



2021/22

**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 2021/22.
- 1.2. The report summarises overall financial performance for 2021/22 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 2021/22.
 - **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*)	2021/22 Budget	Expected Outturn 2021/22	Variance	Contribution to / (Use of) Earmarked Reserves	Net Variance
	£	£	£	£	£
Alliance Leadership Team	51,780	32,900	(18,880)	-	(18,880)
Audit	9,940	6,880	(3,060)	-	(3,060)
ICT	702,760	728,740	25,980	-	25,980
Human Resources	52,360	57,860	5,500	-	5,500
Member Services	360,310	328,300	(32,010)	-	(32,010)
Property Services	640,970	723,970	83,000	-	83,000
Benefits	(234,150)	(209,390)	24,760	-	24,760
Planning Applications	(357,460)	(408,680)	(51,220)	-	(51,220)
Building Control	54,510	54,510	-	-	-
Customer Services	132,280	87,130	(45,150)	-	(45,150)
Legal Services	64,520	60,520	(4,000)	-	(4,000)
Electoral Services	97,790	57,790	(40,000)	40,000	-
Licensing and Land Charges	(210,970)	(222,970)	(12,000)	-	(12,000)
Regeneration	59,020	138,780	79,760	(60,000)	19,760
Communities and Cultural	128,830	119,320	(9,510)	-	(9,510)
Housing Strategy	15,650	29,070	13,420	(13,380)	40
Transformation	6,760	3,970	(2,790)	-	(2,790)
Community Safety and Enforcement	151,050	143,550	(7,500)	-	(7,500)
Finance & Procurement	143,910	135,510	(8,400)	-	(8,400)
Revenues	(303,120)	(227,650)	75,470	-	75,470
Corporate Finance*	5,905,840	6,028,670	122,830	-	122,830
Waste Collection	1,936,010	1,670,740	(265,270)	-	(265,270)
Street Scene	386,930	401,050	14,120	-	14,120
Leisure Services	455,970	320,620	(135,350)	(95,490)	(230,840)
Horticulture	539,400	578,150	38,750	(5,200)	33,550
Environmental Health	(24,660)	(8,700)	15,960	-	15,960
Net Total of Services	10,766,230	10,630,640	(135,590)		(269,660)
Net Interest	(319,010)	(353,010)	(34,000)		(34,000)
	10,447,220	10,277,630	(169,590)	(134,070)	(303,660)
Funding					
- external	(6,179,940)	(7,730,170)	(1,550,230)	-	(1,550,230)
- reserves contribution to/(from)					
general contingency	(4,253,120)	(4,253,120)	-	-	-
use of carry forward from 20/21	(14,160)	(14,160)	-	-	-
earmarked	-	-	-	134,070	134,070
Projected (Surplus)/Deficit	-	(1,719,820)	(1,719,820)	-	(1,719,820)

* Staff budgets are currently budgeted within Corporate Finance.

- 2.2. A revenue budget of £10,433,060 was set for 2021/22. In accordance with Financial Procedure Rules, the roll forward of £14,160 in unused budgets from 2020/21 has been authorised.

Planning (£5,500): in respect of the development of the Local Plan in 2021/22
Member Services (£8,660): in respect of Member Initiative funds to applied in 2021/22.

This brings the 2021/22 budget to £10,447,220

- 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 £8,727,400. This represents a projected surplus for the year of £1,719,820.
- 2.5. There are three areas of significant underspend (>£50,000):

- **Planning Applications (£51,220 underspend);** Savings of some £20,000 are accruing against policy and regulatory budget heads. Application fee income is projected to exceed expectations by £30,000.
- **Waste Collection (£265,270 underspend);** The service has received a £280,000 net credit rebate of recycling income arising out of an increase in value of the recycle collected. This more than offsets other budgetary pressures such as increased disposal costs.
- **Leisure Services (£230,840 underspend);** There is scope to make operational savings of some £135,000 against the Covid-19 support budget put in place to fund the cost-plus arrangement with the leisure contractor. The service will also benefit from the application of some £95,840 of earmarked reserves arising out of Government support earmarked at the end of 2020/21.

- 2.6. There are three areas of significant overspend (>£50,000):

- **Property (£83,000 overspend);** Covid-19 has impacted this service significantly. Firstly car parking, where a £63,000 reduction in income is forecast. Secondly, the on-going cost pressures deriving from the facilities management arrangements are currently forecast to result in a £20,000 overspend, mainly in respect of additional building and public convenience cleaning costs.
- **Revenues (£75,470 overspend);** The impact of Covid-19 on the Recovery service was initially predicted to be significant. However the income generated from summons activity is now running only £5,000 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 and address backlogs arising out of Covid.

