



2019/20

**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 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 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 (with staff)	2019/20 Budget	Expected Outturn 2019/20	Variance	Use of / (Contribution to) Earmarked Reserves
	£	£	£	£
Alliance Leadership Team	51,780	48,550	(3,230)	-
Audit	9,940	8,440	(1,500)	-
ICT	662,530	647,530	(15,000)	-
Human Resources	55,360	52,860	(2,500)	-
Member Services	308,800	304,300	(4,500)	-
Property Services	450,230	462,820	12,590	-
Benefits	(230,610)	(241,610)	(11,000)	-
Planning Applications	(438,210)	(438,210)	-	-
Building Control	18,640	640	(18,000)	-
Customer Services	103,800	96,800	(7,000)	-
Legal Services	64,520	64,520	-	-
Electoral Services	97,790	207,790	110,000	120,000
Licensing and Land Charges	(211,560)	(211,560)	-	-
Regeneration	103,920	86,720	(17,200)	-
Communities and Cultural	167,380	182,180	14,800	18,300
Housing Strategy	43,110	18,110	(25,000)	(25,000)
Transformation	6,760	14,160	7,400	-
Community Safety and Enforcement	159,550	172,550	13,000	-
Finance Income & Procurement	(202,210)	(118,210)	84,000	-
Corporate Finance*	6,078,090	5,961,090	(117,000)	-
Waste Collection	1,883,050	1,937,030	53,980	-
Street Scene	245,900	239,040	(6,860)	12,000
Leisure Services	181,210	172,260	(8,950)	-
Horticulture	499,020	547,970	48,950	58,140
Environmental Health	(24,070)	(24,070)	-	-
Net Total of Services	10,084,720	10,191,700	106,980	183,440
Net Interest	(407,450)	(435,450)	(28,000)	
	9,677,270	9,756,250	78,980	
Funding - external	(9,672,710)	(9,585,630)	87,080	
Funding - reserves contribution to/(from)	(4,560)	(180,300)	(175,740)	
Projected (Surplus)/Deficit	-	(9,680)	(9,680)	

* 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 Q2 projected outturn on the General Fund Revenue Account for the year is £9,667,590. This represents a small projected underspend for the year of £9,680.
- 2.4. There is currently one area of significant underspend (>£50,000):
- **Corporate Finance (£117,000 underspend):** Vacancies against the Council's establishment budget are predicted to generate a saving of £117,000.
- 2.5. There are three areas of significant overspend (>£50,000):
- **Electoral (£110,000 overspend):** May 2019 saw the District's local elections, at a cost of some £160,000. The Council budgets to make annual contributions into a reserve earmarked to cover these costs. As set out below there will be a net £120,000 drawdown on this reserve in 2019/20. Other than the impact of the above election, spend of the service against its operational Individual Electoral Registration budget is predicted to be in surplus by £10,000.
 - **Finance, Income and Procurement (£84,000 overspend);** While collection rates remain on target, the income generated from summons activity is predicted to be some £60,000 below original expectations (this will be reviewed as part of the Medium Term Financial Plan update). Local Taxation is also making unbudgeted spend, of some £30,000, this relates to external support in identifying underpaid business rates. The payments to the company are made as a percentage of the resulting increase to income with the council benefitting from the on-going increased business rates. As these income streams are in future years there is a delay between the in-year spend and the rewards that will accrue.
 - **Waste Collection (£53,980 overspend):** The service is being taken into an overspend position as a result of a £35,000 shortfall against recycling credit income (proportionally offset by £23,000 additional Trade Waste income) and the risk items payable to Alliance Environmental Services as set out in Section 4 below.
- 2.6. The £28,000 underspend on net interest costs is detailed in section 6.
- 2.7. The level of funding anticipated for the year is £88,660 above that budgeted due to the following:

External Funding: (£87,080 reduction)

Business Rates Retention £87,080 net shortfall made up of:

- *Additional* retention of £160,720
 - £127,680: The budget included a conservative estimate of the windfall anticipated from the Council's membership of the 2019/20

- 75% business rates retention pilot, which is estimated to be exceeded.
 - £33,040: 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.
- Offset by *Reduced* retention of £247,800:
 - Section 31 grants due to the authority are anticipated to be lower than at budget setting, this relates particularly to Retail discount which was estimated on the basis of government criteria for the relief at budget setting, but is lower in practice due to State Aid implications. 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.

