Appendix A

Corporate Financial Monitoring

Quarter Ended 30 June 2016

Report of: Chief Officer (Resources & s151 Officer)

Financial Services Manager

HEADLINE INFORMATION

- General Fund revenue budget has a current net underspending of £462K, which is projected to reduce to £3K by the year end.

- Allowing for the projected underspending, General Fund balances are currently forecast to be £4.519M by year end (with £3.019M available above the £1.5M minimum level. This is £334K higher than budgeted, allowing for last year's underspending).

- Housing Revenue Account (HRA) has a current net underspending of £20K, which is projected to increase to £23K by the year end.

- Allowing for that projected underspending, HRA balances are currently forecast to be £1.991M by year end (with £1.641M available above the £350K minimum level. This is £371K higher than budgeted, allowing for last year's underspending).

1. INTRODUCTION

This report provides a quarterly snapshot of the corporate financial position for the Council (as at the end of either June, September or December). It looks at the latest spend and income collected against profiled revised budgets, and where appropriate it provides a forecast projection for the full year, and for future years where possible. 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 service related funds – General Fund and Housing Revenue Account (HRA). The latter covers all aspects relating to Council Housing, whilst the General Fund covers all other Council services.

In addition, there is also a Collection Fund, as the Council acts as billing authority for all Council Tax and Business Rates income in the district. As well as helping to fund the City and Parish Councils, that income collectable is also shared with 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 three specific sections for approved savings monitoring, salaries and the Repair and Maintenance Section (RMS).

2.1. Summary Position

2.1.1. General Fund

With regard to General Fund, there are some significant matters to highlight. The table overleaf provides a summary of the latest financial forecasts for both current year and next year. Cabinet will recall that both these years were balanced, based on the budget and financial strategy decisions taken by Council back in March.

The summary shows that overall there is a current net underspending of £462K in this year, but this is anticipated to reduce to £3K by the year end. For next year, a net underspending of £619K is now forecast. If ultimately this materialises, those resulting funds would be available to help manage other financial pressures or spending needs.

More details of all variances are shown in ***Annexes A & B***, as well as being summarised overleaf. In particular, the monitoring focuses on progress in achieving approved budget savings and on business rates income, as well as other more general variances.

2016/17 and 2017/18 Summary Position	2016/17 Position to Qtr 1 £000's	2016/17 Full Year Projection £000's	2017/18 Full Year Projection £000's
Shortfall in Approved Budget Savings (Annex A / Section 2.3)	+17	+535	+14
General Salaries/Staffing (Annex B /Section 2.4)	(159)	(224)	--
Transport / Premises / Supplies & Services (Annex B)	+7	(1)	--
Other additional income (Annex B)	(90)	(76)	--
Net Additional Business Rates Income (section 4.1.2)	(237)	(237)	(633)
NET (UNDER) / OVER (+) SPENDING*	**(462)**	**(3)**	**(619)**
**Any underspendings are simply assumed to fall into Balances at this stage.*			

Drawing on the above results of this quarter's monitoring work, the following table shows how General Fund's financial outlook to 2020 is expected to improve. The estimated savings requirements for 2018/19 and 2019/20, as set out in the Medium Term Financial Strategy (MTFS), have reduced by £953K for 2018/19 and £938K for 2019/20. This is really good progress at this stage, but it does make assumptions in respect of future year's pricing for Green Waste Collection Charging – see section 2.3 for more details. That said, by no means are the updated forecasts based on a thorough reassessment of the Council's financial prospects, as that can only be completed later in the year.

Future Years Savings Requirements	2018/19 £'000	2019/20 £'000
Current In-Year Savings Requirements as per MTFS	**2,226**	**2,671**
Add back: Undeliverable Savings Measures (Credit Card Charging – See Annex A)	+25	+26
Less: Assumed Additional Income from Approved Savings Measures (Green Waste Collection Charging – see section 2.3 for more details)	(342)	(325)
Less: Renewable Energy – Net Business Rates Income (section 4.1.2)	(636)	(639)
Updated In-Year Savings Requirements	**1,273**	**1,733**
Forecast Improvement in Position	**953**	**938**

