

South Lakeland District Council
Cabinet
Wednesday 9 September 2020
Corporate Financial Update Quarter 1, 2020/21

Portfolio: Finance and Resources Portfolio Holder
Report from: Section 151 Officer
Report Author: Claire Read – Finance Specialist, Claire Chouchoulas – 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 1 2020/21 and officers planned actions to ensure a balanced budget by the end of the financial year.
- 1.2 That members approve the continuation of the emergency decision to increase counterparty limits for Money Market Funds to £10m for the remainder of 2020/21, paragraph 3.5.3.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

- (1) Note the contents of the report and Appendices 1-3;**
- (2) Recommend Council agree to the continuation of the increase in counterparty limits for Money Market Funds to £10m for the remainder of 2020/21;**
- (3) Authorise receipt of the grant funding and delegate authority to enter into the funding agreement with the LEP as outlined in paragraph 3.3 to the Director of Customer and Commercial Services in consultation with the Legal, Governance and Democracy Lead and the Portfolio Holder Finance and Resources; and**
- (4) Recommend Council agree the virements set out in Section 3.3.**

3.0 Background and Proposals

3.0.1 Revenue – Appendix 1 sets out the revenue variances to date.

- a) Covid-19 - As part of the 2019/20 Revenue and Capital Outturn report, a revised budget was approved for 2020/21. Included in this was £2,026.5k from reserves and £1,080.5K in government grant to cover additional costs (£827k) and the loss of income (£2,280k).
- b) Looking forward additional costs and loss of income for the remaining year is expected to be £841k making the total expected service cost of the pandemic

£2.868M. The Government have announced a grant to offset some lost income from fees and charges. The final scheme has not yet been announced and the first claim is expected in September. Based on the draft scheme, the Council would be reimbursed for 75% of lost income from fees and charges after a threshold of 5% of total budgeted income. Based on the Q1 monitoring figures this would bring £1.376M of additional income, reducing the total service cost of the pandemic to £1.492M. This is slightly better than the £1.623M cost projected in the Medium Term Financial Plan approved in July 2020.

- c) Business as Usual (BAU) – in order to fully understand the underlying position the business as usual position has been separately identified–excluding the impact of Covid-19. The approved net revenue budget for 2020/21 set by Council in February 2020 was £10.9m which included a vacancy factor savings target of £439.6k. Additionally, carry forward requests of £1.2m were approved by Council on 30 June 2020. 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 business as usual year-end overspend of £69k.

3.0.2 **Capital – Appendix 2** sets out the position on the capital programme. The capital budget for 2020/21 approved by Council in February was £22.083m. Due to Covid-19 expenditure against some schemes in the capital programme has been significantly delayed and was £0.41m at the end of quarter 1

3.0.3 **Treasury – Appendix 3** provides an update on Treasury management for the quarter.

3.1 Business as Usual Revenue Variances by Leadership Team

3.1.1 **Appendix 1** provides the detail of the 2020/21 quarter 1 (Q1) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£69k for business as usual. Further detail is provided below in Table 1 and paragraphs a. to f. below. This compares favourably with the situation at the same position last year (2019/20) where an overspend of £263k was projected and 2018/19 where an overspend of £132k was projected.

Table 1: Summary by Service Area (after initial adjustment for Covid-19)

	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 BAU* £000	Out-Turn projection Covid-19 £000
Strategy, Innovation and Resources (a)	86,160	(79,984)	(232)	(4)	(236)	(195)	0
Customer and Locality Services (b)	2,868	(93)	(22)	8	(14)	0	0
Specialist Services (c)	28,469	(18,720)	(6)	103	97	189	0
Case Management (d)	2,630	(779)	(7)	(5)	(12)	0	0
Delivery and Commercial Services (e)	13,129	(7,823)	(96)	150	54	75	841
Corporate Items (f)	11,718	(37,575)	0	5	5	0	0
Total GF	144,974	(144,974)	(363)	257	(105)	69	841

*BAU = Business as usual

The Covid-19 out-turn projection of £841k is for service Covid-19 variances over and above the specific allocated amounts already agreed to be funded from reserves. We

are currently working through the interaction between the lost income, government funding offer and use of reserves, and this will be updated in future versions. Initial projections suggest £1.376M of grant towards lost income will be claimable, reducing the additional projection from a net cost of £841k to a net reduction of £535k.

