

**South Lakeland District Council**  
**Council**  
**Tuesday 15<sup>th</sup> December 2020**  
**Corporate Financial Update Quarter 2, 2020/21**

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**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

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**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 2020/21 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 Council:-**

- (1) Note the contents of the report and Appendices 1-4;**
- (2) Approve the re-profiling of the Capital Programme as shown in 3.2.3 and Appendix 3;**
- (3) Subject to the approval of Cabinet on 08 December, approve the carry forward of unspent estimates as set out in section 3.1.2 and Appendix 5; and**
- (4) Subject to the approval of Cabinet on 08 December approve the virement of £92,800 from the Community Housing Fund in section 3.1.3.**
- (5) Subject to the approval of Cabinet on 08 December approve the use of £150,000 from the NNDR Pooling Reserve, £135,294 from the Kendal Town Centre Masterplan and up to £246,000 of s106 funding, as set out in section 3.1.4**

**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 £826k making the total expected service cost of the pandemic

£2.898m. These are the costs before assessing the impact of the second lockdown.

Under the Government Sales Fees and Charges Support Scheme we made our first claim in October for £963k for the period April to July 2020. We expect we will need to claim a further £263k for the remainder of 2020/21. Together this will bring in additional income of £1.226m to the Council reducing the total service cost of the pandemic to £1.672m. This has increased slightly from 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. Carry forwards are now requested to 2021/22.

Overall, at the end of Quarter 2, budget monitoring has identified a forecast business as usual year-end overspend of £216k.

- 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. The working budget has increased slightly from the approved budget to £22.320m following a £237k transfer from reserves for the Community Housing Fund approved in Quarter 1 Monitoring Report.

Due to Covid-19 expenditure against some schemes in the capital programme has been significantly delayed and was £1.993m at the end of Quarter 2. Refurbishment of Kendal Town Hall/South Lakeland House is now ongoing.

- 3.0.3 **Capital Programme Update – Appendix 3**

The capital programme update includes re-profiling of £9.4m to future years following a review with Portfolio Holders and Leads over the deliverability of the programme in the current climate.

Cabinet and Council are requested to approve the re-profiling as set out in 3.2.3.

- 3.0.4 **Treasury – Appendix 4** 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 2 (Q2) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£216k for business as usual. Further detail is provided below in Table 1 and paragraphs a. to f. below. The projected overspend at the same position last year (2019/20) was c£264k.

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

	<b>Current Working Budget Full Year £000</b>	<b>Expenditure Variance to Date £000</b>	<b>Income Variance to Date £000</b>	<b>Overall Variance to Date £000</b>	<b>Out-turn projection BAU* £000</b>	<b>Out-Turn projection Covid-19 £000</b>
Strategy, Innovation and Resources (a)	6,707	(261)	157	(104)	(115)	(204)
Customer and Locality Services (b)	2,205	(22)	7	(15)	0	0
Specialist Services (c)	10,141	125	151	276	471	343
Case Management (d)	1,859	(17)	19	2	(25)	10
Delivery and Commercial Services (e)	5,281	(25)	244	219	97	677
Corporate Items (f)	(26,193)	0	0	0	(212)	0
<b>Total GF</b>	<b>0</b>	<b>(200)</b>	<b>578</b>	<b>378</b>	<b>216</b>	<b>826</b>

\*BAU = Business as usual

The Covid-19 out-turn projection of £826k is for service Covid-19 variances over and above the specific allocated amounts already agreed to be funded from reserves. We are currently working though the interaction between the lost income, government funding offer and use of reserves, and this will be updated in future versions. Initial projections, made in June, suggest £1.226M of grant towards lost income will be claimable, reducing the additional projection from a net cost of £826k to a net reduction of £400k.

