

South Lakeland District Council
Council Tuesday 23rd February 2021
Corporate Financial Update Quarter 3, 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 3 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 1-3;**
- (2) Approve the re-profiling of the Capital Programme as shown in 3.2.3; and**
- (3) Approve use of reserves for Community Housing Fund for 2021/22 as set out in 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 £1.290m making the total expected service cost of the pandemic £3.486m. These costs are estimates taking into account the current lockdown restrictions and may vary depending on the length of this 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 and our second claim in December for £437k for August to November 2020. We expect we will need to make a further claim of £347k for the remainder of 2020/21. Together this will bring in additional income of £1.747m to the Council reducing the total service cost of the pandemic to £1.569m.

- 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 3, budget monitoring has identified a forecast business as usual year-end overspend of c£65k. While there may be potential need for further carry forwards this is being considered carefully as any carry forwards will increase this deficit.

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 since decreased to £13.065m following re-profiling approved in the Quarter 2 Monitoring Report and net off by some increases due mainly to the Scaling on Street Car parking scheme and for £237k transfer from reserves for the Community Housing Fund approved in Quarter 1 Monitoring Report.

3.0.3 Further re-profiling of £4.678m is requested following the continued review of the capital programme. Cabinet and Council are requested to approve the re-profiling as set out in 3.2.3.

3.0.4 **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 3 (Q3) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£65k for business as usual. Further detail is provided below in Table 1 and paragraphs a. to f. At the same position last year (2019/20) there was a projected underspend of £136k, with requested carry forwards of £121k.

Carry forwards reported at Quarter 2 were approved at Council on 15th December 2020. To date further potential carry forwards of £241k have been identified, however the Leads have been challenged as to whether the expenditure is unavoidable, and if it is are there alternative funding options.

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

	Current Working 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)	6,697	(491)	156	(335)	(270)	(381)
Customer and Locality Services (b)	2,226	(23)	(2)	(25)	(10)	0
Specialist Services (c)	9,974	143	222	365	435	381
Case Management (d)	1,861	16	13	29	(25)	73
Delivery and Commercial Services (e)	5,264	(98)	572	474	147	1,217
Corporate Items (f)	(26,022)	0	0	0	(212)	0
Total GF	0	(453)	961	508	65	1,290
Estimated Covid-19 Sales Fees and Charges Grant						(1,747)
Covid-19 Outturn Balance (potential reduction in use of reserves to fund Covid-19)						(457)

*BAU = Business as usual

The Covid-19 out-turn projection of £1,290k is for service Covid-19 variances over and above the specific allocated amounts already agreed to be funded from reserves. As discussed in 3.0.1 (b) the total projected income from the sales fees and charges grant is £1.747m, reducing the additional projection from a net cost of £1,460k to a net reduction of £457k which would reduce the potential use of reserves in 2020/21 to fund Covid-19 from £2.0m to £1.6m.

- a. **Strategy Innovation and Resources**– the current projection is for a £270k saving against budget, due to:
- £105k projected underspend on Customer Connect transition training delayed due to Covid-19;
 - £55k surplus on New Homes Bonus income;
 - £40k projected underspend on Climate Change Project. This is a 2 year project which commenced in 2020/21;
 - £35k projected underspend on the corporate training budget;
 - £30k projected underspend on Local Plans consultancy dependent on the progress of various projects;
 - £20k projected underspend within electoral registration due to new arrangements for the annual canvas following the Covid-19 pandemic;
 - £15k vacancy saving which will not be achieved due to being fully staffed.
- b. **Customer and Locality Services** – the current projection is an underspend of £10k due to delays in the consultation programme with customers as a result of Covid-19.
- c. **Specialist Services** – The current projection is for a £435k overspend. The main reasons for the projected overspend are:
- £227k 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. We are continuing to review the split of this cost between business as usual and Covid-19;
 - £212k adjustment following audit of Housing Benefit Subsidy Claims for 2017/18 and 2018/19 to be offset by use of reserves;
 - £35k projected underspend on the GSK Ulverston Masterplan Study;
 - £30k overspend in Private Waters, due to an income shortfall of £55k, offset by underspends of £25k;
 - £23k 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;
 - £21k underspend within Housing Standards relating to the stock condition survey;
 - £10.8k surplus on Council Tax admin grant income received; and
 - £10k projected overspend at Mintworks, due to an income shortfall of £20k offset by underspends of £10k.
- d. **Case Management** – the current projection is for an underspend of £25k on the printer leases following an extension to the current contract.

