



2019/20

**First 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 first report for 2019/20.
- 1.2. The report summarises overall financial performance for 2019/20 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 2019/20.
 - **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 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 (with staff)	2019/20 Budget	Expected Outturn 2019/20	Variance
	£	£	£
Alliance Leadership Team	62,550	48,550	(14,000)
Audit	9,940	8,440	(1,500)
ICT	662,530	660,530	(2,000)
Human Resources	55,360	53,360	(2,000)
Member Services	308,800	304,300	(4,500)
Property Services+	438,500	388,190	(50,310)
Benefits	(230,610)	(241,610)	(11,000)
Planning Applications	(439,590)	(469,590)	(30,000)
Building Control	18,640	18,640	-
Customer Services	103,800	96,800	(7,000)
Legal Services	64,520	64,520	-
Electoral Services	97,790	87,790	(10,000)
Licensing and Land Charges	(229,610)	(229,610)	-
Regeneration+	103,920	131,860	27,940
Communities and Cultural	167,380	161,880	(5,500)
Housing Strategy	43,110	43,110	-
Transformation	6,760	14,760	8,000
Community Safety and Enforcement	175,050	172,550	(2,500)
Finance Income & Procurement	(101,070)	(49,070)	52,000
Corporate Finance*	5,485,620	5,490,620	5,000
Waste Collection	1,727,080	1,774,780	47,700
Street Scene	354,190	340,800	(13,390)
Leisure Services	666,730	657,230	(9,500)
Horticulture	539,350	530,940	(8,410)
Environmental Health	(6,020)	(6,020)	-
Net Total of Services	10,084,720	10,053,750	(30,970)
Net Interest	(407,450)	(425,460)	(18,010)
	9,677,270	9,628,290	(48,980)
Funding - external	(9,672,710)	(9,571,140)	101,570
Funding - reserves contribution to/(from)	(4,560)	(4,560)	-
Projected (Surplus)/Deficit	-	52,590	52,590

* Staff budgets are currently budgeted within Corporate Finance.

2.2. A revenue budget of £9,677,270 was set for 2019/20. The table above shows how this budget has been allocated to services.

- 2.3. The Q1 projected outturn on the General Fund Revenue Account for the year is £9,729,860. This represents a small projected deficit for the year of £52,590.
- 2.4. There is one area of significant underspend (>£50,000):
- **Property (£50,310 underspend):** the service has benefitted from a refund of £228,000 in accumulated underspends made over the lifetime of the facilities maintenance contract with Derbyshire County Council. This is offsetting additional costs of the interim arrangements (in place while a replacement contract is negotiated) which is forecast to cost the District some £174,000 more than budgeted.
- 2.5. There is one area of significant overspend (>£50,000):
- **Finance, Income and Procurement (£52,000 overspend):** While collection rates remain on target, the income generated from summons activity is predicted to be some £40,000 below original expectations (this will be reviewed as part of the Medium Term Financial Plan update). Further budget pressure is predicted in local taxation from the level of spending on external services to support billing processes.
- 2.6. The £18,010 underspend on net interest costs is detailed in section 6.
- 2.7. The level of funding anticipated for the year is £101,570 below that budgeted due to the following:

External Funding: (£101,570)

- Business Rates Retention (£101,570 shortfall):
 - The NNDR income forecast has reduced since the budget was set due to increased Small Business Rate Relief being awarded and a greater provision for appeals; this has the effect of reducing the levy payable on the business rates growth. In addition, the budget included a conservative estimate of the windfall anticipated from the Council's membership of the 2019/20 75% business rates retention pilot; the forecast currently shows a greater windfall. The combination of these elements indicates additional retention of £167,800.
 - This is forecast to be offset by a £269,370 shortfall of s31 grants due to the authority, particularly for Retail discount as this relief was overestimated in the budget. The shortfall on the general fund from the reduced grant will be offset over time by a larger surplus on the collection fund from the reduced relief awarded, which will be distributed in future years.

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 2019/20.
- 3.2. The Council's Medium-Term Financial Plan 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 was 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.
 - **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** – a 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 2019/20 budget provided for the achievement of £935,000 of such savings in year. This was made up of £475,000 from the original strategy plus £25,000 of reprofiled savings from 2020/21. In addition to this a further £435,000 of savings were brought forward as a result of anticipated shortfalls in 2018/19 (assumed as at the point the budget was being proposed). However, £93,000 of these savings were actually achieved by the end of 2018/19 making the savings requirement for 2019/20 a total of £842,000. The major focus of the savings programme in 2019/20 being on growth, income generation and major procurements.
- 3.6. At the end of Quarter One, £830,690 has been taken against the overall Efficiency Programme, which includes significant savings arising out of the procurement of a new leisure management contract. The saving from this

procurement was realised 12 months earlier than anticipated in the original Efficiency Programme (where it was expected to be realised in 2020/21). Significant savings have also arisen out of the retendering of the Councils' contract for insurance services.