- a. **Strategy Innovation and Resources**– the current projection is for a £115k saving against budget, due to:
  - £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 and it is requested that this is carried-forward to 2021/22;
  - £55k surplus on New Homes Bonus income; and
  - £15k vacancy saving which will not be achieved due to being fully staffed.
- b. **Customer and Locality Services** – currently there are no projected variances within this service.
- c. **Specialist Services** – The current projection is for a £563k overspend. The main reasons for the projected overspend are:
  - £250k 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;
  - £212k adjustment following audit of Housing Benefit Subsidy Claims for 2017/18 and 2018/19 to be offset by use of reserves;
  - £20k overspend on salaries for Tech Team Leader in Land Charges due to post being extended to assist with transition following implementation of Customer Connect programme; and
  - £10.8k surplus on Council Tax admin grant income received.
- d. **Case Management** – the current projection is for an underspend of £25k of the printer leases following an extension to the current contract.

- e. **Delivery and Commercial Services** - the current projection is for a £97k 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 16k projected underspend on fuel for the Street Cleansing Service;
  - A 29k overspend on repairs and maintenance of vehicles due to ongoing problems with sweepers and Romaquips which are now outside their warranty;
  - A 16k demand led shortfall in transport income for contract and private vehicles, in addition to the shortfall anticipated as a result of Covid-19;
  - A £105k shortfall in the sale of materials due to current market prices;
  - Reduced by a £20k underspend on Fuel, due market prices; and
  - A business as usual projected surplus of £62k on kerbside recycling credits.
- 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.
  - A £212k use of reserves to cover adjustment following audit of Housing Benefit Subsidy Claims for 2017/18 and 2018/19.
- 3.1.2 **Carry Forwards** – two service areas have identified underspends as part of the preparation of budgets for 2021/22 onwards, one of which is included as a carry-forward in Appendix 1 to this report (Elections £75k) and one not identified when this report was originally prepared for Cabinet relating to Customer Connect for £553k. These requests were considered by Cabinet on 8<sup>th</sup> December 2020 as part of the draft budget report. More details are included in **Appendix 5**.
- 3.1.3 **Virement** - A request has been received from the Operational Lead – Specialist Services to transfer a further £92,800 from the Community Housing Fund reserve to the 2020/21 revenue budget to fund requests for capacity reports and other studies at potential sites. A virement has already been approved by Cabinet for £47,000 for the same purpose as part of the Q1 Corporate Financial Update report bringing the total requests for additional use of the reserve to £139,800. The Finance Procedure Rules require requests over £100,000 to be approved by Council. This request was received after the Q2 Corporate Financial Update had been approved by Cabinet so this request has been considered by Cabinet on 8<sup>th</sup> December 2020: approval through this report will give officers permission to spend the monies without waiting for the next Corporate Financial Update to be approved by Council in February 2021.
- 3.1.4 **Grant Approvals** - Cabinet on 8th December 2020 were requested to approve funding for Kendal Futures CIC comprising £150,000 for the employment of a Vision Manager and establishment of associated delivery groups spread equally between 2020/21, 2021/22 and 2022/23, use of £135,294 from its Kendal Town Centre Masterplan (now referred to as 'Strategy') growth bid budget as project development funding and the use of £246,000 of S106 developer contributions, received by the

Council from the Sainsbury's supermarket development in Kendal, for a Kendal Station Gateway public realm improvement scheme to enhance the immediate pedestrian route into the town centre with SLDC procuring and contracting for the project against its delivery in partnership with Kendal Futures CIC. This request was received after the Q2 Corporate Financial Update had been approved by Cabinet so this request has been considered by Cabinet on 8th December 2020: subject to approval by Cabinet on 8th December, approval of the use of these monies through this report will give officers permission to spend these amounts without waiting for the next Corporate Financial Update to be approved by Council in February 2021.

### Analysis of employee budgets

3.1.5 The position on employee costs at Quarter 2 is summarised in Table 2 below

3.1.6 The total variance is an underspend of £56k, 0.8% of the year to date budget. This includes the 4% vacancy saving built in to all direct employee cost budgets.

