



2019/20

**Fourth Quarter
(Provisional Outturn)
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 fourth and final 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	Provisional Outturn 2019/20	Variance	Contribution to / (Use of) Earmarked Reserves	Net Variance
	£	£	£	£	£
Alliance Leadership Team	415,230	431,746	16,516	-	16,516
Audit	96,020	96,042	22	-	22
ICT	662,530	574,956	(87,574)	-	(87,574)
Human Resources	55,360	47,685	(7,675)	-	(7,675)
Member Services	308,800	282,094	(26,706)	-	(26,706)
Property Services	665,900	672,758	6,858	-	6,858
Benefits	93,330	69,475	(23,855)	(13,688)	(37,543)
Planning Applications	95,230	(8,685)	(103,915)	65,000	(38,915)
Building Control	18,640	6,759	(11,881)	-	(11,881)
Customer Services	550,560	523,931	(26,629)	-	(26,629)
Legal Services	229,020	222,845	(6,175)	-	(6,175)
Electoral Services	97,790	107,657	9,867	(53,175)	(43,309)
Licensing and Land Charges	(211,560)	(204,424)	7,136	-	7,136
Regeneration	282,480	246,331	(36,149)	-	(36,149)
Communities and Cultural	459,310	458,408	(902)	-	(902)
Housing Strategy	43,110	(1,217)	(44,327)	6,827	(37,500)
Transformation	192,930	190,840	(2,090)	-	(2,090)
Community Safety and Enforcement	170,710	137,856	(32,854)	-	(32,854)
Finance Income & Procurement	322,400	391,761	69,361	-	69,361
Corporate Finance*	1,718,230	1,234,320	(483,910)	34,968	(448,942)
Waste Collection	2,427,280	2,570,724	143,444	-	143,444
Street Scene	288,480	305,518	17,038	(12,000)	5,038
Leisure Services	181,210	34,274	(146,936)	151,020	4,084
Horticulture	499,020	466,905	(32,115)	(54,832)	(86,947)
Environmental Health	422,710	416,073	(6,637)	-	(6,637)
Net Total of Services	10,084,720	9,274,632	(810,088)		(685,969)
Net Interest	(407,450)	(480,560)	(73,110)		(73,110)
	9,677,270	8,794,072	(883,198)	124,119	(759,079)
Funding					
- external	(9,672,710)	(10,244,123)	(571,413)		(571,413)
- reserves contribution to/(from)					
general contingency	3,140	3,140	-		-
earmarked	(7,700)	124,119	131,819	(124,119)	7,700
Projected (Surplus)/Deficit	-	(1,322,792)	(1,322,792)	-	(1,322,792)

* In previous quarters Staff costs were budgeted and recorded in Finance & Procurement. They were considered a corporate resource to be the main source of savings realised by the Authority's Efficiency and Rationalisation Programme. However to show the true use of resources by individual services it is necessary to include the actual staff costs incurred. Therefore the Quarter Four provisional outturn position includes the actual staff costs (and matching budgets) at the service level.

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 provisional outturn on the General Fund Revenue Account for the year is £8,354,478. This represents a projected surplus for the year of £1,322,792.

2.4. There are three areas of significant underspend (>£50,000):

- **ICT (£87,574 underspend);**
Internet and system network costs during the year were £27,000 under spent against budget, whilst support contract and IT consultancy costs contributed a further £34,000 to the under spend. An over-accrual of £24,000 on the Microsoft License cost in 2018/19 resulted in an under spend against the 2019/20 budget.
- **Corporate Finance (£448,942 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 reflects a £183,000 surplus against the in-year efficiency target.
 - An underspend of £217,000 (net of agency costs) was recorded against the employee budget due to vacancy savings.
- **Horticulture (£86,948);** Grounds maintenance budgets were underspent within Parks and Open Spaces (£30,000) and Cemeteries (£29,000). The Covid-19 outbreak delayed playground project work resulting in an underspend of £16,330. The remaining service underspend arose across a range of locations, projects and activities. The service is seeking a £13,750 carry forward of unspent budget in respect of the playground works.