- 3.7. Although, this gives a healthy look to the 2019/20 savings position and offsets the shortfall from 2018/19, it leaves a potential issue for 2020/21 and 2021/22 where a further £1,150,000 of savings are required. It is therefore important that the remainder of this year is used to focus on some of the income-related savings, included in the early years of the Efficiency Programme, which have not been fully realised.
- 3.8. The authority carries a longstanding reserve 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. The reserve currently stands at £492,000. It has not been necessary to draw on this reserve in previous years so it remains intact to underwrite performance against future savings targets in the Efficiency Programme.

4. Alliance Environmental Services

- 4.1. Alliance Environmental Services Ltd (AES) is the 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 2019/20.
- 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.

Alliance Environmental Service's financial performance

- 4.3. The AES business plan for all services delivered to both Councils included an anticipated operating profit of £127,185. The draft outturn provided at the end of the first quarter shows that a profit of £107,059 is anticipated by the end of the year; resulting in a shortfall of £20,126 against the budget. The outturn includes both the crystallised risk items forecast by AES as payable by the Councils (£359,256); and the reimbursement of the planned efficiency target payable by (AES £178,750).

2019-2020	Budget	Draft outturn	Variance
	£	£	£
Turnover	(7,641,915)	(8,023,166)	(381,251)
Cost of sales	6,847,618	7,189,232	341,614
Gross profit	(794,297)	(833,934)	(39,637)
Administrative & Other Expenses	667,112	726,875	59,763
(Profit)/ Loss	(127,185)	(107,059)	20,126

Impact on the Council's budgets

- 4.4. This table shows in more detail the outturn on the AES contract included in the General Fund Revenue Account:

2019-20	£
AES Contract budget	3,181,500
Former vehicle contract hire budget	210,227
Available budget	3,391,727
Management fee	3,316,443
Forecast in-year risk items	225,606
Allocation of AES efficiency	(94,014)
Total management fee payable	3,448,035
Allocation of Joint Operation profit	(56,308)
Net total	3,391,727
Variance to budget	-

- 4.5. In addition to the service budgets for the management fee (contract budget), it has been recognised that savings on former contract hire vehicle budgets have been achieved as a direct result of the change in vehicle provision upon cessation of the SFS contract (the Council's former provider of contract hire vehicles). Therefore, savings of £210,227 have been utilised to support the forecast waste vehicle and other fleet 'risk items'.
- 4.6. The AES Business Plan includes forecast expenditure 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. The current forecast anticipates that £225,606 of these risk items will crystallise; these include the cost of short-term hire of waste vehicles and other fleet costs including grounds maintenance equipment which falls under the 'Fleet' group. The contract states that any profits realised in excess of the budget will be used to offset this amount.
- 4.7. The Council's share of the total AES efficiency target is £94,014. This is repayable to the Council and is allocated against the management fee costs.
- 4.8. 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 Council's share of the forecast profit at the end of quarter 1 is £56,308 and is offset against the management fee costs.

Efficiencies

- 4.9. The total 2019/20 efficiency target relating to AES services is £420,640. This is made up of the £178,750 allocated to AES for both Councils and £241,890 to be achieved from the retained budgets of both Councils. This will be monitored during the year taking into account the timing of phase 3 (the transfer of street cleansing and grounds maintenance services).

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 June 2019. Further detail – on a scheme by scheme basis – is contained in Annex A:

Service	2019/20 Approved Budget	Q1 Changes	2019/20 Revised Budget	Expected Outturn 2019/20	Expected Variance 2019/20
	£	£	£	£	£
Housing Standards	1,256,000	650	1,256,650	1,256,650	-
Property Services	1,467,080	78,680	1,545,760	1,539,420	(6,340)
ICT	255,800	-	255,800	255,800	-
Other	1,600,850	772,860	2,373,710	2,373,710	-
Regeneration	75,520	380	75,900	75,900	-
Horticulture	130,000	164,540	294,540	294,540	-
	4,785,250	1,017,110	5,802,360	5,796,020	(6,340)
Funding:-					
External Contributions	1,238,390	-	1,238,390	1,238,390	-
Capital Receipts	40,000	-	40,000	18,000	(22,000)
Reserves	1,620,430	(180,866)	1,439,564	1,373,680	(65,884)
Borrowing	1,886,430	1,197,976	3,084,406	3,165,950	81,544
	4,785,250	1,017,110	5,802,360	5,796,020	(6,340)

