **Appendix 1** provides the detail of the 2019/20 quarter 3 (Q3) revenue variances for service area grouped by lead officer. The projected out-turn is for a net underspend of c£136k. Further detail is provided below in **Table 1** and paragraphs a. to f. 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, Innovation and Resources (a)	25,267	(17,615)	(414)	14	(400)	(366)
Customer and Locality Services (b)	2,000	(424)	(12)	(5)	(17)	(7)
Specialist Services (c)	9,124	(1,270)	18	46	64	99
Case Management (d)	3,623	(905)	(110)	3	(107)	(90)
Delivery and Commercial Services (e)	12,786	(9,100)	97	80	177	460
Corporate Items (f)	12,611	(35,357)	7	(50)	(43)	(232)
Total GF	65,411	(64,671)	(414)	88	(326)	(136)

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	(591)
Expected Phase 2 Customer Connect Savings	(149)
Outturn Projection before Carry Forwards	(136)
Requested Carry Forwards	121
Net projected Outturn Variance after carry forwards	(15)

- a. **Strategy Innovation and Resources**– the current projection is for a £366k saving against budget, due to:

- A £190k saving arising from the re-tendering of the insurance contract
 - A £96k saving in customer connect salaries, subject to a carry forward request.
 - A £83k underspend within employee relations of which £43k relates to vacant posts and £40k on the corporate training budget
 - A £50k underspend on Local Plans budget
 - A £25k underspend in development plans related to the Neighbourhood planning grant, subject to a carry forward request.
 - 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.
 - A £11k additional in Council Tax Admin Grant than expected
 - A £15k overspend in Finance due to £36k cost of interim cover identified as service critical part off set by Salary saving of £21K due to vacant post.
 - A £35k overspend in Legal, Governance and Democracy due to £18k one off employee costs and £17k overspend on salaries due to workload of which £13.5k is the vacancy saving budget which will not be achieved
 - A £54k overspend re vacancy saving allowances
- b. **Customer and Locality Services** – The current projection is for a £6k underspend. The main reasons are
- Customer services phase 2 transition costs £16.5k less underspend on salaries of £12k
 - Parks have a £11k underspend due to additional income related to a backdated recharge to Cumbria County Council for grounds maintenance to highways and grass verges.
- c. **Specialist Services** – The current projection is for a £99k overspend. The main reasons for the projected overspend are:
- An overspend of £75k on agency cover for development control until end of December 2019.
 - A £28k demand led income shortfall in land charges income
 - Demand led shortfall on building control income of £20k
 - Housing Enabling has a £24k salary underspend
- d. **Case Management** – there is currently a £90k underspend forecasted due to salary savings due to vacant posts in Community Services
- e. **Delivery and Commercial Services** - the current projection is for a £460k overspend. This is made up of a number of variances across the service and these are:
- A projected shortfall £106k on sale of materials due to current market prices of materials

- A salary overspend of £192k 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 £56k projected overspend on transport of which £34k relates to salary overspends and £22k shortfall in contract income.
 - Car Parks overall overspend of £43k made up of a £45k demand led income shortfall on car park income, £14k overspend on rates bills offset by a £16k underspend on salaries due vacant posts.
 - Lakes overall overspend of £34k made up of £12k demand led shortfall expected on moorings due to a reduction in sites let and a potential £22k shortfall on encroachment rent income. The encroachment shortfall has fallen since quarter 2 due to back dated invoice to 2015, following rent review.
 - A £34k overspend on markets, £23k due to shortfall in income and £11k to cover salaries until end of March 2020.
 - A £27k shortfall in income from the Caravan Site
 - 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 £20k underspend on Fuel in Waste Collection and Kerbside Recycling
 - A £36k underspend on salaries for building cleaners
- f. **Corporate** – The current projection is for a £232k underspend as a result of £153k in additional NNDR income, £33k underspend in Minimum Revenue Provision charge in 2019/20 due to a lower than expected capital spend in 2018/19 and a £46k surplus in investment interest income.

3.2 Analysis of employee budgets

- 3.2.1 The position on employee costs at quarter 3 is summarised in Table 2 below. The full year budget has been reduced from £15.12m to £14.742m to reflect savings from phase 1 of Customer Connect plus budget for phase 1 transition costs
- 3.2.2 The total variance against the three quarter year profiled budget is an underspend of £154k, 1.4% 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	%
14,742	11,145	10,991	(154)	(1.4)%

- 3.2.3 Included in table 3 above is expenditure on contract and agency staff. The total spend on this element of employee costs was £861k against a profiled budget of £74k. This expenditure on contract and agency staff equates to 7.83% of the total spend on employee costs in quarter 3. The majority of this relates to development control (£286k)

and the Waste and Recycling service (£112k). 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 as recruitment is concluded.