2.5. There are two areas of significant overspend (>£50,000):

- **Finance, Income and Procurement (£69,361 overspend);** Summons income was down by £59,000 for the year. This is an on-going issue that has been partially addressed in the Medium Term Financial Plan where income expectation has been reduced by £25,000 for 2020/21. Further overspend within the Income service (£24,000) was mainly associated with external processing support. Savings of £15,000 in the Finance area; mainly connected with insurance costs; helped offset part of this overspend.
- **Waste Collection (£143,444 overspend);** The service is being taken into an overspend position as a result of short term vehicle hire costs within AES and a £25,000 shortfall against recycling credit income. Costs arising out of the Covid-19 outbreak added a further £19,000 to the overspend. Savings in other areas together with additional Trade Waste income partially offset these costs. Further details on Alliance Environmental Services are set out in Section 4 below.

2.6. The £73,110 underspend on net interest costs is detailed in section 6.

- 2.7. The level of funding anticipated for the year is £439,594 above that budgeted due to the following:

External Funding: (£571,413)

Business Rates Retention (£571,413):

- Additional retention of £760,832: The budget included a conservative estimate of the windfall anticipated from the Council's membership of the 2019/20 75% business rates retention pilot. This has been significantly exceeded and no payments are due to the pool.
- Offset by Reduced retention of £189,419: Section 31 grants due to the authority are 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 awards are 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 (£131,819)

- The original budget for 2019/20 assumed a contribution of £3,140 into general fund contingency and a £7,700 use of earmarked reserves
- The outturn reported in table 2.1 assumes that the £3,140 contribution to contingency reserves included in the 2019/20 budget was made. In practice however owing to the general fund surplus generated in the year the actual contribution to reserves was £1,325,932
- The £124,119 variance in reserve usage reported in table 2.1 reflects that instead of using the £7,700 in earmarked reserves the District was actually able to contribute £131,819 in to them.

Earmarked

- Benefits £13,688 use: monies previously earmarked to address service budget pressures arising out of changes to the Benefits process are being used.
- Planning Service £65,000 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. A further £15,000 in New Burdens funding was received in respect of servicing the demand for custom housebuilding. This too is being carried forward to reserve for use in future years.
- Electoral Services £53,175 use: this is the net use of the Election Equalisation Reserve to fund the costs of the 2019 District Council election.
- Housing Strategy £6,827 contribution: Third party funds received in-year are being set aside to support homelessness initiatives that will run into future years.

- Corporate Finance £34,968 contribution; During 2019/20 all similar sized councils received a Government grant of £34,968 towards Local Authority costs associated with exiting the European Union. These monies have been set to one side to meet such future liabilities should they arise.
- Street Scene £12,000 use: This is the application of the Street Scene reserve to fund in-year activities.
- Leisure Services £151,020 contribution: This is the combination of £20,000 received in the form of a refund from the Sports Across Staffordshire and Stoke-on-Trent partnership (SASSOT), which has been set aside to fund future projects; and £131,020 of conditions survey monies unused under the former Leisure contract, which has been placed into the Future Leisure Provision (£40,000) Capital Reserve (£51,000) and Markets Logistics Support (£40,000)
- Horticulture £54,831 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.

General Fund Revenue Reserves

- 2.8. The provisional outturn for the year on the General Fund Revenue Account was a £1,322,792 surplus.
- 2.9. The surplus generated is calculated inclusive of the £3,140 contribution into general reserves budgeted for in 2019/20. Therefore, the Authority's contingency reserves have increased overall by £1,325,932.
- 2.10. The Authority's calculated minimum for its contingency reserve is £1,052,000. A review of the Authority's reserves has been performed to identify areas where earmarking for future projects was considered prudent while maintaining a satisfactory level for contingency. As a result the following moves into earmarked reserves are proposed;
- £284,000 added to an earmarked reserve set aside to fund capital expenditure and reduce the overall cost of borrowing. This made up by allocation of part of the in-year underspend (£158,000); a transfer of excess funds from the Pensions Reserve (£75,000); and a contribution from the service (£51,000) as detailed in 2.7 above. It is anticipated that this will be used to fund short life asset purchases
 - £500,000 used to create a new reserve to fund future costs of the Covid-19 recovery programme
 - £240,000 added to an earmarked reserve to cover impairment costs associated with the review of the Ascent Housing LLP in partnership with Your Housing.

