
Corporate Financial Monitoring

Quarter 1: April – June 2015

HEADLINE INFORMATION:

- General Fund revenue budget underspend of £201K, projected to become £553K by the year end.
- Housing Revenue Account underspend of £13K, projected to become an overspend of £39K by the year end.
- Council Tax surplus of £314K.
- Sundry Debt level at £3.4M of which £1.9M relates to Housing Benefit Overpayment recoveries. Overall a 14% reduction on the previous quarter.
- Council Housing Rent Arrears circa £291K. A 5% increase on the previous quarter.

1. INTRODUCTION

This report provides a snapshot on the corporate financial position for the Council at the end of June. It looks at the latest spend and income collected against profiled budgets, and where appropriate it provides a forecast projection for the full year. In addition, there are sections covering income collection and procurement.

The report is split into the following areas:

- Revenue Monitoring – General Fund and Housing Revenue Account
- Capital Monitoring – General Fund and Housing Revenue Account
- Local Taxation – Council Tax and Business Rates
- Income Collection – General Fund Sundry Debts and Council Housing Rents
- Procurement

It should be noted that the Council has to operate two specific funds – General Fund and Housing Revenue Account (HRA). The latter covers all aspect relating to Council Housing, whilst the General Fund covers all other Council services.

In addition, there is also a Collection Fund where the Council acts as billing authority for all Council Tax and Business Rates income in the district. This is then shared between itself, the Government, Lancashire County Council, the Police and Crime Commissioner and the Fire Authority.

2. REVENUE MONITORING

This section covers both General Fund and the Housing Revenue Account (HRA), and reports on variances relating to the day to day income and expenditure of the Council. There are also two specific sections for salaries and the Repair and Maintenance Section (RMS).

2.1. Summary Position

The table below provides an overall summary position as at the end of June for both the General Fund and HRA.

| | GENERAL FUND | | | HRA | | |
|-----------------------------|-------------------------|----------------------------|--------------------------------|-------------------------|----------------------------|--------------------------------|
| | Annual Budget £000's | Current Variance £000's | Full Year Projection £000's | Annual Budget £000's | Current Variance £000's | Full Year Projection £000's |
| Salaries | 20,146 | (170) | (287) | 1,465 | (31) | (3) |
| Transport | 1,701 | (15) | (82) | 27 | 0 | 0 |
| Premises | 9,560 | 60 | 13 | 5,689 | (4) | (8) |
| Supplies & Services | 9,232 | 3 | (6) | 654 | 10 | 32 |
| Fees & Charges | (12,622) | (79) | (191) | (15,584) | 20 | 45 |
| Grants & Contributions | (4,087) | 0 | 0 | (85) | 0 | 0 |
| Other Net Budgets | (3,181) | 0 | 0 | 0 | 0 | 0 |
| Transfer to/(from) Reserves | (3,696) | 0 | 0 | 3,464 | (8) | (27) |
| | 17,053 | (201) | (553) | 0 | (13) | 39 |

There is a current underspend of £201K in respect of the General Fund which is expected to increase to £553K by the year end. For the HRA there is a current underspend of £13K which is expected to become an overspend of £39K by the year end.

A more detailed analysis of the variances is included at **Annex A**, but the key areas to note are as follows:

General Fund

- Salaries under by £144K – more details are provided in section 2.2.
- Fuel savings of £15K.
- Premises cost up by £60K, mainly due to additional rates.
- Income up by £79K, mainly due to addition grant income and increased usage at Salt Ayre Sports Centre.