3.3 Capital programme

- 3.3.1 As at quarter two the revised capital programmed was valued at £6.988m, since then the following adjustments have been made and the capital programme now stands at £7.129m:

Table 4: Capital Programme changes since October 2019

	£000
2019/20 Capital Programme Q2	6,988.3
Grasmere Village Society Contribution to Broadgate Meadow play area	44.0
Kendal Town Council Contribution to Hallgarth Play area	6.9
County and Police Contributions to Burton Heritage Scheme	89.5
2019/20 Capital Programme Q3	7,128.7

- 3.3.2 Spend against the £7.129m programme to the end of quarter 3 was £3.206 with a further £2.080m committed expenditure through purchase orders and £844k of expected carry forwards.

Table 5: Summary of capital programme and expenditure

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000
Support Services	0.0	0.0	0.0
Digital	735.0	210.0	525.0
Specialist Services	2,717.0	839.9	1877.1
Delivery and Commercial Services	2,309.3	1,248.5	1,060.8
Strategy	606.2	266.6	339.6
Customer and Locality Services	761.2	641.3	119.9
Grand Total	7,128.7	3,206.3	3,922.4

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

3.4 Use of Reserves

As part of Phase 1 of customer connect there are a number of transition costs resulting in an overspend in service budgets. Following appointments to Phase 2 the redundancy cost budget was underspent and it was agreed with the Customer Connect Board and the Finance and Resources Portfolio Holder to use £213,540 (as identified in Period 7 monitoring) of this to cover the Phase 1 transition costs.

While still being used to cover staff costs related to customer connect, due to the use not being exactly as initially indicated, it was felt appropriate for transparency and completeness to also seek approval from Council as the amount is over the £100k limit identified in the Financial Procedure rules.

3.5 Treasury Management

3.5.1 **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. 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 Collection Fund - update to follow.

3.6.1 **Table 6** below sets out the half year performance on local tax collection. The Council Tax Collection figure at 31 December 2019 is 86.48%, which is 0.12% above target and similar to last year.

3.6.2 The Non-Domestic Rates (NDR) collection rate figure is 82.72% which is 0.44% higher target and similar to last year.

Table 6: Local Taxation Collection rate

Percentage Collected Quarter 3	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Council Tax	86.71	86.54	86.14	86.18	86.36	86.48
Business Rates	84.33	84.22	82.55	82.35	82.29	82.72

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 7** 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	22	31	91	469
Total value of invoices / credit notes raised	24,014	4,606	5,028	5,087	5,699	4,811
Collection Rate (%)	99.68	99.72	99.56	99.39	98.40	90.24

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

3.7.3 98% of the debt for 2018/19 has been recovered, of the outstanding amount 43% is due to one invoice for dangerous structure work, and 17% for encroachment. 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.

- 3.7.4 In the current year to date, 90.24% of debt has been recovered this is up from 89.59% 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
7-12 Months overdue	39.0
6 months overdue	12.6
5 months overdue	15.3
4 months overdue	7.3
3 months overdue	6.8
2 months overdue	21.9
1 month overdue	109.7
Not yet due	256.8
Total end of Quarter 2	469.4

The majority of the 1 month overdue amount is made up of 2 invoice payable by the county council related to the Burton in Kendal Scheme, Payment is normally made within 6 weeks.

- 3.7.5 In the last quarter the amount owing for Lake Encroachments have reduced by over £21k across 11 accounts; this represents a reduction of 25% in outstanding debt which is significant given the longstanding nature of some of the disputes. Officers in Legal and Finance, together with the Council's property agents, continue to work to recover these debts. This has been reported in full to Lake Administration Committee on 24th January 2020.

4.0 Consultation

- 4.1 Senior management, budget holders and the Finance Portfolio Holder have been consulted and Cabinet considered the report on 5 February 2020.

5.0 Alternative Options

- 5.1 There are no alternative options for Appendices 1-3

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

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	13/01/2020
Section 151 Officer	13/01/2020
Monitoring Officer	13/01/2020
CMT	13/01/2020

Circulated to	Date sent
Lead Specialist	13/01/2020
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	13/01/2020
Ward Councillor(s)	N/A
Committee	
Executive (Cabinet)	
Council	N/A