



2019/20

**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 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	Contribution to / (Use of) Earmarked Reserves	Net Variance
	£	£	£	£	£
Alliance Leadership Team	51,780	54,180	2,400	-	2,400
Audit	9,940	8,440	(1,500)	-	(1,500)
ICT	662,530	647,530	(15,000)	-	(15,000)
Human Resources	55,360	54,260	(1,100)	-	(1,100)
Member Services	308,800	282,800	(26,000)	-	(26,000)
Property Services	470,230	445,900	(24,330)	-	(24,330)
Benefits	(230,610)	(222,610)	8,000	(16,000)	(8,000)
Planning Applications	(342,460)	(398,730)	(56,270)	50,000	(6,270)
Building Control	18,640	11,310	(7,330)	-	(7,330)
Customer Services	103,800	82,800	(21,000)	-	(21,000)
Legal Services	64,520	54,520	(10,000)	-	(10,000)
Electoral Services	97,790	209,790	112,000	(120,000)	(8,000)
Licensing and Land Charges	(211,560)	(211,560)	-	-	-
Regeneration	870	(34,140)	(35,010)	-	(35,010)
Communities and Cultural	171,680	163,980	(7,700)	(18,300)	(26,000)
Housing Strategy	43,110	60,110	17,000	(17,000)	-
Transformation	6,760	8,870	2,110	-	2,110
Community Safety and Enforcement	159,550	149,550	(10,000)	-	(10,000)
Finance Income & Procurement	(202,210)	(120,570)	81,640	-	81,640
Corporate Finance*	5,941,710	5,930,090	(11,620)	-	(11,620)
Waste Collection	1,977,060	2,041,410	64,350	-	64,350
Street Scene	271,270	269,270	(2,000)	(12,000)	(14,000)
Leisure Services	181,210	154,810	(26,400)	17,000	(9,400)
Horticulture	499,020	494,530	(4,490)	(58,140)	(62,630)
Environmental Health	(24,070)	(35,390)	(11,320)	-	(11,320)
Net Total of Services	10,084,720	10,101,150	16,430	(174,440)	(158,010)
Net Interest	(407,450)	(471,760)	(64,310)		(64,310)
	9,677,270	9,629,390	(47,880)	(174,440)	(222,320)
Funding					
- external	(9,672,710)	(9,601,570)	71,140		71,140
- reserves contribution to/(from)					
general contingency	3,140	3,140	-		-
earmarked	(7,700)	(174,440)	(166,740)	174,440	7,700
Projected (Surplus)/Deficit	-	(143,480)	(143,480)	-	(143,480)

* 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 Q3 projected outturn on the General Fund Revenue Account for the year is £9,533,790. This represents a projected surplus for the year of £143,480.

2.4. The above table shows where a service is utilising reserves that have been previously set aside to fund a specific purpose, or, where funds have been received in year, which will then be used to fund a specific purpose in the future, and so have been transferred to reserves. Details of these movements are provided in paragraph 2.9.

2.5. The explanations provided below are where the net variance against budget on a service area is greater than or less than £50,000:

2.6. There is one area of significant underspend.

- **Horticulture (£62,630 underspend):** The service is recording underspends in regard to grounds and equipment maintenance across a range of sites where reactive demand has not to date been as high as anticipated.

2.7. There are two areas of significant underspend:

- **Waste Collection (£64,350 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 additional contractual payments to Alliance Environmental Services (AES) (detailed in Section 4).
- **Finance, Income and Procurement (£81,640 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 which is related to an external review of business premises which is expected to identify additions to the business rates taxbase. As the emerging income streams are expected to accrue in future years there is a delay between the in-year spend and the rewards that will accrue.