HRA

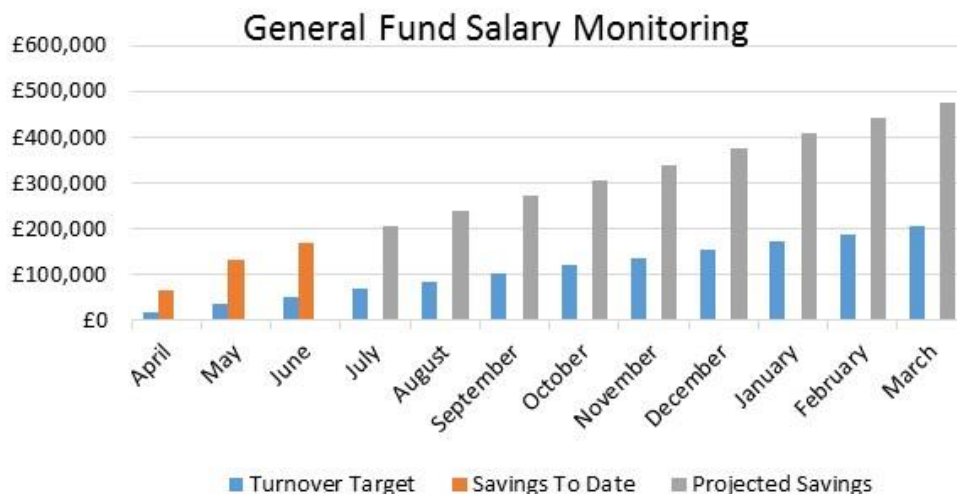
There are a number of variances relating to sheltered housing which have been offset by an additional transfer from the Sheltered Housing Reserve. Excluding these, the key variances are as follows:

- Salaries under by £31K – more details are provided in section 2.2.
- Additional service charge costs of £9K relating to Cable Street offices.
- Additional court costs of £9K relating to rent arrear cases.

2.2. Salary Monitoring

The following table shows the savings for each service together with the number of vacant posts generating those savings. It is important to note that vacancies do not always result in additional savings, as agency staff or additional overtime may be required to cover such staff shortages, particularly in front line services - hence the reason why for example Environmental Services has 21 vacancies and only savings of £26K.

| Service | FTE's* | Vacancies | Annual Budget £000's | Current Savings £000's | Projected Savings £000's |
|--------------------------------------|------------|-----------|-------------------------|---------------------------|-----------------------------|
| General Fund | | | | | |
| Management Team | 8 | 0 | 594 | 0 | 0 |
| Environmental Services | 348 | 21 | 6,979 | (26) | (128) |
| Governance | 42 | 4 | 1,252 | (25) | (82) |
| Health & Housing | 125 | 11 | 2,789 | (35) | (2) |
| Regeneration & Planning | 112 | 5 | 2,366 | (35) | (24) |
| Resources | 95 | 9 | 2,506 | (49) | (51) |
| | 730 | 50 | 15,150 | (170) | (287) |
| Housing Revenue Account | | | | | |
| Council Housing | 125 | 7 | 2,789 | (31) | (3) |
| * FTE's - Full Time Equivalent Posts | | | | | |



At the end of 2014/15 there were additional General Fund salary savings of some £262K over and above the revised budget. Analysis has shown that the period during which posts become vacant and are filled again is often longer than anticipated, therefore additional savings are occurring. In view of this, and the projected additional savings of £287K shown in the previous table, there is the potential to double the annual savings target (currently £200K) to £400K. A more detailed analysis will be undertaken as part of the 2016/17 budget setting process.

2.3. Repair and Maintenance Section – Trading Position

The work of this section is predominantly on the Council Housing stock, with a small element on municipal buildings. The total budget for the section is around £9.5M, and covers both in-house and contracted out provision for all repair and maintenance and capital works.

