



**2018/19**

**Second Quarter  
Financial  
Review**

## 1. Background and Introduction

- 1.1. In accordance with the Council's Financial Procedure Rules and recommended good practice, a quarterly financial report is presented to members. This is the second report for 2018/19.
- 1.2. The report summarises overall financial performance for 2018/19 with particular emphasis on the key sources of financial risk to the Council. Specific considerations are as follows:
  - **General Fund Revenue Account (Section 2)** – considers budgetary performance on the General Account by looking at variations in income and expenditure and the funding received by the Council.
  - **Efficiency and Rationalisation Programme (Section 3)** – considers progress in achieving the efficiency and rationalisation savings forecast for 2018/19.
  - **Alliance Environmental Services (Section 4)** – highlights the performance of the Council's Joint Venture Company providing Waste and Fleet services.
  - **Capital Programme (Section 5)** – provides an update to Members on progress against the Council's capital plan
  - **Treasury Management (Section 6)** – sets out the key statistics in terms of investments and borrowings;
  - **Revenue Collection (Section 7)** – considers progress-to-date in collecting the Council Tax, Business Rates and Sundry Debts.

## 2. General Fund Revenue Account

2.1. This section of the report considers the financial performance of the General Fund Revenue Account against budget by setting out variations in income and expenditure and funding received by the Council.

| Service                                | 2018/19 Budget     | Expected Outturn 2018/19 | Variance         |
|--|--------------------|--------------------------|------------------|
|  | £                  | £                        | £                |
| Alliance Management Team               | 63,160             | 55,880                   | (7,280)          |
| Audit                                  | 9,940              | 8,940                    | (1,000)          |
| ICT                                    | 670,360            | 654,360                  | (16,000)         |
| Human Resources                        | 49,230             | 49,230                   | -                |
| Member Services                        | 308,800            | 298,560                  | (10,240)         |
| Property Services                      | 954,210            | 1,065,680                | 111,470          |
| Benefits                               | (274,580)          | (281,770)                | (7,190)          |
| Planning Applications                  | (459,310)          | (459,310)                | -                |
| Building Control                       | 16,210             | 16,210                   | -                |
| Customer Services                      | 116,300            | 108,600                  | (7,700)          |
| Legal Services                         | 64,520             | 17,420                   | (47,100)         |
| Electoral Services                     | 84,470             | 52,790                   | (31,680)         |
| Licensing and Land Charges             | (221,710)          | (221,710)                | -                |
| Regeneration                           | 195,300            | 338,200                  | 142,900          |
| Communities and Cultural               | 167,380            | 151,380                  | (16,000)         |
| Housing Strategy                       | 43,110             | (34,890)                 | (78,000)         |
| Transformation                         | 6,760              | 7,570                    | 810              |
| Community Safety and Enforcement       | 175,050            | 170,050                  | (5,000)          |
| Finance, Income and Procurement        | (100,670)          | (38,780)                 | 61,890           |
| Corporate Finance*                     | 5,685,940          | 5,665,440                | (20,500)         |
| Waste Collection                       | 1,765,240          | 1,796,640                | 31,400           |
| Street Scene                           | 403,340            | 398,750                  | (4,590)          |
| Leisure Services                       | 667,730            | 673,700                  | 5,970            |
| Horticulture                           | 573,470            | 551,990                  | (21,480)         |
| Visitor Services                       | (595,840)          | (593,430)                | 2,410            |
| Environmental Health                   | (9,080)            | (10,310)                 | (1,230)          |
| <b>Net Total of Services</b>           | <b>10,359,330</b>  | <b>10,441,190</b>        | <b>81,860</b>    |
| <b>Net Interest</b>                    | <b>(347,520)</b>   | <b>(347,520)</b>         | <b>-</b>         |
|  | 10,011,810         | 10,093,670               | 81,860           |
| <b>Funding : external</b>              | <b>(9,210,760)</b> | <b>(9,333,930)</b>       | <b>(123,170)</b> |
| <b>: reserves - contribution/(use)</b> | <b>(801,050)</b>   | <b>(826,530)</b>         | <b>(25,480)</b>  |
| <b>Projected (Surplus)/Deficit</b>     | <b>-</b>           | <b>(66,790)</b>          | <b>(66,790)</b>  |

\* Staff budgets are currently budgeted within Corporate Finance.