2.8. The £64,310 underspend on net interest costs is detailed in section 6.

2.9. The level of funding anticipated for the year is £95,600 above that budgeted due to the following:

External Funding: (£71,140 reduction)

Business Rates Retention £71,140 net shortfall made up of:

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- ***Additional retention of £146,910:*** 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.
- ***Offset by Reduced retention of £218,050:*** 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 (£166,740 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 £166,740 variance in reserve usage reported in table 2.1 reflects that instead of using the £7,700 in earmarked reserves a net drawdown of £174,440 is expected. This is detailed below:
 - **Benefits £16,000 use:** monies previously earmarked to address service budget pressures arising out of changes to the benefits process
 - **Planning Applications £50,000 contribution:** a £50,000 grant received from Government, to support the Council in protecting the Green Belt, is being set aside and earmarked to fund future demands on the service.
 - **Electoral Services £120,000 use:** this is the drawdown to help cover the costs of the four yearly local election held in May. It is the mechanism that spreads the cost of the District's elections over the term of an administration.
 - **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 £17,000 use:** A drawdown is anticipated out of reserves, earmarked to address Homelessness issues, to fund initiatives taking place this year.
 - **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.
 - **Leisure Services £17,000 contribution:** The authority has received a distribution of funds from Sport Across Staffordshire and Stoke-on-Trent (SASSOT) which is being set aside to support future sport promotion activities.
 - **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.
- 3.3. The Strategy has five main areas of focus:
 - Major Procurements – including waste collection and leisure
 - Asset Management Plan
 - Growth
 - Income Generation
 - Rationalisation
- 3.4. The savings requirement for 2019/20 totals £842,000 (after taking into account the budget set in February 2019 and the adjustment made following the outturn in 2018/19) The major focus of the savings programme in 2019/20 is on growth, income generation and major procurements.
- 3.5. At the end of Quarter Three, £860,250 has been realised 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.
- 3.6. 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 over £1 million in 2020/21 and 2021/22 still to achieve. In excess of 50% of this has been already identified through the commissioning arrangements with Alliance Environmental Services (AES).
- 3.7. It is however important that the focus over the next year is shifted to some of the income-related savings, included in the early years of the Efficiency Programme, which have not been fully realised.
- 3.8. The Council 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. This section of the report considers the financial performance of the Alliance Environmental Services Ltd (AES) (the company created with a vision to deliver waste, street cleansing and grounds maintenance services in the Staffordshire Moorlands and High Peak areas in conjunction with ANSA, which is a wholly owned subsidiary of Cheshire East Council).
- 4.2. Phase 1 of the transfer of services commenced on 7th August 2017 to deliver High Peak Borough Council waste collection services. Phase 2 began on 1st July 2018 to deliver waste collection services to Staffordshire Moorlands District Council and fleet management services to both Councils.

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 £81,628 is anticipated by the end of the year; resulting in a shortfall of £45,557 against the budget. The outturn includes the crystallised risk items forecast by AES as payable by the Councils (£441,815)

2019-2020	Budget	Draft outturn	Variance
	£	£	£
Turnover	(7,676,264)	(7,923,164)	(246,900)
Cost of sales	6,873,073	7,127,749	254,676
Gross profit	(803,191)	(795,415)	7,776
Administrative & Other Expenses	676,006	713,787	37,781
(Profit)/ Loss	(127,185)	(81,628)	45,557

Impact on the Council's budgets

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

2019-20	£
AES Contract budget	3,275,520
Former vehicle contract hire budget	231,380
Available budget	3,506,900
Management fee	3,316,443
Forecast in-year risk items	281,935
Total management fee payable	3,598,378
Allocation of Joint Operation profit	(42,932)
Net total	3,555,446
Variance to budget	48,546

- 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 £281,935 of these risk items will crystallise. £246,330 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 £35,605 relates to contract pressures forecast by AES on increasing costs of 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.
- 4.7. 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 3 is £42,932 and is offset against the management fee costs.

Efficiencies

- 4.8. The AES related efficiency targets are being reprofiled as part of the Council's Medium Term Financial Plan, owing to the later than anticipated start of Phase 3 of the company. The revised efficiency programme anticipates £224,000 being generated in savings from both AES and Council operated budgets in 2019/20 – final progress against this will be reported in the Quarter Four report.