As highlighted in the 2014/15 Outturn Report to Cabinet, last year there were variances totalling £553K relating to capital works and general repair and maintenance, which had not previously been reported as part of the quarterly monitoring process. This highlights the need for specific monitoring for this section in addition to the need to demonstrate whether the section is providing value for money.

there is currently an overspend of £16K against the profiled budget, which is only 0.2% of the overall annual budget, and therefore within acceptable tolerances.

| | TOTAL £ |
|--|--------------------|
| INCOME | (562,793) |
| EXPENDITURE | |
| Direct Labour | 264,591 |
| Direct Materials | 108,239 |
| Overheads | 382,782 |
| Recharged Revenue Work | 366,331 |
| TOTAL EXPENDITURE | 1,121,943 |
| NET EXPENDITURE | 559,150 |
| Profiled Budget | 542,950 |
| Variance from Budget - Adverse/(Favourable) | 16,200 |

The table to the right is a starting point in this process and sets out the financial position at the end of June. This shows

2.4. Other Budget Monitoring and Projected Future Year's Budget Changes

The following variances have either already been identified in this report or relate to other known changes that are due to impact on future years budgets.

Salary Savings

As already identified in section 2.2, additional General Fund salary savings of £287K are projected in this year. Taking account of planned staffing changes and restructures it is estimated that additional savings of £200K could be achieved in future years. A more detailed analysis will be undertaken as part of the 2016/17 budget process.

National Insurance

The Government is introducing a new flat rate State pension scheme from 01 April 2016 and will end the additional State's earnings related pension scheme (SERPS) at the same time. Currently, the Council can contract out of SERPS for those employees who are already members of the Local Government Pension Scheme. By doing so the Council was able to pay lower employer national insurance contributions via a rebate of 3.4%. From April 2016, with the ending of SERPS this rebate will no longer apply. The cost of this change to the General Fund will be in the region of £330K per annum, and £30K per annum for the HRA. No additional funding from the Government's "New Burdens" doctrine is anticipated.

Energy Savings

At the end of 2014/15 there were significant savings on energy costs across a number of service areas amounting to over £100K. Subsequent investigation has shown that a proportion of this related to billing errors and failure of a combined heat and power unit at Salt Ayre (meaning that not all savings should recur). As a result, savings in the current year are forecast to be in the region of £28K, but will rise to £50K in future years.

Fuel Savings

Additional fuel savings of £30K were achieved in 2014/15, and a further £61K is projected for 2015/16. It is anticipated that this trend will continue, and allowing for potential increases in price, additional savings of £50K per annum could be achieved.

Income – Fees and Charges

Additional planning fee income of £86K was achieved in 2014/15, and the current year projection is for a further £100K. Whilst it is accepted that the majority of this increase resulted from larger one off applications, it is not unreasonable to assume an ongoing increase of £50K per annum in planning fee income.

Income – Retained Business Rates

The latest projection for retained Business Rates income shows a shortfall of £371K compared to the budgeted Baseline position (see section 4.1.2 for more details). Whilst this can be covered by the Business Rates reserve in this year, future years will not be covered. As a result, this potentially means a reduction in income of £389K for 2016/17 onwards. The impact of appeals is the significant factor in the changing level of retained income, and the position is monitored on a regular basis.

Net Impact on Future Years

The net impact of all the changes shown above results in an additional cost of £369K per annum from 2016/17 onwards. Future monitoring reports will continue to highlight any additional cost pressures or savings that may impact on future years' budgets.

3. CAPITAL MONITORING

This section covers both General Fund and the HRA. Again reporting on any changes to the programmes or key variances. This section includes both expenditure and financing.

3.1. General Fund Capital Programme

The programme has been updated for approved slippage of £2.526M (Cabinet 23 June 2015), in addition to the following changes:

- **Council 04 March 2015**

Lancaster District Empty Home Partnership £200,000

To be funded from approved revenue growth. The programme has now been updated following agreement that the costs can be capitalised.

- **Delegated Officer Decision – 17 April 2015**

Car Park Improvements (£65,000)

MAAP Morecambe Central Seafront 'Connecting Eric' £155,000

Net Change £90,000

To be funded from the Morecambe Area Action Plan (MAAP) Reserve.