2.2. A revenue budget of £10,011,810 was set for 2018/19. The table above shows how this budget has been allocated to services.

- 2.3. The Q2 projected outturn on the General Fund Revenue Account for the year is £9,945,020. This represents a projected surplus for the year of £66,790
- 2.4. There are two areas of significant underspend projected on the General Fund Revenue Account:
- Housing Strategy (£78,000 underspend); The Housing Needs function of this service area can benefit from third party funding of varying but sometimes substantial amounts to be targeted at Homelessness initiatives in the Borough. The unpredictable nature of these grants and the extended timeframe of the various initiatives often require the use of earmarked reserves to match funding to costs. At this stage therefore some £58,000 of the projected underspend has been earmarked to move into reserves.
- 2.5. There are three areas of significant overspend projected on the General Fund Revenue Account:
- Property (£111,470 overspend); The temporary arrangements put in place while the Alliance's property management contract was being procured have been extended. This is to allow detailed negotiations to take place that ensure the long term viability and economy of the contract. As a result the in-year maintenance budget is forecast to be exceeded by some £111,000.
  - Regeneration (£142,900 overspend); The service is facing significant in year cost pressures around both the creation of the Local Plan and various initiatives to support the development of the District. To some degree these pressures were anticipated by the creation in prior years of earmarked reserves. At this stage some £105,130 of these reserves are to be drawn down against the overspend.
  - Finance, Income and Procurement (£61,890 overspend); As reported at Section 7.2 the authority continues to achieve good collection rates for its council tax and business rates. To date this is being achieved without generating the levels of summons income that have been seen in previous years. It is anticipated that summons income in the year will fall some £60,000 below the budget.
- 2.6. The level of funding anticipated for the year is £148,650 above that budgeted due to the following:
- External Funding: (£123,170)
- Business Rates Retention (£95,640) – the potential refund for 6 years backdated 80% charitable relief to NHS Trusts is now included in the provision. This has the effect of reducing the net levy payable to the business rates pool which improves the general fund business rates retention in the current year, but will be offset by a deficit balance on the collection fund to be distributed in following years. This particular issue along with other fluctuations in the provision for appeals and rateable value reductions will continue to be monitored over the coming periods.

- Following a technical consultation by MHCLG the methodology for calculating compensation due to local authorities for Small Business Rates Relief Threshold changes has been refined. Early information indicates that this will generate a windfall for the Council of £27,530 relating to 2017/18. This will also increase the compensation due for the current year which will be reported with the Business Rates Retention when more information is available.

Use of Earmarked Reserves: (£25,480)

- Electoral Services £26,680 contribution: this is a budgeted annual contribution in to a reserve earmarked to spread the cost of the District's elections over the term of a council.
- Housing Strategy £58,000 contribution: Third party funds received in-year are being set aside to support homelessness initiatives that will run into future years.
- Regeneration Services £105,130 use: The £40,000 Local Development Framework Reserve is to be applied to support in-year over spend on the Local Plan. Other activities of the Service are to be funded by a draw down of £65,130 of New Burdens Grants received in prior years and earmarked to support regeneration projects in the District.
- Horticulture £5,030 use: Works on Recreation Grounds and Open Spaces are part funded each year by drawing down on Section 106 monies previously received from Developers as part of their planning obligations.

### **3. Efficiency and Rationalisation Programme**

- 3.1. This section of the report considers the financial performance of the Council's Efficiency and Rationalisation Programme in 2018/19.
- 3.2. The Council's Medium-Term Financial Plan (approved in February 2018) included the four-year (2017/18 – 2020/21) Efficiency and Rationalisation Strategy targeting savings of £3.14 million. This was required to balance the forecast budget deficit position of £2.7m and also the carry forward of unachieved efficiencies from 2016/17 of £0.4m.
- 3.3. The Efficiency and Rationalisation Strategy is premised on the need to both reduce expenditure and increase income. The need to grow income is now more of a priority as the Council moves more towards being self-financing. The strategy has been developed with the underlying principles of protecting frontline service delivery. It is also intended that the strategy is a tool to enable the Council to ensure that its service spending is determined by the established priorities set out in the Corporate Plan.