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

Service	2019/20 Approved Budget	Q3 Changes	2019/20 Revised Budget	Expected Outturn 2019/20	Expected Variance 2019/20
	£	£	£	£	£
Housing Standards	1,256,650	-	1,256,650	1,211,000	(45,650)
Property Services	1,545,760	-	1,545,760	596,870	(948,890)
ICT	255,800	-	255,800	138,000	(117,800)
Fleet Management	2,098,610	-	2,098,610	1,285,100	(813,510)
CCTV	275,100	-	275,100	-	(275,100)
Regeneration	75,900	-	75,900	53,980	(21,920)
Horticulture	294,540	-	294,540	22,620	(271,920)
	5,802,360	-	5,802,360	3,307,570	(2,494,790)
Funding:					
External Contributions	1,238,390	352,340	1,590,730	1,211,000	(379,730)
Capital Receipts	40,000	-	40,000	-	(40,000)
Capital Reserves	1,439,564	60,436	1,500,000	1,285,100	(214,900)
Earmarked Reserves		220,850	220,850	-	(220,850)
Borrowing	3,084,406	(633,626)	2,450,780	811,470	(1,639,310)
	5,802,360	-	5,802,360	3,307,570	(2,494,790)

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 five significant capital expenditure variances:

- **Property (£948,890 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.
- **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

- **CCTV (£275,100 underspend);** Upgrade of CCTV systems including replacement of cameras has been commissioned with work expected to be completed in April 2020
- **Horticulture (£271,920 underspend)** Projects to improve Cheadle recreational facilities & Brough Park are recording an in year underspend; the former which included investment into Tean Road recreation ground has been completed. Brough Park works are on-going - phase two works which comprise plans to enhance play facilities and access to John Hall Gardens are subject to further report and approval by members; £131,920 has been re-profiled into 20/21 to support the proposals..

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.
- **Borrowing requirement** 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 £811,470 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 31st December 2019 totalled £13.8 million. Interest earned on these investments by the end of the third quarter totalled £66,290 and the average level of funds available for investment was £11.4 million.
- 6.3. The Council budgeted to receive £117,580 in investment income in 2019/20. A shortfall of £28,000 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 3.53% 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. A surplus on income of £9,310 is forecast subject to the timing of any new arrangements.

Borrowing

- 6.7. Total debt outstanding as at 31st December 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 £2.8 million general fund borrowing requirement in the current year capital programme. £4 million of the Ascent loan is internally funded at the end of the third quarter and there has been no 'new' borrowing undertaken for the general fund. Therefore, an underspend of £83,000 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 Quarter 3 collection rate outturn for the year 2019/20 was as follows:
- Council Tax – 83.92% of Council Tax was collected by 31st December 2019, compared to 84.33% for the same period last year.
 - Business Rates – 80.45% of Council Tax was collected by 31st December 2019, compared to 80.92% for the same period last year. It is understood that variations in payment plans are contributing to this year-on-year variance, and a reduction in performance is not anticipated at the end of the year.
- 7.3 At the end of quarter three the value of sundry debt that was over 60 days old was £70,434.48 which compares with £133,452 at 31st December 2018.

ANNEX A

Capital Programme Update 30th December 2019

Capital Schemes	2019/20 Approved Budget	Q3 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	1,211,000	(45,650)
<u>Property Services</u>					
Asset Management Plan	1,545,760	-	1,545,760	596,870	(948,890)
Total Property	1,545,760	-	1,545,760	596,870	(948,890)
<u>ICT</u>					
	255,800		255,800	138,000	(117,800)
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	1,285,100	(1,088,610)
<u>Regeneration</u>					
Moorlands Partnership Grants	75,900	-	75,900	53,980	(21,920)
Total Regeneration	75,900	-	75,900	53,980	(21,920)
<u>Horticulture</u>					
Play - Projects	294,540	-	294,540	22,620	(271,920)
Total Horticulture	294,540	-	294,540	22,620	(271,920)
Total Programme	5,802,360	-	5,802,360	3,307,570	(2,494,790)