2.1.2. Housing Revenue Account

For the HRA, there is a current net underspending of £20K at the end of Qtr 1, which is anticipated to increase to £23K by the year end. The main variances are shown in the following table:

	Current Position £000's	Full Year Projection £000's
Employees	+39	+36
Savings on lifeline charges	(36)	(36)
Savings on Cable Street Lease	(23)	(23)
NET (UNDER) / OVER (+) SPENDING	**(20)**	**(23)**

The HRA does not have any future savings requirements as the overall 30-year Business Plan is currently balanced, albeit with the use of reserves in the short term to offset the annual 1% reduction in rent until 2019/20. There has been no reassessment of the Fund's outlook beyond 2016/17, at this early stage in the year.

S151 Officer Comments:
Whilst no new material issues are forecast for the Housing Revenue Account, it is clear that apparent delays are being experienced in delivering some of the key savings required for General Fund in this year (or over-optimism exists in setting lead-in times). Where possible, action to mitigate their impact is currently underway and further updates will be fed into the appropriate Member meetings.

From a strategic perspective, although the overall future outlook has improved, it is important to ensure the timely delivery of future savings programmes. It is essential therefore that the next corporate planning and budgeting process allows sufficient time for the planning, development and challenge of budget proposals, and to ensure sufficient capacity to deliver is in place. The strategy and timetable for this is currently being drawn up, with a planning period leading up to 2018/19 (not just 2017/18).

More positively, the Council is set to benefit significantly from business rating income from renewable energy schemes, with this continuing at least for the medium term.

2.2. Balances

It is also important to report on the latest position on Balances, both following outturn and the latest forecasts for the current financial year. The following table sets out the position for both General Fund and the HRA, as at the end of June. Note that the last year's underspend figures are still subject to the 2015/16 accounts being given a clean bill of health by the auditors and being signed off at Audit Committee on 14 September 2016.

General Balances	General Fund £000's	HRA £000's
As at 31 March 2016 - as Budgeted	**(4,128)**	**(1,344)**
Budgeted Contributions	(57)	(276)
2015/16 Underspend	(331)	(348)
2016/17 Current Year Projections	(3)	(23)
Projected Balances as at 31 March 2017	**(4,519)**	**(1,991)**
Less Agreed Minimum Level of Balances	1,500	350
Available Balances	**(3,019)**	**(1,641)**
Compared to MTFS Forecast for 31 March 2017	*(2,685)*	*(1,270)*
Increase	**(334)**	**(371)**

S151 Officer Comments:

The Council's Balances position and its financial standing remains strong. This is crucial for supporting the Council in its future strategy for tackling the financial challenges ahead, notably from 2018/19 onwards.

2.3. Approved Savings and Growth: Monitoring

As reflected in the summary earlier, as part of the 2016/17 budget process various net savings measures amounting to £986K were approved by Council. This section provides an update on those approvals with more details being provided in ***Annex A.***

The main variances to report are as follows:

- Splash Park – the project is being delivered in conjunction with the Salt Ayre Sports developer to ensure consistency of approach across the Council, and also to draw on their expertise in the leisure market. As a result it is now planned for the facility to go live in May 2017. This means that the income target of £50K will not be achieved this financial year, but it will be achieved in subsequent years.

- Charging for Green Waste Collection – it was originally envisaged that this would go live in August, but unfortunately this has not been achieved. Implementation of an optimum solution (to give a good customer experience with very efficient back office processes) will take longer and needs to link with other initiatives, such as upgrading the Council's Customer Relationship Management (CRM) systems and other service developments. It is recognised that within that current context therefore, the best way forward will be to implement an interim solution. It is now proposed to introduce charging from 01 January 2017, but with systems in place to take payments from 01 November 2016. As an incentive, if customers sign up before 01

April 2017, the initial charge will be £30 for a 15 month period (until 31 March 2018, instead of the pro rata amount of £37.50). Customers signing up after 31 March would pay the full amount of £37.50 for 2017/18. This is proposed to increase to £40 for all customers in 2018/19. A full update on the scheme and proposed pricing will be presented to Cabinet in October for consideration and approval.

