

South Lakeland District Council
Cabinet, Wednesday 1st September 2021
Council, Tuesday 5th October 2021
Corporate Financial Update Quarter 1, 2021/22

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 2021/22 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 Cabinet;

- (1) Note the contents of the report and Appendices 1-3;**
- (2) Recommend Council approve the re-profiling of the Capital Programme as shown in 3.2.3 and create the relevant Revenue Budget for the Next Steps Programme;**
- (3) Recommend Council approve the revenue virements listed in 3.1.2 and delegate authority to the Lead Specialist Legal Governance and Democratic Services in conjunction with the relevant Operational Lead to enter into the relevant grant agreements accordingly;**
- (4) Recommend Council approve the use of the reserves as per 3.1.3.; and**
- (5) Recommend Council approve the increase in the Interest Rate Exposure Limit for Variable Rate Investments to £30m from £20m as set out in paragraph 3.3.4**

2.2 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 create the relevant Revenue Budget for the Next Steps Programme;**
- (3) Approve the revenue virements listed in 3.1.2 and delegate authority to the Lead Specialist Legal Governance and Democratic Services in conjunction**

with the relevant Operational Lead to enter into the relevant grant agreements accordingly;

(4) Approve the use of the reserves as per 3.1.3.; and

(5) Approve the increase in the Interest Rate Exposure Limit for Variable Rate Investments to £30m from £20m as shown in paragraph 3.3.4.

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 2021/22 Budget report approved at Council in February 2021, a Covid-19 Contingency budget of £679k was approved.
- b) Currently the best estimate of additional costs and loss of income from Covid-19 for 2021/22 are £305k, further work is being undertaken to firm up these estimates. While this currently suggests a saving against the contingency budget of £374k, it is too early to declare this as the situation continues to develop and with autumn and winter still to come this could change.
- c) Under the Government Sales Fees and Charges Support Scheme we are able to submit one final claim for the period of April to July 2021 but at present it is not clear as to what the value of this will be: at the time of preparing this report the claim form and scheme details have not been published.
- d) 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 2021 was £11.9m which included a vacancy factor savings target of £478.4k. Additionally, carry forward requests of £469.8k were approved by Cabinet on 23 June 2021. 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 c£347k. The projected overspend at the same period in 2020/21 was £69k with a final underspend at the end of 2020/21 on BAU of around £258k

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 £19.085m. The working budget has since increased to £26.856m following re-profiling approved in the 2020/21 Quarter 1 Monitoring Report and carry forwards approved in the Outturn report.

3.0.3 Further re-profiling of £468,765 is requested by officers to the Capital Programme and Council are requested to approve the re-profiling as set out in 3.2.3. A full thorough review of capital spend will be taking place in September after discussions with Portfolio Holders.

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 2021/22 Quarter 1 (Q1) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£347k for business as usual. This overspend is being reviewed by Corporate Management Team and work is being carried out with Leads to develop a better understanding of the variances and options to try and bring these back in line with budgets. Further detail is provided below in Table 1 and paragraphs a. to f. At the same position last year (2020/21) there was a projected overspend of £69k.

Table 1: Summary by Service Area

	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)	6,826	(59)	18	(41)	(40)	(679)
Customer and Locality Services (b)	2,300	(18)	8	(10)	0	0
Place and Environment (c)	5,204	50	47	97	239	95
People Welfare and Income Maximisation (d)	10,040	19	7	26	0	50
Delivery and Commercial Services (e)	4,503	49	24	73	148	160
Corporate Items (f)	(28,873)	0	0	0	0	0
Total GF	0	41	103	144	347	(374)

*BAU = Business as usual

The MTFP approved at Council on 27th July 2021 considered some of the longer term financial pressures/opportunities, including reinstating the pay award assumption for 2021/22 of 2% of £214k, removing the re-building of General Reserve no longer required for Covid-19 of £315.8k, expenditure relating Local Government Reorganisation of £250k and adjusting for Interest Payable of £130.3k. All these amendments are net to £17.9k additional expenditure and are indicative figures. These have not been included in the figures in the table above or Appendix 1 and will be updated in time for the quarter 2 update report.