3.4. The Strategy has five main areas of focus:-

- **Major Procurements** - There is the opportunity to focus attention on a number of large service functions which are currently provided by an external contractor / supplier. A number of significant contracts are coming to an end. This will also allow a fundamental review of these services with proper consideration of the current financial constraints. The contract commitments have sometimes restricted the opportunity to align services across the alliance with High Peak. The individual projects will focus on Waste Collection & Environment Services, Leisure Management and Facilities Management
- **Asset Management Plan** – continuation of the existing priority of rationalising the Council's asset base with a focus around priorities in order to allow for the necessary capital investment
- **Growth** – development of a clear focus upon housing and economic growth based upon the established Local Plan.
- **Income Generation** – focus on increasing the yield from existing sources on income and a drive towards identifying new sources of income
- **Rationalisation** – a commitment to reducing expenditure on non-priority areas of spend e.g. management arrangements, channel shift, non-statutory services

3.5. The 2018/19 budget provides for the achievement of £830,000 of such savings in year – with a significant focus on growth, income generation and major procurements, particularly the waste collection joint arrangement involving Alliance Environmental Services (AES).

3.6. At the end of Quarter Two, £207,630 has been taken against the overall Efficiency Programme. A further £92,000 of income related savings were also delivered at budget-setting time, including income arising out of revised New Homes Bonus funding forecasts. This leaves £530,370 of savings to be achieved over the second half year.

3.7. At the end of the second quarter, it is cautiously estimated that a further £180,000 of savings will be achieved by the end of the financial year. This would leave a shortfall of £350,000 against the in-year Efficiency Programme target.

3.8. The shortfall is mainly down to slippage in the profile of savings assumed in the Efficiency Programme. Some current year projects, such as Affordable Housing, Facilities Management and Industrial Units development, are now expected to start delivering savings in 2019/20.

3.9. A review of historically underspent budgets is currently underway to identify areas of excess budget provision. This exercise has already yielded £58,000 in savings and will continue during Quarter 3 in an effort to reduce the shortfall.

- 3.10. The efficiency shortfall is currently being offset by one-off vacancy savings in the establishment. Whilst this plugs the in-year savings gap; it does not provide for on-going budget savings. Consequently, any shortfall in efficiency savings at year-end will need to be rolled forward into 2019/20.
- 3.11. The Authority carries a reserve of £493,000 earmarked to support the Efficiency Strategy, which can be drawn on to offset one-off costs of delivering the efficiency programme, such as redundancy costs. At this stage there is no requirement to draw on this reserve during the year. This requirement will be monitored throughout the year.

#### **4. Alliance Environmental Services**

- 4.1. Alliance Environmental Services Ltd (AES) is a company created with a vision to deliver waste, street cleansing and grounds maintenance services in the Staffordshire Moorlands and High Peak areas. The company has three shareholders: Staffordshire Moorlands District Council, High Peak Borough Council and Ansa, which is a wholly owned subsidiary of Cheshire East Council. This section of the report considers the financial performance of the company and contribution to the Council's Efficiency and Rationalisation Programme in 2018/19.
- 4.2. Phase 1 of the transfer of services commenced on 7th August 2017 to deliver High Peak Borough Council Waste services. This followed the end of the previous contract with Veolia Environmental Services. Phase 2 began on 1st July 2018 to deliver waste services to Staffordshire Moorlands District Council and fleet management services to the Alliance as a whole.
- 4.3. The AES forecast management accounts for 2018/19 include a budgeted profit of £111,830 including phase 1 and 2 services delivered to both Councils. Under accounting standards AES's financial performance is incorporated in to the Councils' single entity statements as a Joint Operation as opposed to separate group accounts being reported. The profit is therefore apportioned between the two Councils and the respective services in line with the input of original budgeted resources from each department; the forecast profit is included in the Council's revenue account outturns in this report.
- 4.4. AES has provided management accounts at the end of quarter 2 to forecast the outturn for 2018/19 and is predicting a profit of £129,690 against the budgeted profit of £111,830. The anticipated surplus of £17,860 is related to several favourable and adverse variances which largely offset each other: the favourable variances being related to staffing costs, and some savings on transport fuel and repairs and maintenance; and the adverse variances being shortfalls on recycling contract income.

