

**South Lakeland District Council**  
**Council**  
**Thursday 11<sup>th</sup> November 2021**  
**Corporate Financial Update Quarters 1 and 2,**  
**2021/22**

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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 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 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 This report combines the Q2 Finance Update report considered by Cabinet on 20<sup>th</sup> October 2021 with key issues from the Q1 Finance Update report considered by Cabinet on 1<sup>st</sup> September 2021 that were due to be considered by Council at the meeting on 5<sup>th</sup> October 2021 that was then cancelled.

3.0.2 **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 £697k was approved.
- b) Currently the best estimate of additional costs and loss of income from Covid-19 for 2021/22 are £377k, further work is being undertaken to firm up these

estimates. While this currently suggests a saving against the contingency budget of £320k, it is too early to declare this as the situation continues to develop and with 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. The claim will be submitted after the finalised of this report but it is expected that the claim will be in the region of the income budget in 2021/22 for this scheme which assumes £65k of grant.
- 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.
- e) The MTFP approved at Council on 27<sup>th</sup> 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.

Overall, at the end of Quarter 2, budget monitoring has identified a forecast business as usual year-end overspend of c£95k, however if the transfer from the NNDR Pool Reserve requested in 3.1.2 is approved this will become an underspend of £49k. The projected overspend at the same period in 2020/21 was £216k with a final underspend at the end of 2020/21 on BAU of around £258k

3.0.3 **Capital – Appendix 2** sets out the position on the capital programme. The capital budget for 2021/22 approved by Council in February was £19.085m. The working budget is now requested to be increased to £26.898m following re-profiling requests considered by Cabinet in the Q1 Finance Update report and carry forwards approved in the Outturn report.

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 2 (Q2) revenue variances for service area grouped by lead officer. The projected out-turn is for a net overspend of c£95k 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. As you can see in 3.1.2 one suggestion is a transfer from the NNDR Pool Reserve. Further detail of the current projections 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 £216k.

**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)	7,286	(170)	13	(157)	(140)	(655)
Customer and Locality Services (b)	2,306	(32)	3	(29)	0	0
Place and Environment (c)	5,216	3	101	104	269	25
People Welfare and Income Maximisation (d)	10,078	73	(31)	42	54	135
Delivery and Commercial Services (e)	4,487	73	13	86	125	175
Corporate Items (f)	(29,355)	(213)	0	(213)	(213)	0
<b>Total GF</b>	<b>18</b>	<b>(266)</b>	<b>99</b>	<b>(167)</b>	<b>95</b>	<b>(320)</b>

\*BAU = Business as usual

- a. **Strategy Innovation and Resources**– the current projection is for a £140k saving against budget, due to:
- £60k projected underspend relating to the Debt Advisory growth bid;
  - £40k underspend on the Customer Connect Transition Training budget for which a carry forward has been requested. Some of the programmed training is currently going through procurement and it is unlikely that part of this training will be delivered in this financial year;
  - £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 £269k overspend. The main reasons for the projected overspend are:
- £20k projected income surplus due to high demand earlier in the year for land search fees.
  - £25k net shortfall in Private Water income;
  - £60k projected shortfall in planning income due to no major housing developments in the pipeline. There are still a high number of smaller applications on going, however the income from these is much less than what would be received for a major property development; and
  - £204k overspend on salaries within places and environment, £43k 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.

- d. **People, Welfare and Income Maximisation** – the current projection is for a £54k BAU overspend within this service, due to various variances. These are:
- £12k surplus income for funding received from Cumbria County Council towards Local Care Leaver Discounts applied to Council Tax in 2019/20 and 2020/21;
  - £30k projected additional income for housing benefit relating to emergency/temporary accommodation for homelessness which is not currently budgeted for; and
  - £96k deficit within rent allowances. Housing Benefit payments and the subsidy income relating to these payments have been reducing since the introduction of Universal Credits however current budgets don't reflect this reduction. The admin grant received for Housing Benefit has also reduced due to the reduction in case load. Additionally external audit fees have increased significantly nationally.
- e. **Delivery and Commercial Services** - the current projection is for a £125k overspend. This is made up of a number of variances across the service and these are:
- £50k projected surplus for recycling credits income;
  - £10k expected surplus for litter bin supply and emptying;
  - £7k overspend on salaries at Town View Fields due to use of agency/casual staff to cover absence;
  - £23k overspend for 2020/21 Kendal Museum management fee which was not paid until 2021/22;
  - £25k anticipated shortfall in rental income for investment properties which are currently vacant;
  - £50k shortfall for Braithwaite Fold Caravan Park due to delays with lease until there was further clarity on Covid-19; and
  - £80k deficit within the Transport service, of which £40k relates to a shortfall in income for works to contract vehicles and the remaining £40k relates to an overspend on repairs and maintenance to the fleet.
- f. **Corporate** – there is currently an underspend of £213k within corporate items. Now that the 2020/21 accounts have been concluded we have been able to calculate the Minimum Revenue Provision. Due to lower capital expenditure and timing of the completion of some capital schemes there is an underspend of £213k.