- a. **Strategy Innovation and Resources**– the current projection is for a £40k saving against budget, due to:
 - £30k projected underspend on salaries for the Performance Innovation and Commissioning Lead Specialist post which is currently vacant;
 - £25k projected underspend for corporate apprentice posts which are currently vacant and out for recruitment; and
 - £14.7k vacancy saving allowance which will not be achieved within Management Team.
- b. **Customer and Locality Services** – there are currently no projected BAU over/underspends within this service.
- c. **Place and Environment Services** – The current projection is for a £239k overspend. The main reasons for the projected overspend are:
 - £164k overspend on salaries within places and environment, £66k of which is the vacancy saving target which will not be achieved and the remainder due to the use of agency staff to fill vacant posts we are currently recruiting to in order to continue service delivery;
 - £50k projected demand led shortfall in planning income due to the housing market slowing down with no major development applications in the pipeline; and
 - £25k net shortfall in Private Water income.
- d. **People, Welfare and Income Maximisation** – there are currently no projected BAU over/underspends within this service.
- e. **Delivery and Commercial Services** - the current projection is for a £148k overspend. This is made up of a number of variances across the service and these are:

- £50k demand led shortfall anticipated for moorings;
 - £50k shortfall for Braithwaite Fold Caravan Park due to delays with lease until there was further clarity on Covid-19;
 - £25k anticipated demand led shortfall in income for works to contract vehicles;
 - £23k overspend for 2020/21 Kendal Museum management fee which was not paid until 2021/22;
 - £10k overspend on salaries at Town View Fields due to use of agency/casual staff to cover absence; and
 - £10k expected surplus for litter bin supply and emptying.
- f. **Corporate** – there are currently no projected over/underspends within Corporate items.

Revenue Virements

3.1.2 As per the Financial Procedure Rules the following budget virements are requested to be approved by Council:

a. Rough Sleeping Initiative – The Council is to receive £110k grant funding from MHCLG towards tackling rough sleeping in the District. Permission is now sought to create an income budget with corresponding expenditure budget within the Homelessness service for the value of this funding.

b. Other Homelessness Grant Funding – The Council is to receive further grant funding towards the Homelessness service towards various initiatives and therefore need to increase the income budget within GHM11 with corresponding increase to expenditure budgets under the relevant budget headings. For a breakdown of the additional funding which will be received in 2021/22 please see Table 2 below:

Table 2: Homelessness Grant Funding

Grant title	Amount
Homelessness Prevention Grant Uplift	£60,000
Domestic Abuse Supported Accommodation	£33,072
Domestic Abuse Supported Accommodation County Funding	£26,250
Domestic Violence Countywide Bid	£42,500
Changing Futures	£50,000
Offender Management Scheme	£22,500
Total funding	£234,322

c. Insourcing of Property Services – Following a decision the decision at Cabinet on the 21st July 2021 to pursue the insourcing of the property services function from October 2021, permission is sought to adjust the allocation of the budgets between relevant budget headings such as Employee costs and Supplies and Services.

d. Covid-19 Contain Outbreak Management Fund and other associated grants – the Council continues to receive allocations of funding to support the public health response to the pandemic, particularly around test and trace and compliance activities. This grant funding is a mixture of direct funding from the Department of Health and Social Care (DHSC) and from Cumbria County Council, who also receive funding from DHSC. Other grants are issued by MHCLG. Approval is sought to delegate to the Lead Specialist Legal Governance and Democratic Services in conjunction with the relevant Operational Lead

to enter into relevant grant agreements with the amend of budgets to be reported in the next Corporate Finance Update.

Use of Reserves

3.1.3 As per the Financial Procedure Rules the following transfers from reserves are requested to be approved:

a. Statutory Duties Reserve - Due to an ongoing Health and Safety case there is a requirement to draw down £10k from the Statutory Duties Reserve. £60k has already been drawn down from this reserve by the delegated officer for this Health and Safety case, however as this is now over the limit for Lead Officers it is recommended to be approved by Cabinet.

b. NNDR Pool Reserve – Following approval at HR Committee on 20th July 2021, two additional posts have been added to the Establishment, one being a Principal Specialist within the People Welfare and Income Service and the other a Case Management Team Leader with the Places and Environment Service. It has been agreed that these posts will be funded from the NNDR Pool Reserve for the next two years unless an existing permanent established post becomes available, therefore up to £247,136 may be required to be transferred to cover the period from October 2021 to March 2024. This transfer is recommended to be approved by Council.