**Table 2: Employee costs**

Full year budget	Profiled budget	Actual to date	Variance	Variance
£000	£000	£000	£000	%
14,141	7,322	7,266	(56)	(0.8)%

3.1.7 Although table 3 highlights an underspend YTD we are not expecting it to continue for the full year. In August 2020 an administrative decision was made to employ additional staff, to assist the Council with its Covid-19 response, this totals 9.13 FTE during 20/21, 10.78 FTE during 21/22 and 4.35 FTE during 22/23,. This was reported in detail in 3.1.6 of the Corporate Finance Update Quarter 1 reported to Cabinet on 9 September 2020 and Council on 6<sup>th</sup> October 2020.

3.1.8 The underspends to date would be higher than £56k quoted in table 3 if not for the overspend in contract and agency staff mainly within specialist services as per comment in 3.1.1.c

3.1.9 Included in table 3 above is expenditure on contract and agency staff. The total spend on this element of employee costs was £615k against a profiled budget of £257k. This expenditure on contract and agency staff equates to 8.46% of the total spend on employee costs in Quarter 2. The majority of this relates to:

- Specialist-Place (£181k) which is for development control specialists;
- Specialist-People (£168k) which is for revenue & benefits and housing standards specialists;
- Case Management overall (£78k) mainly to cover additional benefit claims as a result of Covid-19, along with maternity cover for service critical post and Affordable Housing cover; and
- Specialists Environment (£54k) which is for environmental protection specialists.

These mainly cover the use of agency while we carry out recruitment to vacant posts.

### 3.2 Capital programme

3.2.1 The 2020/21 capital programmed is valued at £22.32m. Spend at the end of quarter 2 was £1.99m, with a further £1.95m committed expenditure through purchase orders.

**Table 3: Summary of capital programme and expenditure**

<b>Lead</b>	<b>Full Year Budget £000</b>	<b>Expenditure £000</b>	<b>Budget Remaining £000</b>
Support Services	0	0	0
Digital	516	55	(461)
Specialist Services	10,754	311	(10,443)
Delivery and Commercial Services	10,557	1,347	(9,210)
Strategy	261	107	(154)
Customer and Locality Services	232	173	(59)
<b>Grand Total</b>	<b>22,320</b>	<b>1,993</b>	<b>(20,327)</b>

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

3.2.3 A revised Capital Programme is attached as **Appendix 3**. Table 4 below shows a summary of the re-profiling required following a review with Portfolio Holders and Leads. Cabinet and Council are requested to approve the amendments below.

**Table 4: Summary of Capital Programme re-profiling**

<b>Capital Programme</b>	<b>Re-profiling amount £000</b>
ERDF funded flood defence works	(2,146.9)
Energy saving building enhancements	(10.0)
Braithwaite Fold Caravan Park extension	33.5
Play Areas	(94.8)
South Lakeland House car park works	(13.5)
New Ulverston Leisure Centre	(250.0)
Coronation Hall alterations	(39.9)
Abbot Hall redevelopment	(100.0)
Kendal to Lancaster towpath trail	(120.0)
Affordable and empty homes town centre properties	(349.0)
Cross-a-moor Junction improvements	(300.0)
S106 funded affordable home purchase	(56.0)
Homeless accommodation for families	(10.0)
Coastal Community Fund	(1,151.2)
Housing Investment Fund	(3,000.0)
Grange Regeneration	(157.3)
Grange Promenade structural works	(716.0)
Grange LIDO	(1,890.0)
Structural repair works to Westmorland Shopping Centre car park	43.0
Refurbishment of Ellerthwaite Depot to create office accommodation to rent	10.0
Extension and refurbishment to Rothay Park toilets (incl. Changing Places toilet)	15.5
Kendal car parking improvements	6.5
<b>Total capital budgets to be re-profiled</b>	<b>(10,296.1)</b>

### 3.3 Treasury Management

3.3.1 **Appendix 4** contains an overview of the Council's position against the agreed indicators and limits.

3.3.2 To date the Council's investments have performed well against market expectations, with all investments performing in excess of their benchmarks. This has been primarily achieved due to a number of investments made before the crisis hit at nearer the budgeted rate. New investments however are only commanding rates between 0.01% and 0.24%. Therefore there has been no change in the expected outturn position reported in quarter 1 of £150k reduction in interest receivable offset by a budget saving of £150k on interest payable as a result of not borrowing in 2019/20.