## 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**

<b>Grant title</b>	<b>Amount</b>
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
<b>Total funding</b>	<b>£234,322</b>

**c. Insourcing of Property Services** – Following a decision the decision at Cabinet on the 21<sup>st</sup> 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 from the NNDR Pool Reserve:

**a. Amendments to Establishment** – Following approval at HR Committee on 20<sup>th</sup> 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.

**b. Agency Staff** - Due to ongoing problems with recruiting into vacant posts, agency have had to be used to cover service critical posts across the Council. A Corporate solution to this is to seek approval to fund £144k of salary costs for Economy and Culture Specialists within the current establishment in order to free up establishment funding to cover some of these critical shortages.

### **Analysis of employee budgets**

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

3.1.5 The total variance is an overspend of £121k, 1.7% of the year to date budget. This includes the 4% vacancy saving built in to all direct employee cost budgets.

**Table 2: Employee costs**

<b>Full year budget</b>	<b>Profiled budget</b>	<b>Actual to date</b>	<b>Variance</b>	<b>Variance</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>%</b>
14,594	7,325	7,446	121	1.7%

3.1.6 Included in table 2 above is expenditure on contract and agency staff. The total spend on this element of employee costs is £602k against a profiled budget of £208k. This expenditure on contract and agency staff equates to 8.08% of the total spend on employee costs in Quarter 2. The majority of this relates to:

- Specialist-Place (£123k) which is for development control specialists;
- Waste/Recycling service (£78k) to cover sickness and vacancies in order to deliver the service;
- Case Management Welfare and Income Maximisation (£76k) mainly to cover revenue and benefits response to Covid-19;
- Specialists Environment (£63k) which is for environmental protection specialists backfilling current establishment which are working on the Covid-19 response;
- Specialists Welfare and Income Maximisation (£61k) mainly to cover revenue and benefits response to Covid-19;
- Community Housing Fund (£36k) for Community Led Housing Officer;
- Specialists People (£35k) to cover Housing Support;
- Covid-19 (£31k) to cover the response to the pandemic e.g. Compliance
- Case Management People (£25k) to cover the homelessness response to Covid-19; and
- Town View Fields (£18k) to cover the hostel while staff have been shielding/self-isolating

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.

### **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. Further amendments are set out below which were requested by Cabinet as part of the Q1 Finance Update report which will result in a budget of £26.898m. Spend at the end of quarter 2 was £3.317m, with a further £2.524m of committed expenditure through purchase orders.

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

Lead	Full Year Budget £000	Expenditure £000	Budget Remaining £000
Digital	468	107	361
Place and Environmental Services	9,430	359	9,071
People, Welfare & Income Maximisation	5,464	345	5,119
Delivery and Commercial Services	10,908	2,306	8,602
Strategy	196	24	172
Customer and Locality Services	432	176	256
<b>Grand Total</b>	<b>26,898</b>	<b>3,317</b>	<b>23,581</b>

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.

3.2.4 A review of the capital programme is being carried out to challenge the assumed spend profile and completion dates of all schemes. Proposals for a revised capital programme will be submitted to Cabinet and Council in December 2021.

### **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.

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 4** below sets out the performance on local tax collection. The Council Tax Collection rate at 30 September 2021 is 57.92%, which is 0.33% below the level target. Recovery actions are picking up in pace follow new streamed lined processes put in place following a review of processes by the recovery specialist and it is expected that this gap will reduce further over the remainder of the financial year.

3.4.2 The Non-Domestic Rates (NDR) collection rate figure is 46.25% which is 9.81% below target. This is as a result of rebilling in July following the change in the retail relief from

100% to 66%, as the Covid-19 element of the relief came to an end. As a result numerous businesses were having to pay rates for the first time in over a year so have had to re-establish their DD mandates. This is happening and it is expected that the gap to the target will continue to narrow over the remainder of the financial year

**Table 4: Local Taxation Collection rate**

<b>Percentage Collected Quarter 1</b>	<b>2016/17</b> %	<b>2017/18</b> %	<b>2018/19</b> %	<b>2019/20</b> %	<b>2020/21</b> %	<b>2021/22</b> %
Council Tax	58.20	58.31	58.23	58.25	56.74	57.92
Business Rates	56.07	55.93	55.73	56.06	49.76	46.25

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

#### 3.5.2 Table 5: Summary of collection

	<b>2016/17 and earlier</b> £000	<b>2017/18</b> £000	<b>2018/19</b> £000	<b>2019/20</b> £000	<b>2020/21</b> £000	<b>2021/22 to date</b> £000
Debt outstanding	58	22	42	61	194	770
Total value of invoices / credit notes raised	33,648	5,086	5,695	6,148	6,005	3,045
<b>Collection Rate (%)</b>	<b>99.83</b>	<b>99.56</b>	<b>99.26</b>	<b>99.00</b>	<b>96.76</b>	<b>74.70</b>

3.5.3 An analysis of outstanding sundry debts reveals that over 99% of debts have been recovered in years up to 2019/20.

3.5.4 In the current year to date, 74.70% of debt has been recovered this is an increase compared to 57.33% at the same time in 2020/21. The table below splits down in more detail the age profile of the current outstanding debts. 78% of the current year debt relates to invoices which are less than a month old and therefore not overdue.

