



2020/21

**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 2020/21.
- 1.2. The report summarises overall financial performance for 2020/21 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 2020/21.
 - **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*)	2020/21 Budget	Expected Outturn 2020/21	Variance	Contribution to / (Use of) Earmarked Reserves	Net Variance
	£	£	£	£	£
Alliance Leadership Team	51,780	41,930	(9,850)	-	(9,850)
Audit	9,940	7,110	(2,830)	-	(2,830)
ICT	694,760	684,480	(10,280)	-	(10,280)
Human Resources	52,360	52,260	(100)	-	(100)
Member Services	308,800	270,300	(38,500)	-	(38,500)
Property Services	531,870	954,870	423,000	-	423,000
Benefits	(218,610)	(191,710)	26,900	(41,500)	(14,600)
Planning Applications	(342,460)	(340,550)	1,910	-	1,910
Building Control	36,510	(4,140)	(40,650)	-	(40,650)
Customer Services	106,300	75,440	(30,860)	-	(30,860)
Legal Services	64,520	44,520	(20,000)	-	(20,000)
Electoral Services	97,790	81,450	(16,340)	-	(16,340)
Licensing and Land Charges	(210,960)	(184,200)	26,760	-	26,760
Regeneration	630	82,840	82,210	(5,500)	76,710
Communities and Cultural	171,680	178,680	7,000	-	7,000
Housing Strategy	43,110	43,110	-	-	-
Transformation	6,760	4,370	(2,390)	-	(2,390)
Community Safety and Enforcement	159,550	152,550	(7,000)	-	(7,000)
Finance Income & Procurement	(172,710)	82,780	255,490	-	255,490
Corporate Finance*	5,818,310	6,367,750	549,440	-	549,440
Waste Collection	1,810,320	1,920,750	110,430	-	110,430
Street Scene	387,220	379,070	(8,150)	-	(8,150)
Leisure Services	181,210	906,560	725,350	-	725,350
Horticulture	689,780	670,750	(19,030)	(5,200)	(24,230)
Environmental Health	(24,670)	(18,430)	6,240	-	6,240
Net Total of Services	10,253,790	12,262,540	2,008,750		1,956,550
Net Interest	(401,170)	(444,870)	(43,700)		(43,700)
	9,852,620	11,817,670	1,965,050	(52,200)	1,912,850
Funding					
- external	(10,107,180)	(14,633,710)	(4,526,530)	4,521,710	(4,820)
- reserves contribution to/(from)					
general contingency	276,010	276,010	-	-	-
use of carry forward from 19/20	(13,750)	(13,750)	-	-	-
earmarked	(7,700)	(52,200)	(44,500)	52,200	7,700
- covid19 support		(1,809,600)	(1,809,600)		(1,809,600)
Projected (Surplus)/Deficit	-	(4,415,580)	(4,415,580)	4,521,710	106,130

* Staff budgets are currently budgeted within Corporate Finance.

- 2.2. A revenue budget of £9,838,870 was set for 2020/21. In accordance with Financial Procedure Rules, the roll forward of £13,750 in unused budgets from 2019/20 has been authorised.

Horticulture (£13,750): in respect of the playground works to be completed in 2020/21

This brings the 2020/21 budget to £9,852,620

- 2.3. The table above shows how this budget has been allocated to services.
- 2.4. The Q2 projected outturn on the General Fund Revenue Account for the year is £9,958,750. This represents a projected deficit for the year of £106,130.
- 2.5. There are no areas of significant underspend (>£50,000):
- 2.6. There are five areas of significant overspend (>£50,000):
- **Property (£423,000 overspend);** Covid-19 has impacted this service significantly. Firstly car parking, where a significant reduction in income is forecast to produce a net £259,000 shortfall and Public Conveniences with additional cleaning costs resulting in a £35,000 overspend. Industrial Unit vacancies are higher than anticipated, possibly an indirect effect of Covid 19, leading to a £21,000 shortfall in income. The protracted negotiation of a replacement contract for property maintenance could potentially add approximately £100,000 to in-year costs (discussions are still taking place with Derbyshire County Council in respect of this).
 - **Finance Income and Procurement (£255,490 overspend);** Covid-19 has significantly impacted the Recovery service with income generated from summons activity predicted to be some £200,000 below original expectations. Further budget pressure in the region of £70,000 is predicted in local taxation from the level of spending on external services to support billing processes. This has been exacerbated to a degree by the heavy involvement of staff in administering the Covid-19 business support grants – Government funding has been received to partially offset this.
 - **Corporate Finance (£549,440 overspend);** Covid-19 has significantly impacted the level of savings achievable in the current year Efficiency Programme, especially those savings premised on growing fees and charges, and realising additional income streams. The assumption at this stage is that there will be a shortfall in savings of £380,000. A heightened risk remains surrounding the savings taken in 2019/20 arising out of the council's Leisure Management contract. The costs associated with delivering the Efficiency Programme and the anticipated savings in the establishment is collectively estimated to be in the region of £60,000. The in-year Efficiency Plan savings situation will be kept under review over the coming months and will be incorporated into the revision of the Medium Term Financial Plan. While Covid 19 related communication and mitigation initiatives account for £46,000 of unbudgeted spend there is also an anticipated cumulative £62,000 overspend against a number of existing headings.