The delayed start is forecast to result in an estimated shortfall in income of £458K in the current financial year. However, if the pricing proposals are approved by Cabinet then it is anticipated that the 2017/18 income budget will be met, with additional income of £342K forecast for 2018/19, which can feed into that year's budget planning. For clarity, this proposed pricing policy has already been assumed in the updated savings requirements table in section 2.3 (and therefore in the summary at 2.1.1 and the forecast balances position).

- Energy Efficiency – The energy efficiency works are based on an invest to save model which predicted a saving of circa £70K this financial year, subject to a capital investment in energy saving measures across the property portfolio totalling £1.376M. A large proportion of this spend and projected saving is earmarked for Salt Ayre and a decision has been taken to implement works in conjunction with the current redevelopment of the centre in order to avoid further customer disruption. As a result the energy works have been delayed as the two contractors need time to ascertain how the two projects can fit together. As a result, it is now likely that only 50% of the predicted saving will be achieved this financial year resulting in a loss of savings of £35K.

S151 Officer Comments:
As mentioned earlier, the above variances demonstrate the need for more effective planning when savings proposals are being developed and submitted. This is to ensure that sufficient, co-ordinated resources are available to implement such projects, that timescales are realistic and as such that financial assumptions are achievable.

Collectively, Management Team will continue to explore ways to help offset the shortfalls currently forecast in achieving the net budget savings target of £986K.

2.4. Salary Monitoring

At the end of June there are General Fund savings of £159K against the original budget and these are projected to increase to £224K by year end. For Council Housing there is a current overspending of £39K, which is expected to reduce to £36K for the full year. The overspending relates to delays in issuing central control staff with their notice periods.

S151 Officer Comments:
It is known that in various services areas (for example ICT, Development Control, Information Management, Accountancy) difficulties in recruitment and retention and general turnover may well have generated apparent savings, but with knock on adverse impact on service delivery. Capacity is being appraised across the organisation but this takes time. It is reiterated that addressing any identified capacity needs, or any other measures needed, will be a key aim of the forthcoming budget, through co-ordinated business planning and budgeting.

2.5. Repair and Maintenance Section – Trading Position

The work of this section is predominantly on the council housing stock. 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.

The following table sets out the financial position at the end of June. This shows there is currently an overspending of £16K against the profiled budget. At this stage of the year this is a relatively minor variance and does not warrant further investigation.

	TOTAL £
INCOME	**(826,507)**
EXPENDITURE	
Direct Labour	351,696
Direct Materials	207,225
Overheads	388,256
Recharged Revenue Work	537,710
TOTAL EXPENDITURE	**1,484,887**
NET EXPENDITURE	**658,380**
Profiled Budget	642,500
Variance from Budget - Adverse/(Favourable)	**15,880**

S151 Officer Comments:
A further high level review of RMS is currently being scoped with external consultants, led by the Chief Officer (Environment). It is envisaged that this will help assess current value for money, what scope there is for improvement, how best that may be secured (through whatever delivery model) and what investment (in time, money, skills and other resources) might be required to achieve it.

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 latest gross capital programme stands at £16.643M for the current year. A number of changes to the approved programme have been made which are set out in the following table:

Changes to the Gross Programme	Expenditure	External Funding
Original Gross Programme	£000's **16,785**	£000's **(6,422)**
Slippage and accelerated expenditure from 2015/16	+195	(50)
Storey Institute – grant funded improvements, programme correction.	+8	(8)
Salt Ayre Changing Room Refurbishments – now incorporated into main redevelopment programme.	(30)	--
Bay Arena Improvements. New grant funded scheme, approved under delegation. Corresponding increase in grant income.	+50	(50)
Disabled Facilities Grants – additional contributions in respect of grants clawed back. Corresponding increase in grant income.	+5	(5)
Lancaster Square Routes – reduction in expenditure in line with reduction in anticipated contributions.	(3)	+3
MAAP – Improving Morecambe's Main Streets. Part of the scheme now being delivered directly by Lancashire County Council. Corresponding reduction of £315K in grant funding.	(367)	+315
Overall Change to Gross Programme	**(142)**	**+205**
Updated Gross Programme	**16,643**	**(6,217)**

At the end of June there were spend and commitments of £1.872M leaving £14.771M still to spend. Details of spend against each scheme is shown in ***Annex C***. In terms of capital financing, £2.060M of the budgeted £6.217M has already been received.