- **Delegated Officer Decision – May 2015**

AONB Vehicle Replacement £25,000

To be funded from the Renewals Reserve

At the end of June there were spend and commitments of £1.808M against the latest approved programme of £11.649M, leaving £9.841M still to spend. Details of spend against each scheme is shown in **Annex B**. There is one overspend, after allowing for commitments, on the Bold Street demolition scheme and a report is to be produced on this in due course.

The performance of the Council's property portfolio has strong linkages with capital investment and financing, and therefore at this point attention is drawn to the Property Group report at **Appendix C**, provided alongside this financial monitoring report.

3.2. HRA Capital Programme

The HRA Capital Programme has also been updated for approved slippage of £95K which has increased it to £5.045M. Against this there are spend and commitments of £1.121M leaving £3.924M still to spend. Details of spend against each scheme is shown in **Annex B**.

4. LOCAL TAXATION

4.1. Collection Fund Monitoring

4.1.1. Council Tax Yield (Total Collectable)

This section provides a summary analysis of the current surplus or deficit on the Fund, shown in the following table. Such a surplus or deficit arises because of the great many changes in liability that occur throughout the year. Furthermore, any difference between estimated and actual collection performance will ultimately have a bearing.

The second table goes on to compare budgeted council tax yield, or total amount collectable, with the yield position as at the end of June.

| | | |
|---|-------|---------------|
| Collection Fund Surplus (June 2015) | | £000's |
| | | (314) |
| Represented by In-Year Movements to Date: | | |
| Lower Council Tax Support than estimated | (357) | |
| Net of Higher Second Homes/Lower Empty Homes income | +38 | |
| Other Movements in the Tax Base | +5 | (314) |
| <i>Of which the City Council would retain 13%</i> | | <i>(41)</i> |

| | Budgeted Projection £000's | Actual Position £000's | |
|---------------------------------------|---------------------------------------|-----------------------------------|-------|
| Total Council Tax Collectable (Yield) | 61,738 | 61,805 | |
| Actual amount collected | (18,161) | (18,161) | 29.4% |
| Amount Outstanding | 43,577 | 43,644 | |

As at 30 June, there is an estimated surplus of £314K of which the City Council would retain £41K.

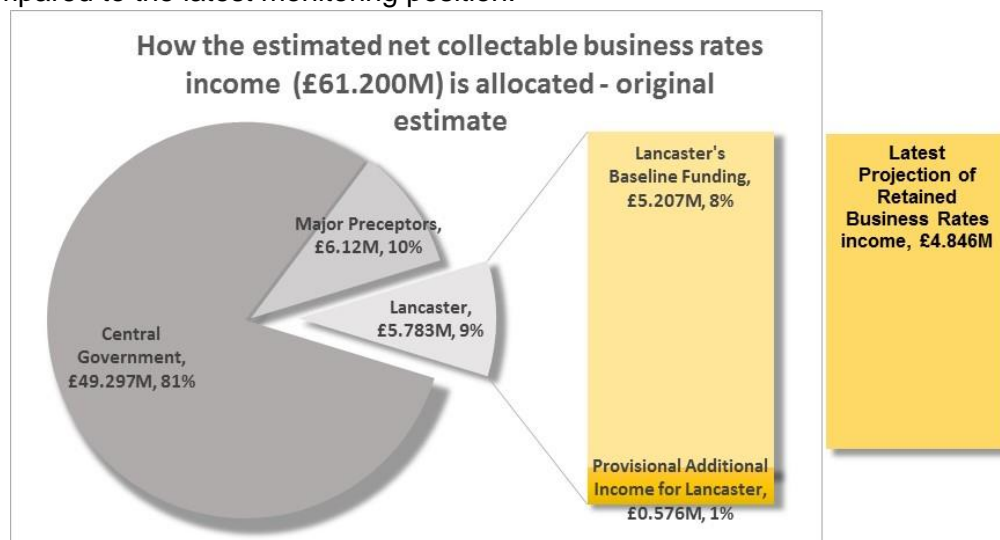
This year's position is made up of:

- £357K lower than estimated council tax support. This will continue to fluctuate as claimants' circumstances change, but since establishing the scheme proposals back in 2013, the trend is still that the total support being claimed is lower than expected;
- overall £38K lower than estimated income from second/empty homes (specifically identifiable);
- a balance of £5K relating to other movements in the tax base.