- £25,000 used to create a new reserve to support with the delivery of Climate change related projects.
 - £403,000 balance of the underspend has been added to Contingency
 - £40,000 used to create a Markets Logistics reserve to support with the additional costs incurred during 2020/21 as part of the interim arrangements (see 2.7)
 - An additional allocation of £40,000 into the Future Leisure provision reserve for support with the options appraisal (see 2.7)
- 2.11. The effect of these changes results in a balance on general fund reserves as at 31st March 2020 of £2.4million – which is £1.3million above new minimum contingency set for 2020/21 in the current Medium Term Financial Plan. The Council expects to contribute a net £35,950 to general contingency reserves over the next four years 2020/21 – 2023/24. This is however subject to review in the light of the pressures being felt by the Council in the current Covid-19 situation.

Carry Forward Request:-

2.12 The following requests for carry forward have been received:

- **Horticulture (£13,750):** carry forward of unspent budget in respect of the playground works to be completed in 2020/21

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 was on growth, income generation and major procurements.

- 3.5. At the end of Quarter Four, £1,025,000 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. Further savings have been achieved against the on-going Alliance Environmental Services (AES) project as well as the Council's establishment and corporate inflation budgets.
- 3.6. At the end of 2019/20 the programme is nominally £183,000 ahead of schedule. However, the current situation, regarding the on-going effect of the Covid-19 pandemic, places into doubt some of the savings taken out of the budget during the year; particularly those relating to the Leisure Services contract. A review of the Efficiency Programme will be incorporated into the planned revision of the 2020/21 Medium Term Financial Plan. This may well require the reversal of some savings already taken, at least in the short term, and require alternative savings to be identified to make up any shortfall.
- 3.7. 2019/20 represented the end of year 3 of the current Efficiency Programme with over £1 million still to be achieved over the remaining two years. Over half of this amount has been already identified through the commissioning arrangements with Alliance Environmental Services (AES) and remains relatively secure. However, it is 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 could potentially be drawn on, in the short term, to offset timing delays in achieving the efficiency programme. The reserve currently stands at £493,000. It has not been necessary to draw on this reserve in previous years so it remains intact to underwrite performance against future savings targets.

4. Alliance Environmental Services

- 4.1. Alliance Environmental Services Ltd (AES) is a company created with a vision to deliver waste, street cleansing and grounds maintenance services in the High Peak and Staffordshire Moorlands areas. The company has three shareholders: High Peak Borough Council, Staffordshire Moorlands District 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. This followed the end of the previous contract with Veolia Environmental Services. Phase 2 began on 1st July 2018 to deliver waste services to Staffordshire Moorlands District Council and fleet management services to the Alliance as a whole.

Alliance Environmental Service Ltd Financial performance

- 4.3. The AES business plan for all services delivered to both Councils included an anticipated operating profit of £125,271. The draft outturn provided at 31st March 2020 shows that a profit of £31,537 was achieved during the year; showing a shortfall of £93,734 against the budget. The outturn includes both the crystallised risk items payable by the Councils (£509,752); the reimbursement of the financing element of Vehicles following procurement of Council owned vehicles (£53,077); and additional costs incurred as a result of the Covid-19 outbreak (£31,594).