Analysis of employee budgets

3.1.4 The position on employee costs at Quarter 1 is summarised in Table 3 below

3.1.5 The total variance is an overspend of £158k, 4.4% of the year to date budget. This includes the 4% vacancy saving built in to all direct employee cost budgets.

Table 3: Employee costs

Full year budget	Profiled budget	Actual to date	Variance	Variance
£000	£000	£000	£000	%
14,493	3,623	3,781	158	4.4%

3.1.6 Included in table 3 above is expenditure on contract and agency staff. The total spend on this element of employee costs is £346k against a profiled budget of £72k. This expenditure on contract and agency staff equates to 9.15% of the total spend on employee costs in Quarter 1. The majority of this relates to:

- Case Management People and Welfare and Income Maximisation (£76k) mainly to cover additional benefit claims as a result of Covid-19 and homelessness response to Covid-19;
- Specialist-Place (£74k) which is for development control specialists;
- Specialist-People (£63k) which is for revenue & benefits and housing standards specialists;
- Case Management (£76k) mainly to cover additional benefit claims as a result of Covid-19 and homelessness response to Covid-19;
- Specialists Environment (£36k) which is for environmental protection specialists;
- Waste/Recycling service (£41k) to cover sickness and vacancies in order to deliver the service; and
- Community Housing Fund (£16k) for Community Led Housing Officer.

These majority of the above cover the use of agency while we carry out recruitment to vacant posts and continue service delivery during the Covid-19 pandemic.

As mentioned in 3.1.1 the pay award which was initially not budgeted due to indications that there would not be an increase for 2021/22 may need to be re-instated at 2%. This will be an extra cost to the Council of c£214k.

3.2 Capital programme

3.2.1 The 2021/22 budget for capital was initially £19.085m, this has since been updated twice, once by £6.160m following approval of the 2020/21 Q3 corporate finance update at Council on 23 March 2021 and again by £1.610m following the approval of the Outturn report at Cabinet on 23 June 2021. The effect of these changes is a re-profiled budget of £26.855m. Spend at the end of quarter 1 was £1.043m, with a further £2.540m of committed expenditure through purchase orders.

Table 4: Summary of capital programme and expenditure

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000
Digital	590	37	553
Place and Environmental Services	9,308	0	9,308
People, Welfare & Income Maximisation	5,464	112	5,352
Delivery and Commercial Services	10,908	881	10,027
Strategy	196	11	185
Customer and Locality Services	390	2	388
Grand Total	26,856	1,043	25,813

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

3.2.3 There are two adjustments needed to the capital programme totalling £468,765, they are:

- The re-profiling of £79,765 for the Ulverston Asset Transfer Programme to 2023/24, to enable work by a partner organisation to be completed.
- The transfer to revenue of £389,000 of external funding for the Next Steps programme. This is a homelessness programme which on review no longer fits the definition of a capital project.

3.3 Treasury Management

3.3.1 **Appendix 3** 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.

3.3.3 There has been no increase in borrowing this year to date, but with the internal borrowing indicator nearly reached and rising PWLB rates, officers will be reviewing our borrowing position to ensure best value for the Council and any successor.

3.3.4 An update to the Treasury Management Interest Rate Exposure Limit for Variable Rate investments from £20m to £30m is requested to allow officers to fully utilise all investment options open to it while we carry additional funds due the timing difference in NNDR Section 31 Relief reconciliation payments. Full details are included in Appendix 3.