- **Waste Collection (£110,430 overspend);** Covid-19 has had both a negative and positive impact on the service . Additional operating costs have resulted from social distancing and cleansing requirements while Trade Waste income has reduced during periods of lockdown. There has however been an increase in recycling volumes during the pandemic restrictions which has generated increased income to partially offset the negative effects of Covid 19.
- **Leisure (£725,350 overspend);** The pandemic has seen the closure and curtailment of leisure facilities and activities significantly impacting the council's leisure contractor. At present, subject to the authority continuing to support the contractor the additional cost consequence to the council is anticipated in the region of £725,000.

2.7. The £43,700 underspend on net interest costs is detailed in section 6.

2.8. The level of funding anticipated for the year is £49,320 above that budgeted due to the following:

External Funding: (£4,526,530)

- Business Rates Retention (£4,526,530 additional funding):
 - The Council expects to receive £4,528,260 in additional S31 grants in the year following the announcement and award of Extended Retail Relief of 100% (33% was forecast in the budget based on the best knowledge at the time); and Nursery Discount (which was not anticipated in the budget). Both of these increases to relief were announced by the government in response to the Covid-19 situation. Accounting practice dictates that these grants are treated as general fund revenue in the year. However, the extended reliefs impact the Collection Fund by increasing the deficit in the year, which will need to be distributed in future years, therefore this additional funding needs to be earmarked to accommodate this and cannot be used to support other services.
 - This increase in Business Rates Retention Funding is to forecast to be slightly offset by a small increase in net levy payable on growth to the Staffordshire Business Rates Pool of £1,730 compared to the budgeted amount.

Contribution to Reserves: (£4,477,210)

- Earmarked Reserves (£44,500 additional usage):
 - Earmarked reserves are created to match available funding with future projects and activities. Often it is not possible to anticipate when eligible spend will occur and so as the year progresses services will identify projects and schemes where earmarked reserves can be applied. To date across the authority usage amounts to £44,500 more than nominally anticipated at the beginning of the year.
 - Business Rates earmarked reserve of £4,521,710 created to match S31 grant income received to the future needs of the Collection Fund.

Covid 19 funding (£1,809,600)

In response to the financial strain placed on local authorities by the pandemic the Government is providing financial support in the form of grants towards exceptional costs and compensation for loss of income. It is anticipated that this support will amount to £1,809,600.

Exceptional Costs Support: (£1,551,991)

- General Support (£1,279,832 funding):
The Council has received these monies to support its general activities as impacted by the pandemic.
- Discretionary Grants Administration (£130,000 funding):
This additional grant relates to the costs incurred administering the allocation of discretionary grants to Covid impacted businesses in the District.
- Enforcement Grant (£39,516 funding):
This funding relates to the costs incurred enforcing lock down requirements in the District.
- Isolation Grants Administration (£24,836 funding):
This funding relates to the costs incurred administering the allocation of Isolation grants to Covid impacted individuals in the District.
- Track and Trace (£77,807 funding):
This funding from the County Council is towards the Council's responsibilities for local track and trace.

Compensation for loss of income: (£257,609)

- Loss of Income (£257,609 funding):
Councils have been promised the facility to claim for up to 75% of net losses against budget for income streams that satisfy set criteria. Based on a prudent interpretation of the guidance, £257,609 is currently anticipated in funding.

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 2020/21.
- 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 has been developed with the underlying principles of protecting frontline service delivery. It is also intended that the strategy is a tool to enable the Council to ensure that its service spending is determined by the established priorities set out in the Corporate Plan.