**Table 6: Age profile of 2021/22 invoices**

<b>2021/22 Invoices</b>	<b>£000</b>	
6 months overdue	24.3	81% of this relates to invoices on instalment arrangements
5 months overdue	43.3	64% relates to market rents on instalment arrangements and 31% to encroachment rents being pursued by Legal
4 months overdue	11.4	

<b>2021/22 Invoices</b>	<b>£000</b>	
3 months overdue	21.6	
2 months overdue	6.2	
1 month overdue	63.4	20% of this debt is one invoice which relates to recovery of legal costs and 33% relates to moorings which are going through the recovery process
Not yet due	600.0	
<b>Total end of Quarter 2</b>	<b>770.3</b>	

### 3.6 Creditors

3.6.1 At Quarter 2 the council had made 12,565 payments to creditors totalling over £234m, of this 98.5% were paid within 30 days as can be seen in Table 7 below

**Table 7: Creditors Performance**

Payment Method	Paid Within 30 days		Over 30 days		Total	
		£000		£000		£000
BACS	12,236	46,086	185	669	12,421	46,755
CHAPS	92	183,534	0	0	92	183,534
Direct Debit	237	4,826	6	3	243	4,829
<b>Totals</b>	<b>12,565</b>	<b>234,446</b>	<b>191</b>	<b>672</b>	<b>12,756</b>	<b>235,118</b>
<b>%</b>	<b>98.50%</b>	<b>99.71%</b>	<b>1.50%</b>	<b>0.29%</b>		

3.6.2 As at 30 September 2021 there were 33 invoices/credit notes outstanding, this can be analysed as follows:

**Table 8: Outstanding Invoices/Credit Notes**

		£	%	Average Days outstanding
Invoice in dispute	10	82,077.32	73.72	313
Credit notes	8	-5,594.60	-5.03	865
Ready for payment on next pay run	8	28,232.31	25.36	44
Awaiting Goods Received Note	3	1,278.73	1.15	133
Paid since end of Sept	4	5,339.29	4.80	48
	<b>33</b>	<b>111,333.05</b>	<b>100.00</b>	

3.6.3 Further work is being undertaken by officers to understand why invoices are in dispute. The credit notes relate to suppliers which are no longer in use and we are perusing refunds to settle these.

### 4.0 Consultation

4.1 Senior management, budget holders and the Finance Portfolio Holder have been consulted. This report combines the Q1 Finance Update and Q2 Finance Update reports previously reported 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 a number of important factors that are significantly affecting recruitment and retention. These are as follows:

- Recruitment at SLDC remains extremely busy.
- Currently have **3** roles out for recruitment
- 11 candidates in pre-employment checks
- **33** active cases within recruitment
- National figures indicate 1.1million vacancies across the UK. It's a job hunter's market, and this is affecting the number of people applying for roles at SLDC and is affecting the number of existing employees looking at leaving the organisation
- We have **9** leavers within the organisation. This has gone up by 2 since last week.
- Turnover from June to Sept 2021 is twice the level it was in the corresponding period last year. Up to 19.1% versus 9.6% last year. This equates to 26 leavers versus 13 leavers in this period in 2020. Whilst 6 of the leavers this year were due to the ending of fixed term contracts, the increase is still significant
- We continue to struggle to recruit in a small number of specialist areas. Planning is an obvious example. Other Cumbria councils (and beyond) are having similar challenges. The reality is that lots of public sector organisations are fishing in the same small pool, and there are often much more attractive options in the private sector for people with these scarce skills
- LGR, and the inherent uncertainty it brings, will undoubtedly impact the decision making process for people who may consider joining (or leaving) SLDC

Whilst recruitment efforts should and will continue, we must recognise the inevitability of gaps within the organisation that will need to be filled by other means (such as agency personnel).

### **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	<a href="https://tinyurl.com/vtst3ez4">https://tinyurl.com/vtst3ez4</a>
Budget Setting Report	<a href="https://tinyurl.com/uyyt8wte">https://tinyurl.com/uyyt8wte</a>
Medium Term Financial Plan 2021/22-20226/27	<a href="https://tinyurl.com/rf3na7k3">https://tinyurl.com/rf3na7k3</a>
Corporate Financial Update Quarter 1, 2021/22	<a href="https://tinyurl.com/ah2su44k">https://tinyurl.com/ah2su44k</a>

### Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	01/11/2021	01/11/2021
Section 151 Officer	Report from S151 Officer	01/11/2021
Monitoring Officer	01/11/2021	01/11/2021
CMT		

Circulated to	Date sent
Lead Specialist	N/A

<b>Circulated to</b>	<b>Date sent</b>
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	N/A
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	10/11/2021
Council	11/11/2021