| <b>2018-19</b>                           | <b>Budget</b>     | <b>Q2 Forecast</b> | <b>Variance</b>  |
|--|-------------------|--------------------|------------------|
| Turnover                                 | (£6,805,840)      | (£6,628,230)       | £177,610         |
| Cost of sales                            | £6,099,890        | £5,910,270         | (£189,620)       |
| <b>Gross profit</b>                      | <b>(£705,950)</b> | <b>(£717,960)</b>  | <b>(£12,010)</b> |
| Administrative Expenses                  | £594,120          | £588,270           | (£5,850)         |
| Forecast (Profit)/ Loss                  | (£111,830)        | (£129,690)         | (£17,860)        |
| Excess profit applied against risk items | £0                | £17,860            | £17,860          |
| <b>Adjusted (Profit)/ Loss</b>           | <b>(£111,830)</b> | <b>(£111,830)</b>  | <b>£0</b>        |

- 4.5. Within the AES Business Plan a number of items are recognised initially as 'risk items' which may or may not crystallise into actual costs/ payments or may be absorbed into the existing management fee paid on account. Any emerging risk items are to be offset in the first instance by any excesses of profit above the budget. Therefore, the forecast profit is adjusted back to the budgeted profit of £111,830. Any surpluses remaining after this allocation would then go towards the efficiencies target for the year.
- 4.6. At quarter 2, the risk payments applicable to the Council are forecast at £251,810: this is net of the Council's share of the £17,860 surplus profits and includes £181,000 of additional vehicle hire costs pending the procurement of waste vehicles; with the remainder relating to other support service overheads.

|   |                   |
|---|-------------------|
| <b>2018-19</b>                                |                   |
| Annual management fee                         | £2,365,910        |
| Crystallised risk items net of excess profits | £251,810          |
| <b>Total payable</b>                          | <b>£2,617,720</b> |
| Allocation of Joint Operation profit          | (£88,060)         |
| Council budget                                | (£2,365,900)      |
| <b>Variance – impact on Council</b>           | <b>£163,760</b>   |
| Offset by savings on contract hire            | (£163,760)        |
| <b>Remaining impact</b>                       | <b>£0</b>         |

- 4.7. The total of the annual management fee payable and the crystallised risk items are offset by an allocation of AES's profit outturn under Joint Operation accounting. This net total compared to the Council's budget shows that the impact on the Council of the company is an overspend of £163,760. However, this is offset by savings on the Council's contract hire budgets as a result of the purchase of vehicles earlier in the year from SFS (the Council's former provider of contract hire vehicles), pending vehicle procurement.

- 4.8. The re-profiled Efficiency Plan for 2018/19 – to fall in line with the Council’s financial year - requires £242,850 in savings (£169,370 AES, £73,480 Council retained budgets) in total across the Alliance. The efficiency savings achieved by AES are payable to the Councils at the end of the year and will be apportioned between Staffordshire Moorlands District Council and High Peak Borough Council as appropriate to the areas it has been achieved.
- 4.9. At quarter 2 AES are reporting that whilst the company is forecast to achieve its budgeted profit to improve the company’s reserves position in line with its original business case, the achievement of the £169,370 savings target is considered limited until the new refuse collection vehicles, due to be procured this Autumn, are in operation. Any surpluses achieved above the budget, after allocation to risk items payable, would be used to temporarily achieve the in year savings target.
- 4.10. The Councils’ efficiency target of £73,480 for 2018/19 has been achieved (£26,830 relating to SMDC)

## 5. Capital Programme

- 5.1. This section of the report provides an update to members on the Council’s Capital Programme.
- 5.2. The table below shows a high level (service) summary of the General Fund Capital Programme position at 30th September 2018. Further detail – on a scheme by scheme basis – is contained in Annex A:

| Service                     | 2018/19<br>Approved<br>Budget | Q2Changes     | 2018/19<br>Revised<br>Budget | Expected<br>Outturn<br>2018/19 | Expected<br>Variance<br>2018/19 |
|-----------------------------|-------------------------------|---------------|------------------------------|--------------------------------|---------------------------------|
|                             | £                             | £             | £                            | £                              | £                               |
| <b>Housing Standards</b>    | 1,241,650                     | -             | 1,241,650                    | 1,241,650                      | -                               |
| <b>Property Services</b>    | 1,853,440                     | -             | 1,853,440                    | 793,360                        | (1,060,080)                     |
| <b>ICT</b>                  | 19,390                        | -             | 19,390                       | 19,390                         | -                               |
| <b>Other</b>                | 2,084,890                     | -             | 2,084,890                    | 2,084,890                      | -                               |
| <b>Regeneration</b>         | 105,520                       | -             | 105,520                      | 105,520                        | -                               |
| <b>Horticulture</b>         | 500,000                       | 50,000        | 550,000                      | 550,000                        | -                               |
| <b>Total</b>                | <b>5,804,890</b>              | <b>50,000</b> | <b>5,854,890</b>             | <b>4,794,810</b>               | <b>(1,060,080)</b>              |
| <b>Funding:-</b>            |                               |               |                              |                                |                                 |
| <b>External</b>             |                               |               |                              |                                |                                 |
| <b>Contributions</b>        | 1,238,390                     | -             | 1,238,390                    | 1,238,390                      | -                               |
| <b>Capital Receipts</b>     | 18,000                        | -             | 18,000                       | 18,000                         | -                               |
| <b>Capital Reserves</b>     | 419,940                       | -             | 419,940                      | 1,131,160                      | 711,220                         |
| <b>General Fund</b>         |                               |               |                              |                                |                                 |
| <b>Reserves</b>             | 953,740                       | -             | 953,740                      | 953,740                        | -                               |
| <b>Planning obligations</b> | 114,000                       | -             | 114,000                      | 135,690                        | 21,690                          |
| <b>Borrowing</b>            | 3,060,820                     | 50,000        | 3,110,820                    | 1,317,830                      | (1,792,990)                     |
| <b>Total</b>                | <b>5,804,890</b>              | <b>50,000</b> | <b>5,854,890</b>             | <b>4,794,810</b>               | <b>(1,060,080)</b>              |

- 5.3. The 2018/19 General Fund Capital Budget, as updated and approved by the Cabinet on 7th August 2018, was set at £5,804,890. During the second quarter a budget increase of £50,000 has been included; resulting in a revised 2018-19 budget of £5,854,890
- 5.4. The change made to the Programme in Quarter Two is listed below:
- Tean Road Recreation Ground - £50,000 – Increased funding approved by Cabinet on 11<sup>th</sup> October 2018 to enable the delivery and completion of improvements recommended to the recreation ground
- 5.5. There is one significant capital programme variance to report at this stage:
- Property (£1,060,080 underspend) A number of projects have been re-profiled into future years following the on-going review and prioritisation of works contained within the Asset Management Plan
- 5.6. Consequently, capital funding which will be applied to the 2018/19 Capital Programme is lower than forecast, reflecting the revised timing of capital spend.

## **6. Treasury Management**

- 6.1. This section of the report sets out the key treasury management statistics in relation to the Council's investments and borrowings. This report comprises a high level treasury management summary. The Audit and Accounts Committee receives detailed operational updates on treasury management.

### *Investments*

- 6.2. Cash Investments held on the 30th September 2018 totalled £7.6million. Interest earned on these investments by the end of quarter 2 totalled £27,920 and the average level of funds available for investment was £8.8million.
- 6.3. The Council has budgeted to receive £73,590 in investment income in 2018/19. The budget was set with the potential for one Bank of England base rate rise of 0.25% during 2018/19. This occurred on 2<sup>nd</sup> August 2018, therefore the expectation is that the interest income will achieve the budgeted level.

### *Ascent Joint Venture*

- 6.4. Ascent (the joint venture company set up to deliver affordable housing across the District) had drawn the full £5million Debenture facility by the end of 2014/15. Interest is charged at 2%, therefore the budgeted interest income for the year is £100,000; this is on target.
- 6.5. The balance on the £20million loan facility to Ascent remains at £14million. There have been no further drawdowns of the loan since the 2015/16 year. Interest charged is based on the 5 year PWLB rate on the date of the drawdown plus a 1.25% risk premium. The refinanced tranche 1 of £7million

matures in October 2018 and will be rolled again for a short period pending the outcome of the Ascent LLP business plan review. The income budget of £446,690 is currently reported to be on target.