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 June 2021 is 30.08%, which is 0.15% below the level target, which is the 2019/20 collection rate due to the impact of Covid-19 on 2020/21 collections. Liability order hearings are now taking place remotely with Barrow court and since the run on 21st June we have seen an increase in the number of Council Tax payers making arrangements to pay.
- 3.4.2 The Non-Domestic Rates (NDR) collection rate figure is 33.22% which is 3.97% above target, which is the 2019/20 collection rate due to the impact of Covid-19 on 2020/21 collections. We are expecting a dip in collection rates from July 2021 as we will be rebilling due to a change in the retail relief available from 100% to 66%. This will have a lag on collection as the first instalment won't be due until 1st August and DD mandates will have to be re-established as business won't have been paying due to the receipt of full relief.

Table 5: Local Taxation Collection rate

Percentage Collected Quarter 1	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %	2021/22 %
Council Tax	30.14	30.65	30.12	30.23	28.62	30.08
Business Rates	29.77	29.90	29.58	29.25	24.88	33.22

- 3.4.3 No change has been made to the NNDR Appeals Provision as we still await legislation from government over material changes in circumstances (MCC) re Covid-19.

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

	2016/17 and earlier	2017/18	2018/19	2019/20	2020/21	2021/22 to date
	£000	£000	£000	£000	£000	£000
Debt outstanding	58	22	43	69	310	481
Total value of invoices / credit notes raised	33,647	5,086	5,695	6,150	5,994	1,380
Collection Rate (%)	99.82	99.56	99.25	98.87	94.83	65.12

3.5.2 An analysis of outstanding sundry debts reveals that over 99% of debts have been recovered in years up to 2018/19.

3.5.3 In the current year to date, 65.12% of debt has been recovered this is down from 68.43% at the same time in 2020/21. The table below splits down in more detail the age profile of the current outstanding debts.

Table 7: Age profile of 2021/22 invoices

2021/22 Invoices	£000	
3 months overdue	49.3	24% of this debt relates to market rents on instalment arrangements and 34% to one other invoice where instalment arrangements have been made
2 months overdue	104.5	48% of this relates to lake encroachment debts, 39% relates to market rents on instalment arrangements
1 month overdue	65.4	Mainly customers who normally pay within 2 months
Not yet due	262.1	
Total end of Quarter 1	479.2	

3.6 Creditors

3.6.1 The quarter one the council made 9,438 payments to creditors totalling over £146m, of this 99% were paid within 30 days as can be seen in Table 8 below

Table 8: Creditors Performance

Payment Method	Paid Within 30 days		Over 30 days		Total	
		£000		£000		£000
BACS	9,193	37,070	85	202	9,278	37,272
CHAPS	46	109,139	0	0	46	109,139
Direct Debit	113	260	1	0	114	260
Totals	9,352	146,468	86.00	202	9,438	146,670
%	99.09%	99.86%	0.91%	0.14%		

3.6.2 As at 30 June 2021 there were 16 invoices/credit notes outstanding, this can be analysed as follows:

Table 9: Outstanding Invoices/Credit Notes

		£	%	Average Days outstanding
Invoice in dispute	5	70,316.58	50.09	487.27
Credit notes	6	-5,853.58	-4.17	1,177.81
Awaiting Goods Received Note	2	64,962.00	46.27	35.47
Paid since end of June	3	10,957.64	7.81	
	16	140,382.64	100.00	

3.6.3 Further work is being undertaken by officers to understand why items are in dispute and credit notes are outstanding.

4.0 Consultation

4.1 Senior management, budget holders and the Finance Portfolio Holder have been consulted. Overview and Scrutiny Committee will consider this report on 27th August 2021 and any comments will be reported verbally to Cabinet.

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
2021/22 Budget Book including MTFP projections	https://tinyurl.com/vtst3ez4
Budget Setting Report	https://tinyurl.com/uyyt8wte
Medium Term Financial Plan 2020/21-2025/26	https://tinyurl.com/nh8sw98a
Corporate Financial Update Quarter 1, 2020-21	https://tinyurl.com/3phe2kad

Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	09/08/2021	11/08/2021
Section 151 Officer	Report from S151 Officer	16/08/2021
Monitoring Officer	09/08/2021	10/08/2021
CMT	27/07/2021	29/07/2021

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	03/08/2021
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	01/09/2021
Council	05/10/2021