- e. **Delivery and Commercial Services** - the current projection is for a £147k overspend. This is made up of a number of variances across the service and these are:
- £20K demand led shortfall anticipated for moorings, in addition to the shortfall anticipated as a result of Covid-19;
 - £25k overspend on salaries at Kendal markets;
 - £20k shortfall in income at Town View Fields;
 - £20k shortfall in income at the Hampsfell Units due to delays opening the premises;
 - £40k overspend on repairs and maintenance of vehicles due to ongoing problems with sweepers and Romaquips which are now outside their warranty;
 - £25k demand led shortfall in transport income for contract and private vehicles, in addition to the shortfall anticipated as a result of Covid-19;
 - £126k shortfall in the sale of materials due to current market prices;
 - £20k overspend on waste/recycling salaries due to vacancy saving target which will not be achieved;
 - £87k underspend on Fuel, due market prices; and
 - A business as usual projected surplus of £62k on kerbside recycling credits.
- f. **Corporate** – currently there is a projected underspend of £212k within this service. This is made up of the 2 large variances that offset each other and £212k use of reserves. The details of these 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.

Analysis of employee budgets

3.1.1 The position on employee costs at Quarter 3 is summarised in Table 2 below

3.1.2 The total variance is an overspend of £302k, 2.8% 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 £000	Profiled budget £000	Actual to date £000	Variance £000	Variance %
13,932	10,690	10,992	302	2.8%

3.1.3 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 6th October 2020.

3.1.4 Included in table 3 above is expenditure on contract and agency staff. The total spend on this element of employee costs was £947k against a profiled budget of £409k. This expenditure on contract and agency staff equates to 8.61% of the total spend on employee costs in Quarter 2. The majority of this relates to:

- Specialist-Place (£280k) which is for development control specialists;
- Specialist-People (£212k) which is for revenue & benefits and housing standards specialists;
- Case Management overall (£159k) mainly to cover additional benefit claims as a result of Covid-19, along with maternity cover for service critical post and homelessness response to Covid-19;
- Specialists Environment (£101k) which is for environmental protection specialists; and
- Waste/Recycling service (£67k) to cover sickness and vacancies in order to deliver the service.

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

3.2 Capital programme

3.2.1 Following re-profiling and the addition of new schemes/funding the 2020/21 capital programmed is now valued at £13.065m. Spend at the end of quarter 3 was £3.85m, with a further £4.52m committed expenditure through purchase orders.

Table 3: Summary of capital programme and expenditure

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000
Support Services	0	0	0
Digital	516	48	468
Specialist Services	3,730	851	2,879
Delivery and Commercial Services	8,342	2,533	5,809
Strategy	267	253	14
Customer and Locality Services	210	171	39
Grand Total	13,065	3,856	9,209

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

3.2.3 Table 4 below shows a summary of the re-profiling required following the continued review of the capital programme. Cabinet and Council are requested to approve the amendments below.

Table 4: Summary of Capital Programme re-profiling

Capital Programme	Re-profiling amount £000
Mobile Working for Streetscene	120.0
Digital Innovation Project	260.0
IT Replacement Fund	15.0
Coastal Community Fund	1,050.0
Disabled Facility Grants	363.0
Disabled Toilet Improvements	40.0
Scaling on Street Charging Infrastructure	173.8
Footway Lighting	85.0
South Lakeland House and Kendal Town Hall Reconfiguration	1,500.0
Kendal Museum alterations	85.0
Car Parking Machines Update	84.2
Vehicle Purchase	860.0
Energy Saving Building Enhancement	30.0
Queens Park Play Area	12.4
Total capital budgets to be re-profiled	(4,678.4)

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 £314,000 is transferred from the reserve to the 2021/22 revenue budgets to fund the Community Led Housing Officer post and capacity grants. This is the expected revenue cost for supporting this scheme in 2021/22.