- 3.4. The 2020/21 budget was set in February 2020 with the assumption of £702,000 of savings in the year. This figure comprised £1,175,000 from the original strategy reduced by an expected £473,000 over-achievement of savings against the 2019/20 target. In the event a further £183,000 of savings were realised in quarter 4 of 2019/20, reducing the amount to be achieved in 2020/21 to £519,000. The major focus of the savings programme in 2020/21 being on growth, income generation and major procurements.
- 3.5. At the end of Quarter Two, £137,000 of savings have been taken against the 20/21 efficiency target.
- 3.6. 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 2019/20; particularly those relating to the Leisure Services contract. There is also a significant risk that the current year savings will not be achieved in full, particularly those relating to growing fees and charges and income generation. At this stage it is assumed that there will be a shortfall in savings of £380,000. This will continue to be monitored over the next few months as the situation develops.
- 3.7. The longer-term effect of this will feature as part of the updated 2021/22 – 2024/25 Medium Term Financial Plan.
- 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 £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 in the Efficiency Programme.

4. Alliance Environmental Services

- 4.1. Alliance Environmental Services Ltd (AES) delivers waste, fleet, street cleansing and grounds maintenance services to both Staffordshire Moorlands District and High Peak Borough Councils. The Councils are shareholders of the company along with ANSA, which is a wholly owned subsidiary of Cheshire East Council.
- 4.2. AES's financial performance and impact on this Council's budget is summarised below:

2020-21	£
AES Contract budget	4,473,920
Management fee	4,692,510
Allocation of AES efficiency	(125,460)
Contract pressures	30,890
Covid-19 costs	79,270
Total management fee payable	4,677,210
Allocation of Joint Operation profit	(93,130)
Net total	4,584,080
Variance to budget	110,160

- 4.3. The AES business plan for all services delivered to the Council during 2020/21 includes a budgeted management fee of £4,692,510. The Council's share of the total AES revised efficiency target for 2020/21 of £125,460 is repayable to the Council and is allocated against the management fee costs.
- 4.4. Contract pressures totalling £30,890 are forecast at quarter 2; the majority of which relate to the pay award for 2020-21 which was budgeted at 2.00%, but was agreed at 2.75%. Additional costs of £79,270 are also anticipated as a result of the Covid-19 outbreak; these relate to provision of cleaning products, PPE and additional agency costs.
- 4.5. 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 budgeted resources from each department. The Council's share of the forecast profit at the end of quarter 2 is £93,130 and is offset against the management fee costs.

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 September 2020. Further detail – on a scheme by scheme basis – is contained in Annex A:

Service	2020/21 Approved Budget	Q2 Changes	2020/21 Revised Budget	Expected Outturn 2020/21	Expected Variance 2020/21
	£	£	£	£	£
Housing Standards	1,785,320	-	1,785,320	515,000	(1,270,320)
Property Services	1,300,900	-	1,300,900	667,300	(633,600)
ICT	140,060	68,450	208,510	116,610	(91,900)
Leisure Services	50,000	-	50,000	-	(50,000)
Fleet Management	2,582,070	-	2,582,070	1,134,760	(1,447,310)
CCTV	275,100	-	275,100	275,100	-
Regeneration	46,850	-	46,850	26,850	(20,000)
Horticulture	421,920	-	421,920	170,000	(251,920)
Total	6,602,220	68,450	6,670,670	2,905,620	(3,765,050)
Funding:-					
External Contributions	1,767,710	-	1,767,710	520,000	(1,247,710)
Capital Receipts	93,000	-	93,000	50,000	(43,000)
Capital Reserves	214,900	-	214,900	400,000	185,100
Earmarked Reserves	220,850	-	220,850	220,850	-
Borrowing	4,305,760	68,450	4,374,210	1,714,770	(2,659,440)
Total	6,602,220	68,450	6,670,670	2,905,620	(3,765,050)

- 5.3. The 2020/21 General Fund Capital Budget was approved by Members in February 2020 as part of the Medium Term Financial Plan (£6,005,380); and then updated in July (£596,840 – relating to carry forwards from 2019/20); a new project was approved during the second quarter of £68,450 resulting in a revised overall capital programme 2020-21 of £6,670,670
- 5.4 The changes made to the capital programme since approval in February are as follows:-
- The carry forward of 2019-20 capital budget variances as a result of projects which were either behind schedule or had progressed quicker than expected in the year
 - ICT New Project £68,450 – approval was granted by Cabinet Delegated Decision on 18th September for the purchase of the Civica Digital Transformation Suite
- 5.5 The Covid-19 out-break has contributed to delays in delivery of the Capital Programme. At this stage, a £3,765,050 underspend is projected. The slippage has been re-profiled in the latest Medium Term Financial Plan Review to reflect a more realistic timing of capital expenditure in the current circumstances.
- 5.6 In addition to operational issues caused by the impact of Covid-19, the actual demand for Disabled Facilities is forecast to be lower than Government support received towards the grant programme; a total underspend of £1,240,320 is anticipated, this surplus is ring-fenced and will be drawn down as required.
- 5.7 Overall capital funding which will be applied to the 2020/21 Capital Programme is lower than forecast, reflecting the revised timing of capital spend, hence a reduced borrowing requirement of £2,659,440 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 2020 totalled £16.3million. Interest earned on these investments during quarters 1 & 2 totalled £28,710 and the average level of funds available for investment was £17.1million.
- 6.3. The Council budgeted to receive £88,510 in investment income in 2020/21. A shortfall of £48,720 is anticipated against this budget is due to falling interest rates following the Bank of England base rate reduction to 0.10% in March 2020.

