



**2018/19**

**Third 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 third 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	622,620	(47,740)
Human Resources	49,230	54,970	5,740
Member Services	308,800	298,060	(10,740)
Property Services	954,210	1,132,520	178,310
Benefits	(274,580)	(284,940)	(10,360)
Planning Applications	(459,310)	(459,310)	-
Building Control	16,210	4,960	(11,250)
Customer Services	106,300	93,300	(13,000)
Legal Services	64,520	2,420	(62,100)
Electoral Services	84,470	57,290	(27,180)
Licensing and Land Charges	(221,710)	(210,460)	11,250
Regeneration	195,300	296,190	100,890
Communities and Cultural	167,380	159,380	(8,000)
Housing Strategy	43,110	(36,400)	(79,510)
Transformation	6,760	5,000	(1,760)
Community Safety and Enforcement	175,050	175,550	500
Finance, Income and Procurement	(100,670)	(43,720)	56,950
Corporate Finance*	5,850,220	5,683,220	(167,000)
Waste Collection	1,642,620	1,755,350	112,730
Street Scene	371,680	394,420	22,740
Leisure Services	667,730	675,270	7,540
Horticulture	573,470	555,580	(17,890)
Visitor Services	(595,840)	(569,800)	26,040
Environmental Health	(9,080)	(21,320)	(12,240)
<b>Net Total of Services</b>	<b>10,359,330</b>	<b>10,404,970</b>	<b>45,640</b>
<b>Net Interest</b>	(347,520)	(398,020)	(50,500)
	10,011,810	10,006,950	(4,860)
<b>Funding : external</b>	(9,210,760)	(9,305,660)	(94,900)
<b>: reserves - contribution/(use)</b>	(801,050)	(849,720)	(48,670)
<b>Projected (Surplus)/Deficit</b>	<b>-</b>	<b>(148,430)</b>	<b>(148,430)</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 Q3 projected outturn on the General Fund Revenue Account for the year is £9,863,380. This represents a projected surplus for the year of £148,430.

2.4. There are three areas of significant underspend projected on the General Fund Revenue Account:

- Legal (£62,100 underspend) - arises from the awarding of costs to the council for an historic planning appeal.
- Housing Strategy (£79,510 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 district. 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 £29,680 of the projected underspend has been earmarked to move into reserves.
- Corporate Finance (£167,000 underspend) - Corporate Finance records the authority's performance against its efficiency savings target and the consolidation of savings against corporate budgets such as for employee costs. Section 3 below is forecasting a £305,950 shortfall against the in-year efficiency target. However this is forecast to be offset by savings accruing against corporate staff, inflation contingency budgets and contract hire, resulting in a net £167,000 underspend.

2.5. There are five areas of significant overspend projected on the General Fund Revenue Account:

- Property (£178,310 overspend) - The temporary arrangements put in place while the Alliance's property management contract is 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.
- Regeneration (£100,890 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 £100,000 of these reserves are to be drawn down to meet the overspend
- Finance, Income and Procurement (£56,950 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.
- Waste Collection (£112,730 overspend) - Whilst trade waste activities are generating a £35,000 surplus this is offset by operating overspends of £45,000 on general refuse and £97,000 on recycling. The overspend on

recycling reflects pressures on volumes and the values received for recycled waste.

- 2.6. The £50,500 underspend on net interest costs is detailed in section 6.
- 2.7. The level of funding anticipated for the year is £143,570 above that budgeted due to the following:

External Funding: (£94,900)

- Business Rates Retention (£94,900) - 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. This will generate a windfall for the Council of £27,530 relating to 2017/18 and also increases the compensation due for the current year.
- Fluctuations in business rates retention continue to be monitored in relation to the provision for appeals and rateable value reductions including applications for backdated charitable relief to NHS Trusts.

Use of Earmarked Reserves: (£48,670)

- 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 £29,680 contribution - Third party funds received in-year are being set aside to support homelessness initiatives that will run into future years.
- Regeneration Services £100,000 use - The £40,000 Local Development Framework Reserve is to be applied to support in-year overspend on the Local Plan. Other activities of the Service are to be funded by a draw down of £60,000 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 Three, £280,050 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.

- 3.7. This leaves £457,950 of savings to be achieved over the remaining quarter of the year. Therefore, it is likely that there will be a potential shortfall against the in-year target, mainly down to some slippage in the profile of savings assumed in the Efficiency Programme.
- 3.8. A review of historically underspent budgets has been taking place over the last 6 months to identify areas of excess budget provision. This exercise has yielded £68,000 in savings to date and will continue during Fourth Quarter in an effort to reduce any shortfall.
- 3.9. The efficiency shortfall is being partially offset by one-off vacancy savings in the establishment as well as other corporate in year savings. Whilst this plugs the in-year savings gap; it does not necessarily provide for on-going budget savings. Consequently, any shortfall in efficiency savings at year-end will need to be rolled forward into 2019/20 or re-profiled into later years. An exercise to re-profile the current Efficiency & Rationalisation Plan is being undertaken as part of the 2019/20 budget setting process.
- 3.10. The Council 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. This reserve may be drawn on at year-end to meet some of these costs.