Should the tax base increase each year by more than originally estimated, this too helps towards balancing the General Fund revenue budget for future years.

4.1.2. Business Rates Retention

The following diagram shows how the net income collected from Business Rates is distributed between the relevant parties. Lancaster's estimated income is then compared to the latest monitoring position.



The following table expands on this latest position.

| | Original £000's | June £000's |
|--|----------------------------|------------------------|
| Net Collectable Amount of Business Rates | (64.309) | (65.251) |
| Less: Provision for Appeals | 3.109 | 7.771 |
| Net retained business rates | (61.200) | (57.480) |
| Less: Central Government Share – 50% | 30.600 | 28.740 |
| Less: County Council & Fire Authority Share – 10% | 6.120 | 5.748 |
| Lancaster's Retained Business Rates Share – 40% | (24.480) | (22.992) |
| Less: Tariff payable to Central Government | 19.763 | 19.763 |
| Add Back: Cost of Collection | (0.227) | (0.227) |
| Add: Small Business Rates Relief Grant | (1.415) | (1.390) |
| Total Amount of Retained Business Rates | (6.359) | (4.846) |
| Less: Lancaster's Baseline Funding Level | 5.207 | 5.207 |
| Provisional Additional Income | (1.152) | |
| Provisional Loss of Income | | 0.371 |
| Split as follows: | | |
| 50% Levy Payable to Central Government | (0.576) | |
| 50% Retained by Lancaster | (0.576) | |

N.B. The Safety Net Threshold for 2015/16 is £4.816M

The table shows that originally it was anticipated that there would be additional income of £1.152M, of which 50% (£576K) is payable to Central Government and 50% retained by the Council. However, the latest position shows that this has changed to a loss in income of £371K for the Council. The amount of retained business rates income is currently £4.846M which is just above the Safety Net Threshold of £4.816M, therefore the Council will have to stand this loss. However, there is currently £381K held in the Business Rates Reserve to cover any shortfall in income.

Aside from the power station impact, the main reason for the change is that the provision for appeals has had to be increased by some £4.7M, with the bulk of this (£3M) relating to appeals received in March 2015, before the Government's cut off deadline of 01 April 2015 for appeals relating to the 2010 valuation. Some of this loss is mitigated by additional income from new hereditaments coming onto the list.