- **Corporate Finance (£122,830 overspend);** At this stage of the year the impact of Covid-19 on the Authority's ability to achieve its efficiency targets is predicted to result in a £167,000 shortfall in budgeted savings offset in part by predicted net savings of £77,000 in the establishment. Further pressure across a number of Corporate budget heads could add a further £23,000 to this overspend.

2.7. Net interest costs, as detailed in section 6, are currently expected to generate £34,000 more income than budgeted.

2.8. The level of funding anticipated for the year is £1,684,300 above that budgeted due to the following:

External Funding: (£1,550,230)

- Business Rates Retention (£1,550,230 additional funding):
 - The Council expects to receive **£1,803,780** in additional S31 grants in the year due to continuation of Extended Retail and Nursery Discounts to respond to the covid-19 situation – at the time of budget setting central government had not confirmed these reliefs. 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.
 - An increase of **£197,240** in the net levy payable on growth to the Staffordshire Business Rates Pool is currently forecast compared to the budgeted amount. This is due to fluctuations in the level of growth affected by the provision for appeals. Part of the levy payment savings achieved as member of the pool are dependent on the performance of the whole pool so could only be estimated at year end. The pool has now advised the draft final amount due for the previous year (subject to completion of external audits), this is **£56,310** greater than the accrued amount, which will offset the surplus Business Rates Retention in the current year.

Use of Reserves: (£134,070)

- Earmarked Reserves (£134,070 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 £134,070 more than nominally anticipated at the beginning of the year.

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 2021/22.
- 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 2021/22 budget was set in February 2021 with the assumption of £448,000 of savings in the year. Unachieved efficiencies of £382,400 were brought forward from 2020/21 in line with the MTFP, making an in-year target for 2021/22 of £830,430. A large part of this savings requirement is focussed on the removal of surplus budgets no longer needed.
- 3.5. The major focus of the savings programme in 2021/22 being on growth, income generation and major procurements.
- 3.6. At the end of Quarter Two, £633,060 in savings have been taken against the 2021/22 efficiency target. These relate to the removal of surplus leasing budgets (£419,660); removal of underspent budgets within the Environmental services (£53,220) and insurance services (£15,000); and savings in the AES contract (£145,180)
- 3.7. There is a significant risk that not all of the current year savings will be achieved in the year, particularly those relating to growing fees and charges and income generation. At this stage it is assumed that £167,000 in savings will remain unachieved at year-end. This will continue to be monitored over the rest of the year and further savings opportunities explored to make up the shortfall.
- 3.8. The longer term need for a new Efficiency Programme will be considered as part of the revision of the 2022/23 Medium Term Financial Plan.
- 3.9. 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:

2021-22	£
AES Contract budget	4,565,970
Management fee	4,683,331
Net additional claim/rebate	(296,713)
Allocation of AES efficiency	(21,721)
Covid-19 costs	9,660
Total management fee payable	4,374,557
Allocation of Joint Operation profit	(57,314)
Net total	4,317,243
<i>Variance to budget</i>	<i>(248,727)</i>

- 4.3. The AES business plan for all services being delivered to the Council during 2021/22 includes a budgeted management fee of £4,683,331. The Council's £21,721 share of the total AES forecast efficiency target for 2021/22 is repayable to the Council at the end of the year and is allocated against the management fee costs.
- 4.4. An additional pressure on the Pay Award compared to the budgeted amount is forecast to be offset by an anticipated rebate on recycling contracts income following an improvement on the basket of goods rates. Whilst markets continue to fluctuate this is subject to change, but is currently forecast at a net benefit of £296,713.
- 4.5. Some additional costs relating to Covid-19, such as additional cleaning products, PPE and additional agency costs are forecast at £9,660.
- 4.6. 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 based on the forecast outturn is £57,314 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 2021. Further detail – on a scheme by scheme basis – is contained in Annex A:

	2021/22 Approved Budget	Q2 Changes	2021/22 Revised Budget	Expected Outturn 2021/22	Expected Variance 2021/22
	£	£	£	£	£
Housing Standards	1,523,200		1,523,200	1,523,200	-
Property Services	711,010		711,010	596,920	(114,090)
ICT	143,560		143,560	135,060	(8,500)
Leisure Services	150,000		150,000	150,000	-
Fleet Management	1,712,530		1,712,530	1,712,530	-
CCTV	85,650		85,650	85,650	-
Community	200,000		200,000	200,000	-
Regeneration	53,520		53,520	53,520	-
Horticulture	251,720		251,720	251,720	-
Total	4,831,190	0	4,831,190	4,708,600	(122,590)
Funding:-					
External Contributions	1,519,940		1,519,940	1,519,940	-
Capital Receipts	25,000		25,000	25,000	-
Earmarked Reserves	88,500		88,500	88,500	-
Borrowing	3,197,750		3,197,750	3,075,160	(122,590)
Total	4,831,190	0	4,831,190	4,708,600	(122,590)

- 5.3. The 2021/22 General Fund Capital Budget as updated and approved by Members on 5th October 2021 was set at £4,831,190, no changes have been made during quarter two.
- 5.4. There is one significant capital expenditure variance to note :-

- **Property (£114,090 underspend)** projects have been re-profiled following the on-going review and prioritisation of works contained within the Asset Management Plan.

- 5.5 Overall capital funding which is anticipated to be applied to the 2021/22 Capital Programme is lower than forecast, reflecting the revised timing of capital spend, hence a reduced borrowing requirement of £122,590 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 2021 totalled £21.7million. Interest earned on these investments up to the end of the second quarter totalled £20,710 and the average level of funds available for investment was £19.2million.
- 6.3. The Council budgeted to receive £20,710 in investment income in 2021/22. As interest rates are currently as expected at the time of budget setting; a small surplus of £4,000 is anticipated against the budget.

Ascent Joint Venture

- 6.4. The Council has a debenture of £5million paying 2% and loan of £14million paying an average 3.02% 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 £422,880 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 2021 totalled £12million; this funds the Ascent loan. The Council budgeted to incur £224,580 in interest charges in 2021/22. This was based on externally funding the full existing

Ascent loan balance of £14million and a £1million general fund borrowing requirement. £2million 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.

- 6.8. Refinancing and new borrowing will be kept under review during the year as the capital programme is carried out, and if any changes to the Ascent loan relationship occur, alongside views about cash flow and opportunities to take borrowing at cheap levels vs internal borrowing in the low interest income environment. Currently an underspend of £30,000 is forecast 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 2 collection rate was as follows:

- Council Tax – 55.88% of Council Tax was collected by 30th September 2021, compared to 55.60% for the same period in 2020/21, and 56.34% in 2019/20.
- Business Rates – 44.95% of Business Rates was collected by 30th September 2021, compared to 50.32% for the same period in 2020/21, and 55.57% in 2019/20.
 - The longer term effects of Covid-19 on collection rates continue to be monitored. Timings of payments have also been affected by the change to the amount of Extended Retail discount by central government.

- 7.3 At the end of Quarter Two the value of sundry debt that was over 60 days old was £53,157 which compares with £101,700 at 30th September 2020.

ANNEX A

Capital Programme Update 30th September 2021

Capital Schemes	2021/22 Approved Budget	Q2 Changes	2021/22 Revised Budget	2021/22 Revised Budget	Expected Variance 2021/22
	£	£	£	£	£
<u>Housing Standards</u>					
Private Sector Grants	1,523,200		1,523,200	1,523,200	-
Total Environmental Health	1,523,200	-	1,523,200	1,523,200	-
<u>Property Services</u>					
Asset Management Plan	711,010		711,010	596,920	(114,090)
Total Property	711,010	-	711,010	596,920	(114,090)
<u>ICT</u>					
	143,560		143,560	135,060	(8,500)
Total ICT	143,560	-	143,560	135,060	(8,500)
Vehicle & Plant Purchase	1,712,530		1,712,530	1,712,530	-
Fleet Mangement	1,712,530	-	1,712,530	1,712,530	-
CCTV - Upgrade	85,650		85,650	85,650	-
CCTV	85,650	-	85,650	85,650	-
<u>Regeneration</u>					
Moorlands Partnership Grants	53,520		53,520	53,520	-
Total Regeneration	53,520	-	53,520	53,520	-
<u>Community</u>					
Forsbrook Community Facilities	200,000	-	200,000	200,000	-
Total Community	200,000	-	200,000	200,000	-
<u>Horticulture</u>					
Brough Park Improvements	251,720		251,720	251,720	-
Total Horticulture	251,720	-	251,720	251,720	-
<u>Leisure</u>					
Sports Clubs Facilities	150,000	-	150,000	150,000	-
Total Horticulture	150,000	-	150,000	150,000	-
Total Programme	4,831,190	-	4,831,190	4,708,600	(122,590)