- a. **Strategy Innovation and Resources**– the current projection is for a £195k saving against budget, due to:
 - £20k relates to vacant post for a digital development officer;
 - £75k is due to the PCC and district elections being postponed as a result of Covid-19, this is expected to be carried forward into 2021/22. This would normally be a fallow year but district elections will now need to take place;
 - £55k surplus on New Homes Bonus income; and
 - £45k due to vacant posts within IT.
- b. **Customer and Locality Services** – currently there are no projected variances within this service.
- c. **Specialist Services** – The current projection is for a £189k overspend. The main reasons for the projected overspend are:
 - £180k overspend on salaries within planning, revenues and benefits, housing standards and environment, due to the use of agency staff to fill vacant posts we are currently recruiting to.
- d. **Case Management** – currently there are no projected variances within this service.
- e. **Delivery and Commercial Services** - the current projection is for a £75k overspend. This is made up of a number of variances across the service and these are:
 - A £20K demand led shortfall anticipated for moorings, in addition to the shortfall anticipated as a result of Covid-19;
 - A £25k overspend on salaries due to the delay with the market tender;
 - A £50k shortfall in the sale of materials due to current market prices; and
 - Reduced by a £20k underspend on Fuel, due market prices.
- f. **Corporate** – currently there are no projected variances within this service, but this is made up of the 2 large variances that offset each other, they are:
 - A £150k estimated shortfall in investment income. While quarter 1 is in line with expectations this will not continue as all new deals are at much lower interest rate following emergency cuts to the Bank Rate in March 2020; and
 - A £150k saving on borrowing costs, due to not needing to borrow for the capital programme in 2019/20.

Analysis of employee budgets

- 3.1.2 The position on employee costs at quarter 1 is summarised in Table 3 below
- 3.1.3 The total variance against the three quarter year profiled budget is an underspend of £196k, 5.4% of the year to date budget. This includes the 4% vacancy saving built in to all direct employee cost budgets.

- 3.1.4 This is due to a larger than normal number of vacancies during quarter 1. We have experienced difficulties recruiting to some posts and have now engaged specialist recruitment agencies to assist us.

Table 3: Employee costs

Full year budget	Profiled budget	Actual to date	Variance	Variance
£000	£000	£000	£000	%
14,067	3,636	3,440	(196)	(5.4)%

- 3.1.5 Included in table 3 above is expenditure on contract and agency staff. The total spend on this element of employee costs was £287k against a profiled budget of £193k. This expenditure on contract and agency staff equates to 8.35% of the total spend on employee costs in quarter 1. The majority of this relates to Specialist-Place (£77k) which is for development control specialists and Specialist-People (£63K) which is for revenue & benefits and housing standards specialists. These mainly cover the use of agency while we carry out recruitment to vacant posts.
- 3.1.6 The COVID19 crisis has placed additional demands on the Council's customer facing and support services and at a time when the organisation is in the process of transitioning to its new operating model and introducing greater digital enablement of its services and internal processes. The Council has responded to date by flexing its deployment of employees to the areas of greatest need. This has worked to a high degree and during the initial phase of the crisis when demand for some areas of service were suppressed enabling flexibility in deployment. With lockdown easing, the Council is now seeing areas of suppressed demand return, continued additional or new demands, whilst also forecasting how service demand will shift as further easing of lockdown takes place, together with the ending of Government support measures such as the Furlough scheme. Overall, the demands on the Council are greater than when entering the crisis. Leadership Team have collated proposals for additional resources, checked and challenged the proposals and considered the means to fund the one off additional revenue costs. The proposals equate to 9.13 FTE during 20/21, 10.78 FTE during 21/22 and 4.35 FTE during 22/23. All roles are temporary and will not, by this decision, lead to an increase in the permanent establishment of the Council, each will have a defined fixed term which is either to end by May 2021, or to be for a maximum period of up to but not exceeding 24 months (roles of greater than 12 months to be confirmed initially for 12 months, with managerial discretion, subject to budget approval, to extend up to but not exceeding the 24 months) and all temporary roles will end no later than August 31st 2022. These roles will be funded through the use of the Government Covid-19 grant, existing salary budget underspends and the use of earmarked reserves using virements in accordance with the Finance Procedure Rules.