2019-20	Budget	Draft outturn	Variance
	£	£	£
Turnover	(7,676,264)	(8,019,644)	(343,380)
Cost of sales	6,873,072	7,098,047	224,975
Gross profit	(803,192)	(921,597)	(118,405)
Administrative & Other Expenses	677,921	890,060	212,139
(Profit)/ Loss	(125,271)	(31,537)	93,734

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	3,275,520
Former vehicle contract hire budget	231,380
Available budget	3,506,900
Management fee	3,316,443
In-year risk items	325,763
Covid-19 costs	18,967
Total management fee payable	3,661,173
Allocation of Joint Operation profit	(1,282)
Net total	3,659,891
Variance to budget	152,991

- 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 crystallised 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 draft outturn shows that £325,763 of these risk items have crystallised. £247,652 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 remaining £78,111 relates to contract pressures due to increasing costs of disposal and reducing income on recycle. The company continues to work towards negotiation on prices in the future.
- 4.7. Additional costs of £18,967 were incurred by the company as a result of the Covid-19 outbreak. These are included in the draft outturn and include provision of cleaning products, PPE and additional agency 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. After applying adjustments relating to late changes to the 2018/19 AES accounts following the audit, the Council's share of the draft outturn for 2019/20 is £1,282 and is offset against the management fee costs.

Efficiencies

- 4.9. The AES related efficiency targets are being reprofiled as part of the Council's medium term financial planning process owing to the later than anticipated start of Phase 3 of the company. The revised efficiency programme will be reported when it has been concluded.

Pensions

- 4.10. During the year AES became an admitted body in the Staffordshire Pension Fund (SPF). This involved 'pooling' the staff transferred to AES, with the remaining Council employees in the Staffordshire Moorlands portion of the SPF. This effectively removed 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. The recent transfer of further staff at phase 3 has also been built into the agreement.

5. Capital Programme

- 5.1. This section of the report provides an update to members on the Council's Capital Programme.
- 5.2. The revised General Fund Capital Programme for 2019/20, as updated and approved in February, was set at £3,307,570
- 5.3. The 2019/20 provisional outturn at March 2020 is summarised in the table below, with further detail provided at Annex A.

General Fund Capital Outturn 2019/2020			
Service	2019/20 Approved Budget £	Out- Turn 2019/20 £	Variance £
Housing Standards	1,211,000	670,676	(540,324)
Property Services	596,870	587,592	(9,278)
ICT	138,000	90,453	(47,547)
Fleet Management	1,285,100	1,271,320	(13,780)
Regeneration	53,980	57,130	3,150
Horticulture	22,620	22,616	(4)
Total	3,307,570	2,699,787	(607,783)
Funding:-			
External Contributions	1,211,000	670,676	(540,324)
Capital Reserves	1,285,100	1,384,389	99,289
Borrowing	811,470	644,722	(166,748)
Total	3,307,570	2,699,787	(607,783)

- 5.4. The Council incurred Capital Expenditure of £2,699,787 during the year against the revised budget of £3,307,570. This represents an underspend of £607,783. The majority of the underspend reflects the impact of Capital Programme projects which are either behind schedule or have progressed quicker than expected with the most significant variance being:
- Environmental Health Housing Standards (£540,324 underspend) - underspend resulted from less spending in the year than forecast against disabled facilities grants, the actual value of grants processed was £540,324 below estimated at Quarter 3, although there was £238,598 of grant works carried out but not completed by the end of March. At this stage the underspend will not be carried forward but ring-fenced and the 2020/21 budget reviewed to reflect the impact of Covid-19 on the delivery of the grants programme
 - ICT (£47,547 underspend) - delays to the implementation of Microsoft Office365 and Concerto Asset Management System has resulted in a carry forward into 2020/21 of (£48,156 underspend) to cover final stage payments.