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. 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.

3.4.3 On 26th November 2020, the government announced it was returning the PWLB margin over Gilts to 1%, following its increase last year and the subsequent consultation.

However access will be limited to Councils without “asset for yield” schemes within their capital programme for the current year and three future years. More detail can be found in **Appendix 3**.

3.5 Collection Fund

3.5.1 **Table 5** below sets out the performance on local tax collection. The Council Tax Collection rate at 31 December 2020 is 84.81%, which is 1.67% below the level seen at the same time last year. Court summonses were issue for pre 2020/21 debt in January and it is anticipated that this will generate payments and inserts have been included to encourage ratepayers to get in touch to sort out arrangements to pay.

3.5.2 The Non-Domestic Rates (NDR) collection rate figure is 75.94% which is 6.78% below levels seen at the same time last year. As with Council Tax court summons have been issued and it is expected that it will generate payments and identify accounts where they should be claiming discounts or reliefs.

3.5.3 **Table 5: Local Taxation Collection rate**

Percentage Collected Quarter 3	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	%	%	%	%	%	%
Council Tax	86.54	86.14	86.18	86.36	86.48	84.81
Business Rates	84.22	82.55	82.35	82.29	82.72	75.94

3.5.4 We should receive higher than usual payments for both Council Tax and NNDR in February and March as many took up the option to defer their installment from April to January to June to March.

3.5.5 The NNDR appeals provision estimates have increased significantly in 2020/21, with the value and number of challenges between April and December being greater than we had seen in the previous three years together. The increase is mainly down to businesses quoting a material change in circumstances from March 2020, likely due to COVID-19. To date very few have been settled as the VOA seek guidance from MHCLG on what they can do.

3.5.6 The full impact of shortfalls in collection and increase appeals will be minimised on the 2020/21 general fund due to accounting rules, but will be felt in future years. We have are currently digesting the notes concerning recent announcements of a grant to help offset some of these losses and we will update members in the Budget report going to Council in early February.

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 6** below summarises the current collection rate on sundry debts:

Table 6: Summary of collection

	2015/16 and earlier	2016/17	2017/18	2018/19	2019/20	2020/21 to date
	£000	£000	£000	£000	£000	£000
Debt outstanding	78	21	25	86	100	746
Total value of invoices / credit notes raised	28,620	5,028	5,086	5,696	6,158	4,793
Collection Rate (%)	99.73	99.58	99.51	98.49	98.38	84.44

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, 84.44% of debt has been recovered this is down from 90.24% 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

2020/21 Invoices	£000
7+ months overdue	160.4
6 months overdue	62.1
5 months overdue	22.1
4 months overdue	46.9
3 months overdue	62.6
2 months overdue	48.6
1 month overdue	200.1
Not yet due	143.2
Total end of Quarter 1	746.0

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.

4.2 Following consideration and discussion at its meeting on the 3rd February 2021, Cabinet resolved to recommend this report to Council.

4.3 A briefing was held for members of Overview and Scrutiny Committee to consider the contents of the report. Discussion included the number and value of contract and agency staff, the reason for reduced income from Town View Fields hostel, the

financial impact of Covid-19, progress on delivery of capital programme and progress on reflecting biodiversity, climate change and ethical factors in investments.

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 arising 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 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 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 Update

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
Corporate Financial Update Quarter 1, 2020-21	https://tinyurl.com/y36s7mtp

Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	03/02/2021	10/02/2021
Section 151 Officer	Report from S151 Officer	
Monitoring Officer	03/02/2021	10/02/2021
CMT	14/01/2021	10/02/2021

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	21/01/2021
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	03/02/2021
Council	23/02/2021