Use of Reserves (£175,740 increase)

- The original budget for 2019/20 assumed a contribution of £3,140 into general fund contingency and a £7,700 use of earmarked reserves (Net use of £4,560 in the year)
- The £122,800 variance in reserve usage reported in table 2.1 reflects that instead of using the £7,700 in earmarked reserves the District is expecting to make a net drawdown of £130,500.

Earmarked;

- **Electoral Services £120,000 use:** this is the drawdown to help cover the costs of the quadrennial election held in May. It is the mechanism that spreads the cost of the District's elections over the term of a Council.
- **Communities and Cultural £18,300 use:** It is anticipated that certain spend in the year will be appropriate for funding out of monies earmarked in prior years from various New Burdens grants received by the Council.
- **Housing Strategy £25,000 contribution:** An amount of funding, received in advance of Homelessness initiatives accruing costs, has been earmarked to be carried forward.
- **Street Scene £12,000 use:** These monies, set aside in 2018/19 to fund costs of the Keep Britain Tidy campaign, are to be applied in year.
- **Horticulture £58,140 use:** This represents a £7,700 use of S106 monies, applied to support spend on amenity sites in the District, offset by a contribution of £2,500 into a sinking fund for the future replacement of the artificial surface of a bowling green at St Lawrence Recreation Ground. A payment of £52,942 has been made to Biddulph Town Council out of the Open Spaces budget. This is the transfer of S106 monies received in previous years and earmarked for use in the Biddulph Area. An equivalent amount is being drawn from the earmarked S106 reserve to fund this transfer.

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 (approved in February 2019) 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** - 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 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 and a further £435,000 of savings brought forward as a result of anticipated shortfalls in 2018/19 (as assumed at the point the Budget was being proposed). £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 Two, £856,260 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, there remains a savings target of £1,150,000 in 2020/21 and 2021/22 still to achieve. 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 second quarter shows that a profit of £76,652 is anticipated by the end of the year; resulting in a shortfall of £50,533 against the budget. The outturn includes both the crystallised risk items forecast by AES as payable by the Councils (£423,443); and the reimbursement of the planned efficiency target payable by (AES £178,750).

2019-2020	Budget	Draft outturn	Variance
	£	£	£
Turnover	(7,676,264)	(7,983,677)	(307,413)
Cost of sales	6,873,073	7,194,296	321,223
Gross profit	(803,191)	(789,381)	(13,810)
Administrative & Other Expenses	676,006	712,729	36,723
(Profit) / Loss	(127,185)	(76,652)	50,533

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	231,380
Available budget	3,412,880
Management fee	3,316,443
Forecast in-year risk items	268,196
Allocation of AES efficiency	(94,013)
Total management fee payable	3,490,626
Allocation of Joint Operation profit	(40,315)
Net total	3,450,311
Variance to budget	37,431

- 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 £231,380 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 £268,196 of these risk items will crystallise. £245,730 of these risk items relates to 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. The remaining £22,470 relates to contract pressures forecast by AES on increasing costs of waste disposal and reducing income on recycle. These are currently forecast by AES on a prudent risk based approach, but the company is working to negotiate on prices or offset with savings in other areas. This will be reviewed at quarter 3.
- 4.7. The Council's share of the total AES efficiency target is £94,013. 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 2 is £40,315 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 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 2019. Further detail – on a scheme by scheme basis – is contained in Annex A:

Service	2019/20 Approved Budget	Q2 Changes	2019/20 Revised Budget	Expected Outturn 2019/20	Expected Variance 2019/20
	£	£	£	£	£
Housing Standards	1,256,650	-	1,256,650	1,256,650	-
Property Services	1,545,760	-	1,545,760	798,660	(747,100)
ICT	255,800	-	255,800	138,000	(117,800)
Other (CCTV & Fleet)	2,373,710	-	2,373,710	1,560,200	(813,510)
Regeneration	75,900	-	75,900	75,900	-
Horticulture	294,540	-	294,540	162,620	(131,920)
	5,802,360	-	5,802,360	3,992,030	(1,810,330)
Funding:-					
External Contributions	1,238,390	352,340	1,590,730	1,238,390	(352,340)
Capital Receipts	40,000	-	40,000	15,650	(24,350)
Capital Reserves	1,439,564	60,436	1,500,000	1,500,000	-
Earmarked Reserves	-	220,850	220,850	220,850	-
Borrowing	3,084,406	(633,626)	2,450,780	1,017,140	(1,433,640)
	5,802,360	-	5,802,360	3,992,030	(1,810,330)

5.3. The 2019/20 General Fund Capital Budget as updated and approved by Cabinet on 8th October 2019 was set at £5,802,360

5.5 There are four significant capital expenditure variances:

- **Property (£747,100 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
- **ICT (£117,800 underspend)** – the anticipated underspend is due to a number of changes made to requirements for new and upgrades of existing ICT systems. The underspend will be carried forward into 2020/21 to meet commitments which primarily relate to the implementation of a new system to aid waste collection processes and the migration of the cash receipting system.