- 5.5. Consequently, capital funding applied to the 2019/20 Capital Programme is lower than forecast, reflecting the incidence of timing of capital spend.
- 5.6. As a result of the variances detailed above, approval is sought to increase the capital budgets for 2020/21 as shown in the table below:-

Capital Programme 'Carry Forwards' (2019/20 to 2020/21)			
Service	Variance	Carry Forward 2020/21 Over/(Under) Spend	Over/ (Under)spend Completed Projects
	£	£	£
Housing	(540,324)	(540,324)	-
Property Services	(9,278)	2,268	(11,546)
ICT	(47,547)	(48,156)	609
Fleet Management	(13,780)	(13,780)	-
Regeneration	3,150	3,150	-
Horticulture	(4)	-	(4)
Total	(607,783)	(596,842)	(10,941)

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 March 2020 totalled £9.7million. Interest earned on these investments during the year totalled £90,950 and the average level of funds available for investment was £11.9million.
- 6.3. The Council budgeted to receive £117,580 in investment income in 2019/20. The budget was set with the potential for two Bank of England base rate rises to 1.00% then 1.25% during 2019/20. These did not take place and the base rate remained at 0.75% for the majority of the year with cuts to 0.25% and 0.10% in March 2020, therefore there was a shortfall on interest income of £26,630.

Ascent Joint Venture

- 6.4. Ascent (the joint venture company set up to deliver affordable housing across the District) had drawn the full £5million Debenture facility by the end of 2014/15. Interest is charged at 2%, and the full budgeted interest income for the year of £100,000 was achieved.

- 6.5. The balance on the £20million loan facility to Ascent remained at £14million. There have been no further drawdowns of the loan since the 2015/16 year. An average interest rate of £3.52% was charged on the loan during the year including a 1.25% risk premium. £493,000 interest was earned which was £8,730 in excess of the budgeted income owing to slightly higher interest rates on the rolling 1 year tranches than was anticipated in the budget of £484,270.

Borrowing

- 6.6. Total debt outstanding as at 31st March 2020 totalled £10million; this part funds the Ascent Loan. Loans maturing in the year of £8.5million were refinanced with £7.5million of new loans with periods up to 1 year.
- 6.7. The Council budgeted to incur £294,400 in interest charges in 2019/20. This was based on externally funding the full existing Ascent loan balance of £14million and a £2.8million general fund borrowing requirement in the current year capital programme. Some internal borrowing for the Ascent loan and the General Fund capital borrowing requirement continued, therefore a saving of £91,010 has been achieved 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 Q4 collection rate outturn for the year 2019/20 was as follows:
- Council Tax – 98.55% of Council Tax was collected by 31st March 2020, compared to 98.66% for the same period last year.
 - Business Rates – 99.30% of Business Rates was collected by 31st March 2020, compared with 99.13% for the same period last year.
- 7.3. At the end of Quarter Four the value of sundry debt that was over 60 days old was £70,729 which compares with £70,434 at 31st March 2019.

Capital Programme Update 31st March 2020

Capital Programme Update 2019/20 out turn					
Capital Schemes	2019/20 Approved Budget	Out- Turn 2019/20	Variance	C/fwd to 2020/21	Over/(Under spend) Completed Projects
	£	£	£	£	£
<u>Housing Standards</u>					
Disabled Facilities Grants	1,211,000	670,676	(540,324)	(540,324)	-
Total Environmental Health	1,211,000	670,676	(540,324)	(540,324)	-
<u>Property Services</u>					
Asset Management Plan	596,870	587,592	(9,278)	2,268	(11,546)
Total Property	596,870	587,592	(9,278)	2,268	(11,546)
<u>ICT</u>	138,000	90,453	(47,547)	(48,156)	609
Total ICT	138,000	90,453	(47,547)	(48,156)	609
<u>Other Schemes</u>					
Vehicle & Plant Purchase	1,285,100	1,271,320	(13,780)	(13,780)	-
Total Other Schemes	1,285,100	1,271,320	(13,780)	(13,780)	-
<u>Regeneration</u>					
Moorlands Partnership Grants	53,980	57,130	3,150	3,150	-
Total Regeneration	53,980	57,130	3,150	3,150	-
<u>Horticulture</u>					
Play - Projects	22,620	22,616	(4)	-	(4)
Total Horticulture	22,620	22,616	(4)	-	(4)
Total Programme	3,307,570	2,699,787	(607,783)	(596,842)	(10,941)