- 5.3. The 2019/20 General Fund Capital Budget was approved in February 2019 (£4,785,250 within the MTFP); and July (£1,017,110 the carry forward from 2018/19) resulting in a revised 2019/20 budget of £5,802,360
- 5.4. The changes made to the capital programme since approval in February are as follows:
- The carry forward of 2018-19 capital budget variances as a result of projects which were either behind schedule or had progressed quicker than expected in the year
- 5.5. There are no significant capital expenditure variances forecast at this early stage.

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 June 2019 totalled £9.1 million. Interest earned on these investments during the first quarter totalled £19,460 and the average level of funds available for investment was £9.4 million.
- 6.3. The Council budgeted to receive £117,580 in investment income in 2019/20. A shortfall of £32,000 is anticipated against this budget is due to the continuation of internal borrowing which reduces the level of funds available for investment and lower interest rates than forecast.

Ascent Joint Venture

- 6.4. The Council has a debenture of £5 million paying 2% and loan of £14 million paying an average 3.46% with Ascent, the joint venture company established to deliver affordable housing across the district.
- 6.5. A report was submitted to Cabinet on 18th June 2019 (exempt by the virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972) reviewing the Ascent Business Plan and Delivery Model. Following this report the current expectation is that the original loan and debenture will be returned to the Council from Ascent and a new loan arrangement direct to Your Housing is proposed.
- 6.6. The investment income budget was based on the original investments continuing: £100,000 income from the debenture and £484,270 from the loan. The current interest income forecast does not assume any variance to this until more is confirmed about the timing of any potential repayments and reinvestments.

Borrowing

- 6.7. Total debt outstanding as at 30th June 2019 totalled £11 million; this funds the Ascent loan. The Council budgeted to incur £294,390 in interest charges in 2019/20. This was based on externally funding the full existing Ascent loan balance of £14 million and a £2.8 million general fund borrowing requirement in the current year capital programme. £3 million of the Ascent loan remains internally funded at the end of quarter 1 and there has been no 'new' borrowing undertaken for the general fund. Therefore an underspend of £50,000 is anticipated against the budget.

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 Q1 collection rate outturn for the year 2019/20 was as follows:
- Council Tax – 28.62% of Council Tax was collected by 30th June 2019, compared to 28.99% for the same period last year.
 - Business Rates – 29.38% of Council Tax was collected by 30th June 2019, compared to 29.63% for the same period last year.
- 7.3 At the end of Quarter One the value of sundry debt that was over 60 days old was £72,400 which compares with £82,560 at 30th June 2018.

ANNEX A

Capital Programme Update 30th June 2019

Capital Schemes	2019/20 Approved Budget	Q1Changes	2019/20 Revised Budget	Expected Outturn 2019/20	Expected Variance 2019/20
	£	£	£	£	£
<u>Housing Standards</u>					
Private Sector Grants	1,226,000	650	1,226,650	1,226,650	-
Landlord Accreditation Scheme	30,000	-	30,000	30,000	-
Total Environmental Health	1,256,000	650	1,256,650	1,256,650	-
<u>Property Services</u>					
Asset Management Plan	1,467,080	78,680	1,545,760	1,539,420	(6,340)
Total Property	1,467,080	78,680	1,545,760	1,539,420	(6,340)
<u>ICT</u>	255,800		255,800	255,800	-
Total ICT	255,800	-	255,800	255,800	-
<u>Other Schemes</u>					
Vehicle & Plant Purchase	1,325,750	772,860	2,098,610	2,098,610	-
CCTV - Upgrade	275,100	-	275,100	275,100	-
Total Other Schemes	1,600,850	772,860	2,373,710	2,373,710	-
<u>Regeneration</u>					
Moorlands Partnership Grants	75,520	380	75,900	75,900	-
Total Regeneration	75,520	380	75,900	75,900	-
<u>Horticulture</u>					
Play - Projects	130,000	164,540	294,540	294,540	-
Total Horticulture	130,000	164,540	294,540	294,540	-
Total Programme	4,785,250	1,017,110	5,802,360	5,796,020	(6,340)