3.2 Capital programme

- 3.2.1 The 2020/21 capital programmed is valued at £22.083m. Spend at the end of quarter 1 was £0.41k, with a further £2.149m committed expenditure through purchase orders.

Table 5: Summary of capital programme and expenditure

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000
Support Services	0	0	0
Digital	516	24	(492)
Specialist Services	10,519	175	(10,344)
Delivery and Commercial Services	10,557	69	(10,488)
Strategy	261	102	(159)
Customer and Locality Services	230	40	(190)
Grand Total	22,083	410	21,673

3.2.2 **Appendix 2** contains further comments and updates on all capital schemes. Work on South Lakeland House and Kendal Town Hall commenced in early Q2.

3.2.3 In light of CV19 all projects are being reassessed for feasible, deliverability and timing.

3.3 Virement requests

3.3.1 **Community Housing Fund:** this reserve holds funding received from the Government to support Community Housing schemes. The Finance Procedure Rules require approval from Council for additional use of reserves over £100,000. It is requested that £289,000 is transferred from the reserve to the capital programme to fund contributions to schemes in the district and £47,000 be transferred to the revenue budgets to fund the Community Led Housing Officer post for the remainder of this financial year.

3.3.2 **Next Steps Accommodation Programme (NSAP):** local authorities have been invited to bid for funds towards the costs of finding suitable accommodation for those who have been accommodated as part of the Covid-19 emergency response. A bid to work with Home Group and Impact Housing has been submitted to include accommodation with 24/7 support in place for up to 2 years with dedicated move-on and sustainment work. The bid is for £237,000pa for this longer-term accommodation and £39,500 for 2020/21 revenue funding. Approval is required from Council to increase the capital programme and revenue budget, with offsetting funding from grant, if the bid is successful.

3.3.3 **South Lakeland House/Kendal Town Hall:** Cumbria LEP has agreed to award £439k of Local Growth Fund to support the investment for the Mintworks 2 element of the project to support SMEs. Approval is required from Council to update the capital programme to reflect this grant.

3.4 Treasury Management

3.4.1 **Appendix 3** contains an overview of the Council's position against the agreed indicators and limits.

3.4.2 To date the Council's investments have performed well against market expectations, with all investments performing in excess of their benchmarks. However when compared to budgets interest receipts are expected to be down by £150k due to the change in Bank Rate and the drying up of liquidity in the short end of the money market. This is offset by a budget saving of £150k on interest payable as a result of not borrowing in 2019/20.

3.4.3 On 31 March 2020 Emergency Decision 003 was taken to amend the Treasury Management counterparty limits as follows:

- a. To disregard grant funding from government to be redistributed in relation to Covid-19 when applying the counterparty limit with the Council's own bankers (Nat West).
- b. To increase the counterparty limit for Money Market Funds from £5m to £10m.

This has enabled the Council to maintain the liquidity of its cash flows when the money market for short dates has all but disappeared due to the increase in the funding for lending scheme. We therefore request that Council approve the continuation of the increased counterparty limit for Money Market Funds for the remainder of 2020/21.

3.5 Collection Fund

3.5.1 **Table 6** below sets out the performance on local tax collection. The Council Tax Collection rate at 31 June 20 is 28.62%, which is 1.61% below the level seen at a similar time last year. The Council expects to collect £85.5M of Council tax in 2020/21 so the SLSC share (12.42%) of the total fall in collection at the end of Q1 is £171k. .