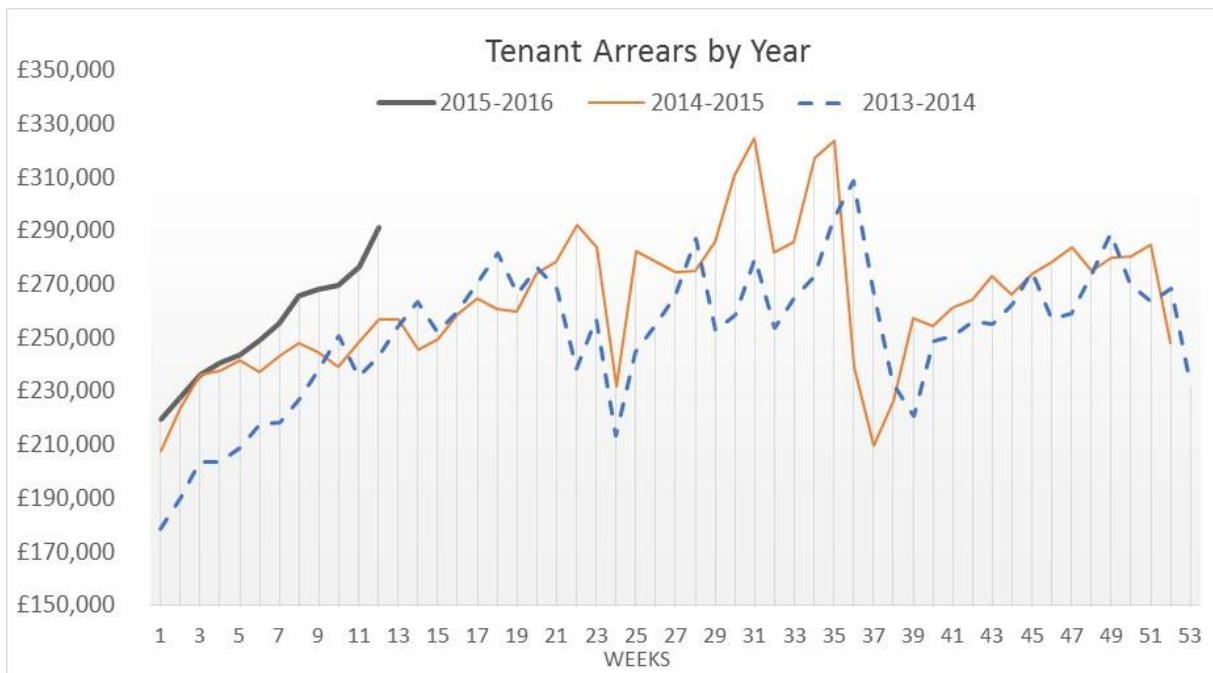
This demonstrates the significant impact appeals can have when trying to forecast the level of business rates income the Council will receive each year. Current and future year's budgets have been estimated at the Baseline Funding level, however this position will need to be reviewed as part of the forthcoming budget process with a view to reducing it to the Safety Net Threshold (see report elsewhere on agenda). This will reduce the level of income by some £389K in future years.

| SERVICE | < 28 Days | 28-59 Days | 60-91 Days | 92-183 Days | 184-364 Days | 365+ Days | TOTAL |
|-------------------------|--------------|---------------|---------------|----------------|-----------------|--------------|-----------|
| | £ | £ | £ | £ | £ | £ | £ |
| Enviromental Services | 478,075 | 100,649 | 325,242 | 13,340 | 11,376 | 28,326 | 957,008 |
| Governance | - | - | - | - | 350 | 8,030 | 8,380 |
| Regeneration & Planning | 9,829 | 7,798 | 1,430 | 1,081 | 2,742 | 3,697 | 26,578 |
| Resources | 157,804 | 37,422 | 50,594 | 44,059 | 33,396 | 94,914 | 418,189 |
| Health & Housing | 68,459 | 2,925 | 9,733 | 3,223 | 1,583 | 1,813 | 87,735 |
| Hsg Benefits (Revenues) | 101,016 | 145,985 | 59,364 | 282,229 | 300,715 | 989,654 | 1,878,964 |
| | 815,183 | 294,778 | 446,365 | 343,932 | 350,162 | 1,126,434 | 3,376,854 |

5.2. Council Housing Rent Arrears

This section monitors the level of tenant arrears, to indicate any impact from welfare reforms and/or the wider economy on rent collection and in turn, to inform whether any specific actions are necessary. It will also feed into future reviews of the bad debt provision.

The following chart shows the current level of arrears compared to the previous 2 years. At the end of June, the level of arrears for 2015/16 is £291K (2014/15 Qtr 1 £257K) which is £14K higher than the previous quarter this year. At this early stage, no specific actions are proposed (other than continuing to review and analysis).



6. CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

6.1. Exceptions to Tender

In accordance with the latest approved contract procedure rules all exceptions to tender and other significant contract variations will be reported as part of the quarterly corporate monitoring process.

- There is only one exception to report on for Qtr1 relating to the Empty Homes Partnership. The Methodist Action North West (MANW) has been awarded a grant to provide funding to bring empty properties up to a decent homes standard. MANW are the only provider working in this district to provide this service and therefore the exception has been granted.