### 3.4 Collection Fund

3.4.1 **Table 5** below sets out the performance on local tax collection. The Council Tax Collection rate at 30 September 2020 is 56.74%, which is 1.51% below the level seen

at a similar time last year. This is an improvement on the Q1 difference of 0.10%. We now have in post a recovery specialist who will be working on bringing this down further within the constraints of lockdown. 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 Q2 is £160k.

- 3.4.2 The hardship scheme, which increases the discounts under the Council Tax Reduction Scheme (CTRS), has now been processed. Overall 1,128 Council Tax accounts have been reduced by £261k. It is estimated that by the end of the year the Council can expect to have made additional payments of between £59k and £159k. This would bring the total paid between £320k and £420k out of a Government grant of £487k.
- 3.4.3 The Non-Domestic Rates (NDR) collection rate figure is 49.76% which is 6.29% below the level seen at a similar time last year. While the difference has increased from Q1's total of 4.37%, the restarting of arrears actions has seen a number of business contact us and make payment agreements which start from October, we also now have in post a recovery specialist who will begin work on tackling these debts. The Council expected to collect £16.5m of business rates during 2020/21 and retains 40% of the income so the total value of the reduction is £415k.
- 3.4.4 The full impact of the shortfall in collection will affect future year's accounts due to the nature of the collection fund where any surplus or deficit is recovered in future years.

**Table 5: Local Taxation Collection rate**

Percentage Collected Quarter 1	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
Council Tax	58.64	58.20	58.31	58.23	58.25	56.74
Business Rates	57.73	56.07	55.93	55.73	56.06	49.76

- 3.4.5 Recovery action has now restarted across the board and in general collection rates, while still lower than previous years are beginning to pick up as arrangements to pay are established.

### 3.5 Sundry Debts

- 3.5.1 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 6: 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	87	21	26	88	151	1,365
Total value of invoices / credit notes raised	28,620	5,028	5,086	5,696	6,165	3,199
<b>Collection Rate (%)</b>	<b>99.70</b>	<b>99.58</b>	<b>99.49</b>	<b>98.46</b>	<b>97.55</b>	<b>57.33</b>

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

- 3.5.3 In the current year to date, 57.33% of debt has been recovered this is down from 66.68% at the same time in 2019/20. The table below splits down in more detail the age profile of the current outstanding debts.

**Table 7: Age profile of 2020/21 invoices**

<b>2020/21 Invoices</b>	<b>£000</b>
6 months overdue	71.5
5 months overdue	105.9
4 months overdue	16.3
3 months overdue	64.4
2 months overdue	31.7
1 month overdue	56.9
Not yet due	1,018.9
<b>Total end of Quarter 1</b>	<b>1,365.6</b>

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

#### **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

#### **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	Capital Programme
4	Treasury Management Update
5	Carry Forward Requests 2020/21

## Background Documents Available

Name of Background document	Where it is available
2020/21 Budget Book including MTFP projections	<a href="https://tinyurl.com/y56kswxu">https://tinyurl.com/y56kswxu</a>
Budget Setting Report	<a href="https://tinyurl.com/y48tb9or">https://tinyurl.com/y48tb9or</a>
Medium Term Financial Plan 2020/21-2024/25	<a href="https://tinyurl.com/y3lz82yr">https://tinyurl.com/y3lz82yr</a>
Corporate Financial Update Quarter 1, 2020-21	<a href="https://tinyurl.com/y36s7mtp">https://tinyurl.com/y36s7mtp</a>

## Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	05/11/2020	09/11/2020
Section 151 Officer	Report from S151 Officer	

<b>Signed off by</b>	<b>Date sent</b>	<b>Date Signed off</b>
Monitoring Officer	05/11/2020	03/12/2020
CMT	20/10/2020	N/A

<b>Circulated to</b>	<b>Date sent</b>
Lead Specialist	N/A
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	05/11/2020
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	
Council	