#### 4. Alliance Environmental Services

- 4.1. Alliance Environmental Services Ltd (AES) was 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. 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. AES has provided management accounts as at the end of November 2018 to forecast the outturn for 2018/19 and is predicting a profit of £187,010 against the budget of £111,830. The anticipated surplus of £75,180 is related to a reduction in staffing costs compared to the budget, and some savings on transport repairs and maintenance; which are in part offset by reductions in risk items payable by the Council.

2018-19	Budget	Q3 Forecast	Variance
	£	£	£
Turnover	(6,805,840)	(6,652,800)	153,040
Cost of sales	6,099,890	5,853,380	(246,510)
<b>Gross profit</b>	<b>(705,950)</b>	<b>(799,420)</b>	<b>(93,470)</b>
Administrative Expenses	594,120	612,410	18,290
<b>Forecast (Profit)/ Loss</b>	<b>(111,830)</b>	<b>(187,010)</b>	<b>(75,180)</b>

- 4.4. The 2018/19 efficiency targets relating to AES services are £242,850: £169,370 allocated to AES and £73,480 to Alliance Councils retained budgets. The efficiency savings achieved by AES are payable to the Councils at the end of the year and will be apportioned between High Peak Borough Council and Staffordshire Moorlands District Council as appropriate to the areas where it has been achieved.
- 4.5. At quarter 3 AES are reporting that company is forecast to achieve its budgeted profit to improve the company's reserves position in line with its original business case. Any surplus profits of will be allocated to the efficiency target. The company is confident at this stage that the budgeted efficiency savings will be met.

- 4.6. The Councils' efficiency target of £73,480 for 2018/19 has been achieved (£26,830 relating to SMDC)

*Impact on the Council's budgets*

- 4.7. The table below summarises the impact of the company's operation on the Council's budget:

2018-19	General Fund
	£
<b>Budget</b>	<b>2,365,900</b>
Annual management fee	2,365,900
Crystallised risk items	251,810
Contract hire savings	(147,470)
Allocation of Joint Operation Profit	(88,230)
<b>Total Cost</b>	<b>2,382,010</b>
<b>Net Variance</b>	<b>16,110</b>

- 4.8. 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. At quarter 3, the risk payments applicable by the Council are forecast at £251,810 relating to vehicle costs and temporary staffing costs.
- 4.9. 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.
- 4.10. The total of the annual management fee payable and the crystallised risk items is largely offset 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; and by the allocation of AES's profit outturn under Joint Operation accounting.
- 4.11. AES is undergoing the process of confirming admitted body status in the Staffordshire Pension Fund (SPF). This involves 'pooling' the staff transferred to AES, with the remaining Council employees in the Staffordshire Moorlands portion of the SPF. This effectively removes pension risk from the company, whilst at the same time offering greater budget certainty and putting the Council in the same risk position that it would have been if services had continued to be delivered in-house.

## 5. Capital Programme

- 5.1. This section of the report provides an update 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 31st December 2018. Further detail – on a scheme by scheme basis – is contained in Annex A:

Service	2018/19 Approved Budget	Q3 Changes	2018/19 Revised Budget	Expected Outturn 2018/19	Expected Variance 2018/19
	£	£	£	£	£
Housing Standards	1,241,650	237,410	1,479,060	1,161,650	(317,410)
Property Services	1,853,440	50,000	1,903,440	483,750	(1,419,690)
ICT	19,390	-	19,390	-	(19,390)
Fleet Management	2,084,890	-	2,084,890	1,346,300	(738,590)
Regeneration	105,520	(50,000)	55,520	30,000	(25,520)
Horticulture	550,000	20,000	570,000	570,000	-
	<b>5,854,890</b>	<b>257,410</b>	<b>6,112,300</b>	<b>3,591,700</b>	<b>(2,520,600)</b>
External Contributions	1,238,390	287,410	1,525,800	1,211,000	(314,800)
Capital Receipts	18,000	-	18,000	-	(18,000)
Capital Reserves	419,940	-	419,940	392,570	(27,370)
General Fund Reserves	953,740	-	953,740	953,730	(10)
Planning obligations	114,000	-	114,000	135,690	21,690
Borrowing	3,110,820	(30,000)	3,080,820	898,710	(2,182,110)
	<b>5,854,890</b>	<b>257,410</b>	<b>6,112,300</b>	<b>3,591,700</b>	<b>(2,520,600)</b>

- 5.3. The 2018/19 General Fund Capital Budget, as updated and approved by the Cabinet on 4th December 2018 was set at £5,854,890. During the third quarter budget increases of £257,410 have been included; resulting in a revised 2018-19 budget of £6,112,300

- 5.4. The changes made to the programme in quarter three are listed below:

- Brough Park New Skate Park **Increased budget** £20,000 – Following a successful bid to Sport England, funding has been secured towards the cost of the skate park including provision of floodlights; subject to planning permissions the lights are expected to be installed March 2019.
- Disabled Facilities Grants (DFGs) – **Increased budget** £237,410 the level of funds awarded by Central Government to support the grants programme was higher than anticipated (however, this funding is not expected to be utilised in the current year – see below).
- Butter Market refurbishment & enhancement - a budget transfer of £50,000 has been made between Regeneration and Property Services to amalgamate the capital funds available for works at the Butter Market.