### *Borrowing*

- 6.6. Total debt outstanding as at 30th September 2018 totalled £12million; this has been used to fund the Ascent Loan.
- 6.7. The Council has budgeted to incur £272,760 in interest charges in 2018/19. This was based on externally funding the full existing Ascent Loan Balance of £14million and a £2.2million general fund borrowing requirement in the current year capital programme.
- 6.8. At this stage in the year, borrowing costs are forecast to be on target against the budget. The treasury team continues to monitor opportunities for new borrowing during the year considering the actual borrowing requirement and the cost of carry of any borrowings taken.

## **7. Revenue Collection**

- 7.1. This section of the report details progress to date in collecting the Council Tax, Business Rates and Sundry Debt.
- 7.2. The Q2 collection rate outturn for the year 2018/19 was as follows:
  - Council Tax – 56.7% of Council Tax was collected by 30<sup>th</sup> September 2018, compared to 56.7% for the same period last year.
  - Business Rates – 56.8% of Business Rates was collected by 30<sup>th</sup> September 2018, compared with 57.0% for the same period last year.
- 7.3. At the end of Quarter Two the value of sundry debt that was over 60 days old was £99,980 which compares with £103,240 at 30th September 2017.

**ANNEX A****Capital Programme Update 30<sup>th</sup> September 2018**

| Capital Schemes                   | 2018/19<br>Approved<br>Budget | Q2Changes     | 2018/19<br>Revised<br>Budget | Expected<br>Outturn<br>2018/19 | Expected<br>Variance<br>2018/19 |
|-----------------------------------|-------------------------------|---------------|------------------------------|--------------------------------|---------------------------------|
|                                   | £                             | £             | £                            | £                              | £                               |
| <b><u>Housing Standards</u></b>   |                               |               |                              |                                |                                 |
| Private Sector Grants             | 1,211,650                     | -             | 1,211,650                    | 1,211,650                      | -                               |
| Landlord Accreditation Scheme     | 30,000                        | -             | 30,000                       | 30,000                         | -                               |
| <b>Total Environmental Health</b> | <b>1,241,650</b>              | <b>-</b>      | <b>1,241,650</b>             | <b>1,241,650</b>               | <b>-</b>                        |
| <b><u>Property Services</u></b>   |                               |               |                              |                                |                                 |
| Asset Management Plan             | 1,853,440                     | -             | 1,853,440                    | 793,360                        | (1,060,080)                     |
| <b>Total Property</b>             | <b>1,853,440</b>              | <b>-</b>      | <b>1,853,440</b>             | <b>793,360</b>                 | <b>1,060,080</b>                |
| <b><u>ICT</u></b>                 | 19,390                        |               | 19,390                       | 19,390                         | -                               |
| <b>Total ICT</b>                  | <b>19,390</b>                 | <b>-</b>      | <b>19,390</b>                | <b>19,390</b>                  | <b>-</b>                        |
| <b><u>Other Schemes</u></b>       |                               |               |                              |                                |                                 |
| Vehicle & Plant Purchase          | 2,084,890                     | -             | 2,084,890                    | 2,084,890                      | -                               |
| <b>Total Other Schemes</b>        | <b>2,084,890</b>              | <b>-</b>      | <b>2,084,890</b>             | <b>2,084,890</b>               | <b>-</b>                        |
| <b><u>Regeneration</u></b>        |                               |               |                              |                                |                                 |
| Moorlands Partnership Grants      | 55,520                        | -             | 55,520                       | 55,520                         | -                               |
| Butter Market                     | 50,000                        | -             | 50,000                       | 50,000                         | -                               |
| <b>Total Regeneration</b>         | <b>105,520</b>                | <b>-</b>      | <b>105,520</b>               | <b>105,520</b>                 | <b>-</b>                        |
| <b><u>Horticulture</u></b>        |                               |               |                              |                                |                                 |
| Play - Projects                   | 500,000                       | 50,000        | 550,000                      | 550,000                        | -                               |
| <b>Total Horticulture</b>         | <b>500,000</b>                | <b>50,000</b> | <b>550,000</b>               | <b>550,000</b>                 | <b>-</b>                        |
| <b>Total Programme</b>            | <b>5,804,890</b>              | <b>50,000</b> | <b>5,854,890</b>             | <b>4,794,810</b>               | <b>(1,060,080)</b>              |