3.5.2 The hardship scheme, which increases the discounts under the Council Tax Reduction Scheme (CTRS), has now been processed. Overall 901 Council Tax accounts have been reduced by £206k. When the furlough scheme ends it is likely that the number of claims for CTRS will increase and therefore more customers will become eligible for the Covid-19 Hardship. It may also be that existing customers currently receiving full CTRS, particularly the self-employed, return to work. Both of these situations will result in an increase to the amount of Hardship awarded. It is estimated that by the end of the year the Council can expect to have made additional payments of between £115k and £215k. This would bring the total paid between £320k and £420k out of a Government grant of £487k.

3.5.3 The Non-Domestic Rates (NDR) collection rate figure is 24.88% which is 4.37% below the level seen at a similar time last year. The Council expected to collect £44.5M of business rates during 2020/21 and retains 40% of the income so the total value of the reduction is £85k.

Table 6: Local Taxation Collection rate

Percentage Collected Quarter 1	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	%	%	%	%	%	%
Council Tax	30.62	30.14	30.65	30.12	30.23	28.62
Business Rates	30.95	29.77	29.90	29.58	29.25	24.88

3.5.4 Collection rates are lower than in previous years as for the duration of quarter 1 no recovery action was taken in light of Covid-19 and the financial hardship this has caused to many. Recover action has since restarted in July 2020, with a Covid-19 specific letter asking rate payers to contact the Council if they are experiencing difficulties making payment. Standard recovery actions will resume from August.

3.6 Sundry Debts

- 3.6.1 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

	2015/16 and earlier £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 to date £000
Debt outstanding	55	21	25	88	281	396
Total value of invoices / credit notes raised	28,620	5,028	5,086	5,696	6,165	1,255
Collection Rate (%)	99.70	99.57	99.49	98.46	95.44	68.43

- 3.6.2 An analysis of outstanding sundry debts reveals that over 99% of debts have been recovered in years up to 2017/18.
- 3.6.3 In the current year to date, 68.43% of debt has been recovered this is down from 83.36% at the same time in 2019/20. The table below splits down in more detail the age profile of the current outstanding debts.

Table 8: Age profile of 2020/21 invoices

2020/21 Invoices	£000
3 Months overdue	172.5
2 months overdue	125.6
1 month overdue	68.6
Not yet due	29.5
Total end of Quarter 1	396.2

Due to Covid-19 and the financial hardship this has caused to many, no reminder letters have been sent to customers since March 2020. Recovery action has commenced in July with a Covid-19 specific letter to ask customers to contact the Council if they are experiencing difficulties in making payment. The standard debt recover procedures will be re-implemented in August.

3.7 Procurement

- 3.7.1 The Contract Procedure Rules give delegated authority to officers to approve exemptions and waivers to the rules for tenders and other procurement exercises in certain limited circumstances. The Procurement Schedule, elsewhere on this agenda, includes the required updates.

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 To return the counterparty limit on money market funds to £5 million, this will impact the Council's ability to maintain short term liquidity and could result in higher balances being kept in the Councils bank account which does not earn any interest.

5.3 To refuse the requested virements: this will prevent the Council applying funds from Government within the district to improve housing and reduce homelessness.

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
2020/21 Budget Book including MTFP projections	https://tinyurl.com/y56kswxu
Budget Setting Report	https://tinyurl.com/y48tb9or
Medium Term Financial Plan 2020/21-2024/25	https://tinyurl.com/y3lz82yr

Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	20/08/2020	25/08/2020
Section 151 Officer	Report from S151 Officer	
Monitoring Officer	20/08/2020	27/08/2020
CMT	29/07/2020	29/07/2020

Circulated to	Date sent
Lead Specialist	N/A
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	20/08/2020
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	09/09/2020
Council	06/10/2020