5.5. There are three significant capital programme variances to report at this stage:

- Housing (£317,410 underspend) - Disabled Facilities Grant (DFGs); this is the first year of new home improvement agency arrangements, because of current demand and changes to the delivery of DFGs during this transitional year, it is unlikely that the existing funds will be required to deliver the mandatory grants programme.
- Property (£1,419,690 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
- Other – Fleet Management (£738,590 underspend); following transfer of the waste collection service to Alliance Environmental Services (AES), new fleet management arrangements have been agreed. Existing contract hire agreements have been terminated and vehicles have been directly purchased. The underspend reflects the revised timing of acquisitions of further fleet vehicles which will now take place in 2019/20

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 31st December 2018 totalled £6.8 million. Interest earned on these investments by the end of quarter 3 totalled £40,430 and the average level of funds available for investment was £8.5million.
- 6.3. The Council has budgeted to receive £73,590 in investment income in 2018/19. A shortfall of £10,000 is anticipated against this budget due to increased internal borrowing which reduces the level of funds available for investment.

### *Ascent Joint Venture*

- 6.4. Ascent (the joint venture company set up to deliver affordable housing across the District) had drawn the full £5 million 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 £20 million loan facility to Ascent remains at £14 million. 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 £7 million matured in October 2018 and was rolled again for a short period pending the outcome of the Ascent LLP business plan review at a rate of 3.05% (previously 2.61%). A small shortfall of £6,500 is currently forecast against the income budget of £446,690.

### *Borrowing*

- 6.6. Total debt outstanding as at 31st December 2018 totalled £7 million; this funds the Ascent Loan. No new borrowing has taken place, however £5 million loans matured in October and November 2018, which have not yet been refinanced.
- 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 £1 4million and a £2.2 million general fund borrowing requirement in the current year capital programme. £7m of the Ascent loan is internally funded at the end of quarter 3. Therefore, a saving of £67,000 is forecast against the budget relating to internal funding and some reprofiling of the capital programme

- 6.8. 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 Q3 collection rate outturn for the year 2018/19 was as follows:
  - Council Tax – 84.3% of Council Tax was collected by 31<sup>st</sup> December 2018, compared to 84.5% for the same period last year.
  - Business Rates – 80.9% of Business Rates was collected by 31<sup>st</sup> December 2018, compared with 81.7% for the same period last year.
- 7.3. At the end of Quarter Three the value of sundry debt that was over 60 days old was £133,452 which compares with £105,034 at 31st December 2017. The current year figure included two invoices for a single customer totalling £57,000 which were paid within 10 days of the quarter end date.

**ANNEX A****Capital Programme Update 31st December 2018**

<b>Capital Schemes</b>	<b>2018/19 Approved Budget</b>	<b>Q3 Changes</b>	<b>2018/19 Revised Budget</b>	<b>Expected Outturn 2018/19</b>	<b>Expected Variance 2018/19</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b><u>Housing Standards</u></b>					
Private Sector Grants	1,211,650	237,410	1,449,060	1,161,650	(287,410)
Landlord Accreditation Scheme	30,000	-	30,000	-	(30,000)
<b>Total Environmental Health</b>	<b>1,241,650</b>	<b>237,410</b>	<b>1,479,060</b>	<b>1,161,650</b>	<b>(317,410)</b>
<b><u>Property Services</u></b>					
Asset Management Plan	1,853,440	50,000	1,903,440	483,750	(1,419,690)
<b>Total Property</b>	<b>1,853,440</b>	<b>50,000</b>	<b>1,903,440</b>	<b>483,750</b>	<b>(1,419,690)</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>-</b>	<b>(19,390)</b>
<b><u>Other Schemes</u></b>					
Vehicle & Plant Purchase	2,084,890	-	2,084,890	1,346,300	(738,590)
<b>Total Other Schemes</b>	<b>2,084,890</b>	<b>-</b>	<b>2,084,890</b>	<b>1,346,300</b>	<b>(738,590)</b>
<b><u>Regeneration</u></b>					
Moorlands Partnership Grants	55,520	-	55,520	30,000	(25,520)
Butter Market	50,000	(50,000)	-	-	-
<b>Total Regeneration</b>	<b>105,520</b>	<b>(50,000)</b>	<b>55,520</b>	<b>30,000</b>	<b>(25,520)</b>
<b><u>Horticulture</u></b>					
Play - Projects	550,000	20,000	570,000	570,000	-
<b>Total Horticulture</b>	<b>550,000</b>	<b>20,000</b>	<b>570,000</b>	<b>570,000</b>	<b>-</b>
<b>Total Programme</b>	<b>5,854,890</b>	<b>257,410</b>	<b>6,112,300</b>	<b>3,591,700</b>	<b>(2,520,600)</b>