The Property Group update report is currently being reviewed and updated and will be circulated separately as a briefing note.

3.2. HRA Capital Programme

The gross HRA Capital Programme currently stands at £4.541M, having been increased by £36K for approved slippage from the 2015/16 programme. Against this there are spend and commitments of £850K leaving £3.691M still to spend. Details of spend against each scheme are again shown in ***Annex C***.

S151 Comments:
There are no specific actions to be taken at this time regarding capital investment, other than normal review and monitoring.

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.

		£000's
Collection Fund Deficit (June 2016)		**+18**
Represented by In-Year Movements to Date:		
Higher Council Tax Support than estimated	+23	
Net of Higher Second Homes/Lower Empty Homes income	+32	
Other Movements in the Tax Base	(37)	**+18**
Of which 13% is due (to) / from (+) the City Council		*+2*

As at 30 June, there is an estimated deficit of £18K of which the City Council would fund £2K.

This year's position is made up of:

- £23K higher 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;

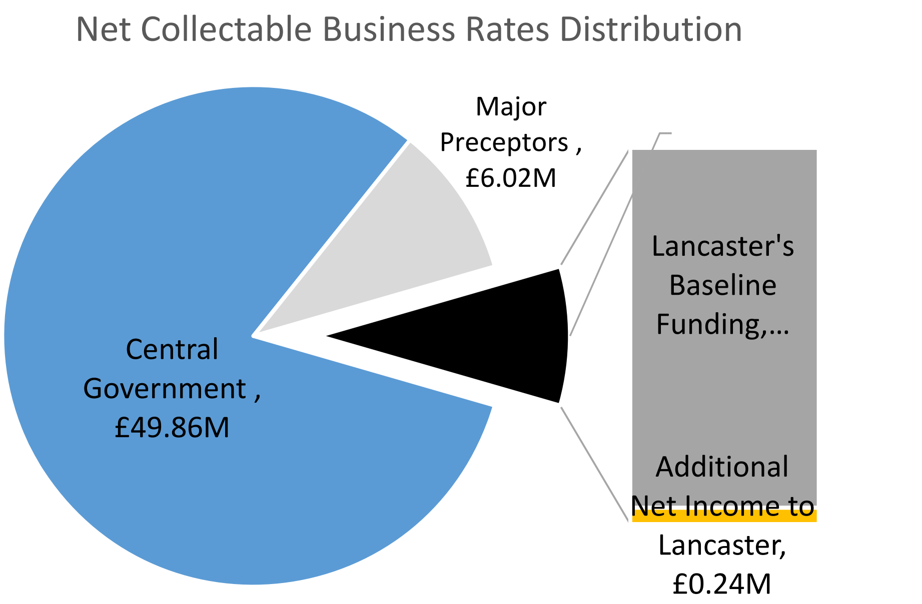
- overall £32K lower than estimated income from second/empty homes (specifically identifiable);

- a balance of £37K relating to other movements in the tax base.

S151 Officer Comment:
At this stage, the position is broadly in line with budget expectations and/or previous year trends, therefore no additional actions are needed. Consultation on LCTS scheme is due to take place over the autumn and the scope of this will need agreeing with relevant Cabinet Members in the coming weeks.

4.1.2. Business Rates Retention

The following diagram shows how the net income collected from Business Rates is distributed between the relevant parties.



The position relating to retained business rates at the end of June is shown in the following table.

	Original Estimate £M	June-16 £M
Net Collectable Amount of Business Rates	(62.399)	(59.230)
Less: Provision for Appeals	2.215	3.269
Net retained business rates	**(60.184)**	**(55.961)**
Less: Central Government Share – 50%	30.092	27.980
Less: County Council & Fire Authority Share – 10%	6.018	5.596
Lancaster's Retained Business Rates Share – 40%	**(24.074)**	**(22.385)**
Less: Tariff payable to Central Government	19.928	19.928
Add: Small Business Rates Relief Grant	(1.104)	(1.199)
Total Amount of Retained Business Rates	**(5.250)**	**(3.656)**
Less: Lancaster's Baseline Funding Level	5.250	5.250
Provisional Loss of Income	**-**	**1.594**
Safety Net Payment	**-**	**(1.200)**
Projected Loss of Income	**-**	**0.394**
Additional Adjustments:		
Additional Tariff Adjustment	-	0.288
Renewable Energy Credit from 2015/16	-	(0.918)
Overall Projected Net Position - (additional net income)	**-**	**(0.237)**

N.B. The Safety Net Threshold for 2016/17 is £4.856M.