- **Other – Fleet Management (£813,510 underspend);** following transfer of the waste collection service to Alliance Environmental Services (AES), new fleet management arrangements are in place, vehicles are now directly purchased by the Council. The underspend reflects the revised timing of acquisitions of fleet vehicles which will take place over the next four years
- **Horticulture (£131,920 underspend)** – improvements to Brough Park; the installation of Skate Park including new floodlights has been completed. The underspend represents the balance of funding available for the next phase; to install a new toddler/junior play facility. Plans to potentially re-site the play area and also to undertake access improvements to John Hall Gardens are being considered which will require member approval. The budget will be carried forward inline with the timetable of agreed works.

5.7 The significant changes to the funding requirements are set out below:

- Disabled Facilities Grants – The level of funding received to support the grants programme is £352,340 above that budgeted, however, this funding is not expected to be utilised in the current year.
- Capital & Earmarked reserves have been increased to reflect the revised level of funding available; capital investment reserve now totals £1,500,000 and the Community Safety earmarked reserve of £220,850 has been allocated towards the replacement and upgrade of CCTV equipment.
- Overall capital funding which will be applied to the 2019/20 Capital Programme is lower than forecast, reflecting the revised timing of capital spend, hence a reduced borrowing requirement of £1,433,640 against the revised budget.

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 2019 totalled £12.3 million. Interest earned on these investments by the end of the second quarter totalled £42,150 and the average level of funds available for investment was £10.8 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 September 2019 totalled £10 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 £2.8million general fund borrowing requirement in the current year capital programme. £4million of the Ascent loan is internally funded at the end of quarter 2 and there has been no 'new' borrowing undertaken for the general fund. Therefore, an underspend of £60,000 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 Q2 collection rate outturn for the year 2019/20 was as follows:

- Council Tax – 56.34% of Council Tax was collected by 30th September 2019, compared to 56.69% for the same period last year.
- Business Rates – 55.57% of Council Tax was collected by 30th September 2019, compared to 56.77% for the same period last year. 0.95% of this year-on-year shortfall in performance is attributed to variations on payment plans of some large hereditaments and are not anticipated to continue to create a shortfall by year end.

7.3 At the end of Quarter Two the value of sundry debt that was over 60 days old was £67,310 which compares with £99,980 at 30th September 2018.

ANNEX A

Capital Programme Update – 30th September 2019

Capital Schemes	2019/20 Approved Budget	Q2 Changes	2019/20 Revised Budget	Expected Outturn 2019/20	Expected Variance 2019/20
	£	£	£	£	£
<u>Housing Standards</u>					
Disabled Facilities Grants	1,211,000	-	1,211,000	1,211,000	-
Home Repairs Grants	15,650	-	15,650	15,650	-
Landlord Accreditation Scheme	30,000	-	30,000	30,000	-
Total Environmental Health	1,256,650	-	1,256,650	1,256,650	-
<u>Property Services</u>					
Asset Management Plan	1,545,760	-	1,545,760	798,660	(747,100)
Total Property	1,545,760	-	1,545,760	798,660	(747,100)
<u>ICT</u>					
Total ICT	255,800	-	255,800	138,000	(117,800)
<u>Other Schemes</u>					
Vehicle & Plant Purchase	2,098,610	-	2,098,610	1,285,100	(813,510)
CCTV - Upgrade	275,100	-	275,100	275,100	-
Total Other Schemes	2,373,710	-	2,373,710	1,560,200	(813,510)
<u>Regeneration</u>					
Moorlands Partnership Grants	75,900	-	75,900	75,900	-
Total Regeneration	75,900	-	75,900	75,900	-
<u>Horticulture</u>					
Play - Projects	294,540	-	294,540	162,620	(131,920)
Total Horticulture	294,540	-	294,540	162,620	(131,920)
Total Programme	5,802,360	-	5,802,360	3,992,030	(1,810,330)