Ascent Joint Venture

- 6.4. The Council has a debenture of £5million paying 2% and loan of £14million paying an average 3.61% with Ascent, the joint venture company established to deliver affordable housing across the District.

- 6.5. The investment income budget included £100,000 income from the debenture and £546,910 from the loan. The debenture interest is on target, while a small shortfall of £40,410 is forecast against the loan interest income budget due to lower PWLB rates on the tranche roll dates that expected at budget setting stage.
- 6.6. 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. The outcome of this may impact the interest income outturn.

Borrowing

- 6.7. External debt is forecast to be £16million by the end of the year, an increase of £6million from the opening external debt balance of £10million. £14million funds the Ascent loan; and £2million other general fund capital expenditure. This approach ensures that cash flow is available for liquidity as required due to the uncertainty surrounding Covid expenditure and reduced revenue income. It also takes advantage of the extremely cheap funding available in the current climate from other local authorities. The Council budgeted to incur £332,730 in interest charges in 2020/21. An underspend of £132,830 is anticipated against the budget due to falling interest rates.

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 was as follows:
- Council Tax – 55.60% of Council Tax was collected by 30th September 2020, compared to 56.34% for the same period last year.
 - The effects of Covid-19 on collection rates are being monitored. The variance in the collection of Council Tax appears to be largely due to the delay in the commencement of recovery action and/ or inability to pay as opposed to deferred payment plans;
 - Business Rates – 50.32% of Council Tax was collected by 30th September 2020, compared to 55.57% for the same period last year.
 - An analysis of the 15 NNDR accounts with the highest Rateable Values indicates that deferred payment plans account for the majority of the variance in collection rates and this will unwind over the year assuming businesses can maintain their deferred plans when they commence.
- 7.3. At the end of Quarter Two the value of sundry debt that was over 60 days old was £101,700 which compares with £67,310 at 30th September 2019.

ANNEX A

Capital Programme Update 30th September 2020

Capital Schemes	2020/21 Approved Budget	Q2Changes	2020/21 Revised Budget	Expected Outturn 2020/21	Expected Variance 2020/21
	£	£	£	£	£
<u>Housing Standards</u>					
Private Sector Grants	1,755,320		1,755,320	515,000	(1,240,320)
Landlord Accreditation Scheme	30,000	-	30,000	-	(30,000)
Total Environmental Health	1,785,320	0	1,785,320	515,000	(1,270,320)
<u>Property Services</u>					
Asset Management Plan	1,300,900	-	1,300,900	667,300	(633,600)
Total Property	1,300,900	-	1,300,900	667,300	(633,600)
<u>ICT</u>	140,060	68,450	208,510	116,610	(91,900)
Total ICT	140,060	68,450	208,510	116,610	(91,900)
<u>Leisure Services</u>					
Sports - Small Schemes	50,000	-	50,000	-	(50,000)
Total Leisure Services	50,000	-	50,000	-	(50,000)
Vehicle & Plant Purchase	2,582,070	-	2,582,070	1,134,760	(1,447,310)
Fleet Management	2,582,070	-	2,582,070	1,134,760	(1,447,310)
CCTV - Upgrade	275,100	-	275,100	275,100	-
CCTV	275,100	-	275,100	275,100	-
<u>Regeneration</u>					
Moorlands Partnership Grants	46,850	-	46,850	26,850	(20,000)
Total Regeneration	46,850	-	46,850	26,850	(20,000)
<u>Horticulture</u>					
Brough Park Improvements	421,920	-	421,920	170,000	(251,920)
Total Horticulture	421,920	-	421,920	170,000	(251,920)
Total Programme	6,602,220	68,450	6,670,670	2,905,620	(3,765,050)