At the end of June there is a projected loss of general rating income of £394K for the City Council, which is the difference between the baseline funding position of £5.250M (as budgeted) and the safety net level of £4.856M. This worsening is primarily because of power station rating changes, as previously reported. However, there are two other annually recurring adjustments to make in respect of the tariff and renewable energy income from 2015/16 (again as previously reported) and combined, they are favourable by £630K overall. This brings the overall position back to a net surplus of £237K. Furthermore, the surplus income will be higher from 2017/18 onwards as the MTFS/budget forecasts for then are already based on the safety net.

S151 Officer Comment:
The net impact (currently at around £630K) from renewable energy income and the tariff adjustment should have a marked positive impact on future year budget projections to around 2020 and potentially beyond, depending on whether the renewable energy provisions are retained under 100% rates retention. In turn, these changes will free up the £381K currently being in the Business Rates Retention reserve. These matters are reflected to a degree in the summary table in section 2.1.1 and they will be expanded upon in the next MTFS / budget update.

Conversely, at present there still seems little scope for general business rate income prospects to improve. The Council is currently £1.2M below safety net. That represents the amount by which the City Council's share of income must increase by, before it can share in any business rate growth in the district. Grossed up, to allow for the County, Fire and Government's shares, it currently means that income must increase by £3M (or around 5%) in the district, before any share of growth can be retained.

4.2. Council Tax and Business Rates Collection

The percentages collected in year for both council tax and business rates are either on target or just slightly behind at the end of June.

Percentage Collected	Full Year Target	Target to Date	Actual to Date	Status
Council Tax	96.8%	29.4%	29.4%	On Target
Business Rates	98.8%	28.8%	28.3%	Slightly Behind Target

The reduction in the business rates collection rate is attributable to revised instalment plans being agreed for some comparatively large properties affected by last winter's floods. In addition, there have been a number of high value rate avoidance cases where legal action has been taken but payment has not yet been forthcoming (but will be pursued). At this stage therefore, it is expected that collection will be back on track by the year end.

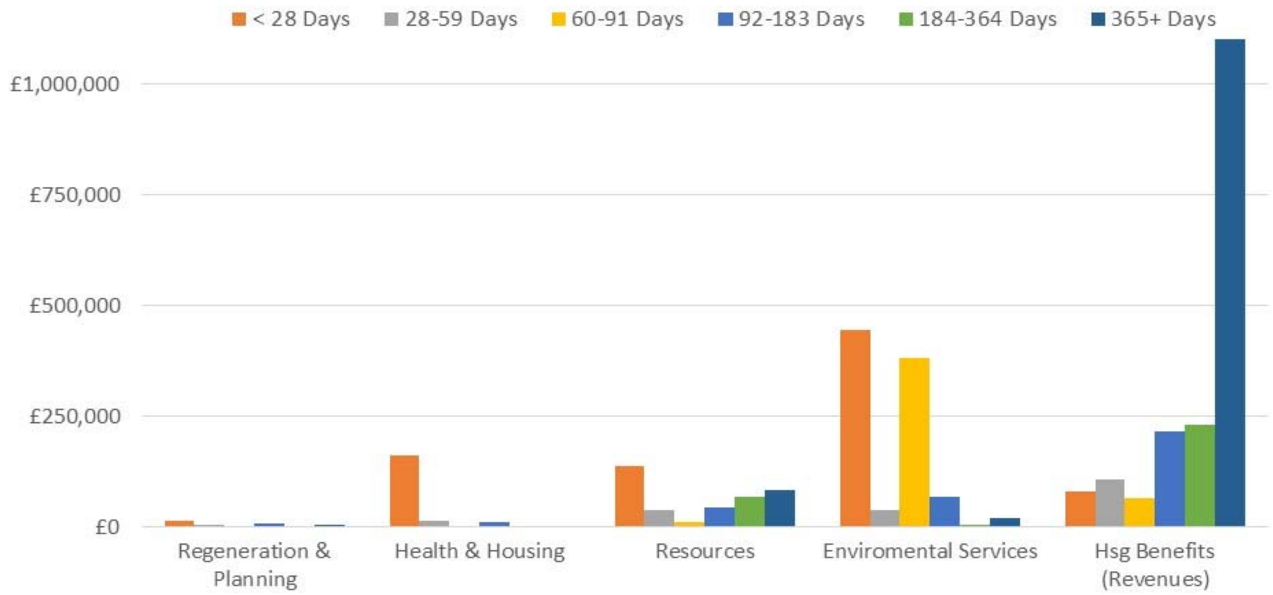
S151 Officer Comment:
There are no specific actions to be taken at this time regarding local taxation collection, other than those as set out.

5. INCOME COLLECTION

5.1. Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of June the total debt outstanding was just under £3.6M, which is £436K lower than the previous quarter. The majority (£2M) still relates to housing benefit overpayments. The bad debt provision currently stands at £1.527M which is over provided by £27K. A further review of the provision will be carried out as part of the forthcoming budget process, with any additional contributions being made at that time.

	March 16	***June 16***
	£000's	*£000's*
0-28 days	1,658	841
29-58 days	256	205
59-90 days	193	464
91-182 days	231	352
183-363 days	357	307
364+ days	1,308	1,398
	4,003	**3,567**
Previous Year	3,945	3,377



SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2016/17 QUARTER 1 TOTALS	*Compared to 2015/16 Quarter 1 Totals*
	£	£	£	£	£	£	£	*£*
Enviromental Services	445,122	39,498	381,429	70,100	4,887	21,210	962,247	*957,008*
Governance	-	-	-	-	-	-	-	*8,380*
Regeneration & Planning	14,965	5,833	-	7,961	2,683	4,977	36,419	*26,578*
Resources	136,827	37,170	12,406	45,398	68,784	83,444	384,029	*418,189*
Health & Housing	162,175	15,008	3,307	11,357	950	300	193,098	*87,735*
Hsg Benefits (Revenues)	81,966	107,847	66,923	216,655	229,850	1,287,555	1,990,796	*1,878,964*
TOTAL	**841,055**	**205,357**	**464,065**	**351,470**	**307,154**	**1,397,487**	**3,566,588**	***3,376,854***

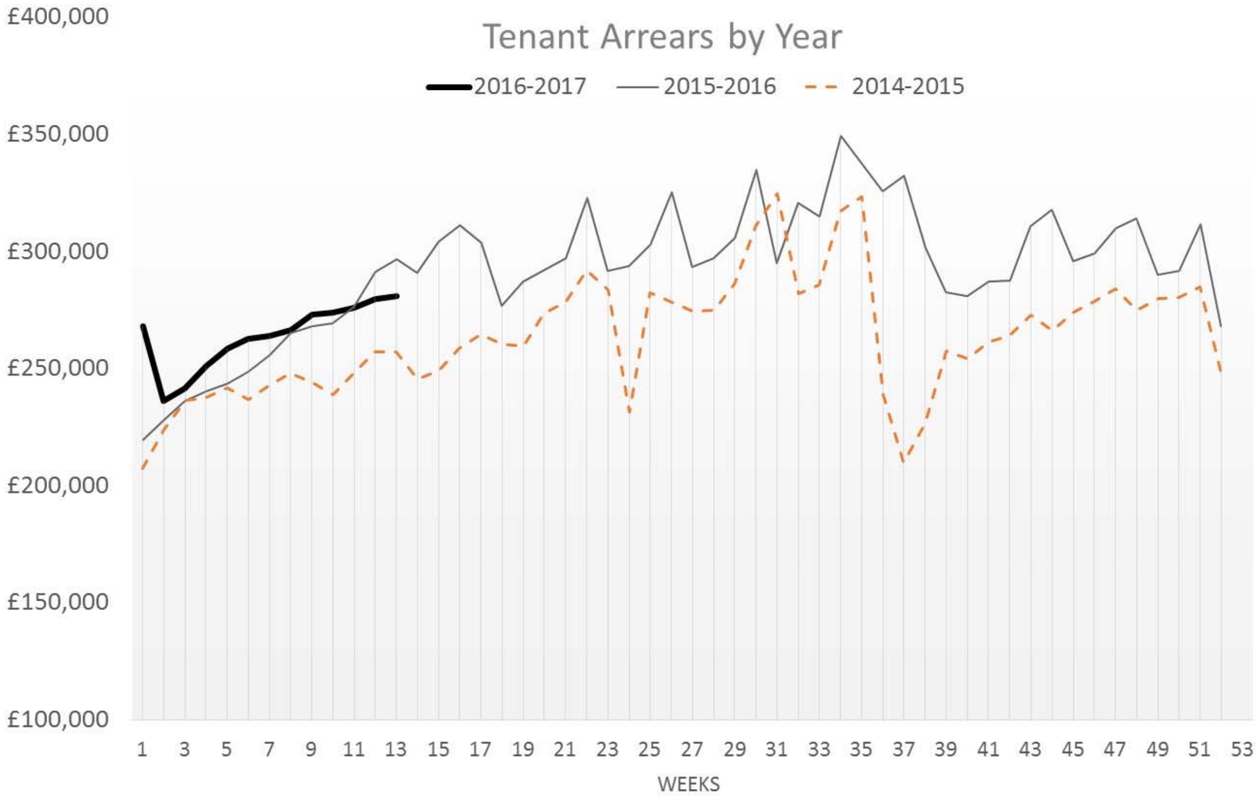
The overall level of debt has not significantly changed. A recent internal audit review of sundry debt management (excluding Housing Benefits) concluded that the level of assurance was substantial. However, a number of actions have been agreed to further strengthen procedures within services. These relate to the centralisation of reminder distribution, using debt collection agents more frequently and ensuring sufficient documentation/evidence is provided to legal services for the recovery of debts.

From a Housing Benefits perspective, the roll out of Universal Credit (UC) for new claimants (of working age) has continued and whether / to what extent this has bearing on the Council's ability to recover HB overpayments will be monitored as far as practicable. That said, the transfer of existing HB claimants (of working age) to UC is not scheduled to take place for a number of years and at this stage, there are no firm plans regarding changing the housing benefit system for pensioners. It is expected therefore that there will be plenty of time to manage and plan for any further implications regarding HB overpayment recovery prospects.

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 is £281K (*2015/16 Qtr 1 £297K*) which is only £13K higher than the previous quarter. Given this, no specific actions are proposed at this time.



S151 Comments:
There are no specific actions to be taken at this time regarding general income collection, other than those as referred to.

6. CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

6.1. Exceptions to Tender

In accordance with the 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 was one exception to tender during the period relating to the resurfacing of Salt Ayre Sports Centre car park (contract value £45K) which was brought forward to coincide with the overall redevelopment programme at the Centre.

7. BREACHES OF FINANCIAL REGULATIONS

7.1. Bold Street Housing Regeneration Site Works Capital Scheme

In accordance with the Financial Regulations (Section 2.5.2) the Section 151 Officer is responsible for reporting any breaches of the regulations to Council and/or Cabinet and/or Audit Committee. In this case it is appropriate to report also to Cabinet.

During 2015 it was brought to the attention of officers from within Resources (Financial Services) that a property had been purchased as part of the Bold Street Housing Regeneration site works, although that purchase had not originally been planned. As a result, the project could not be delivered as expected and there is currently a budget shortfall of £20.5K to complete the acquisitions and demolition to deliver a cleared site. A report elsewhere on this agenda sets out proposals for moving the project forward.

Action Taken:

As a result of the situation an initial investigation was undertaken by the Internal Audit Manager, which in turn led to appropriate management action being taken.

Individual shortcomings have become evident as a result of this and have been dealt with accordingly. In addition, some systemic weaknesses were also identified which have now been addressed by relevant officers, for example improved management arrangements, liaison between services and improved financial monitoring processes.