

CORPORATE FINANCIAL MONITORING 2018/19

QUARTER 3: October to December 2018

INTRODUCTION

This report provides an overview of the Council's financial position and key budgetary variances as at the end of December 2018, in terms of the revenue and capital budgets and local taxation. It also includes updates on key reserves and income collection. Please note that Quarter 3 monitoring is against the original budget as approved by Council 28th February 2018 and not a revised position as has been the case in previously.

REVENUE BUDGET

General Fund – As at 31st December a slight net overspend of **£17K** existed. Should spending progress as currently forecast, a net overspend in the region of **£13K** could be experienced by year-end, once agreed funding from the Council's reserves is applied. Although officers are currently taking action to address each area of overspending, an amount of **£13K** would equate to approximately **0.08%** of the Council's Net Revenue Budget for 2018/19.

The main variances are summarised in the table below and provided in more detail at **Appendix B**. In addition, a separate monitoring statement on Salt Ayre Leisure Centre is included at **Appendix C**.

	Qrt 3 £000's	Full Year Forecast £000's
General Fund Revenue Budget	16,204	16,204
	(Favourable)/ Adverse	
Employees	122	179
Premises	10	86
Transport	28	44
Supplies & Services	(50)	56
Fees & Charges	(187)	(231)
Minor Variances	33	26
Other Variances	61	(148)
Update Revenue Budget	16,221	16,217
(Under)/ Overspend	17	13
Percentage of Net Revenue Budget	0.10%	0.08%

Movement September (Q2) to December 2018 (Q3)

The Council's overall projected position has improved since Qtr. 2 (**+£93K**). This is because of several variances the most significant being, a reduction in the forecast over spend of employee expenses of (**£58K**), together with increased parking fees, and investment income of (**£30K**) and (**£14K**) respectively.

These favourable variances are offset by the areas such as the impact of reduction in demand for Gravity at Salt Ayre **£26K** and a reduction in the amount reclaimed for engineers salaries for the Caton Road Flood Defence project **£13K**.

Movement in Year

As previously reported the significant movements for the year to date are, Salt Ayre's contract with the University of Cumbria (**£83K**), additional grant funding (**£88K**) being received in relation to Disabled Facilities Grants, additional licence fee income as a result of legislative changes in regard to Houses of Multiple Occupancy (HMO) (**£74K**). In addition, we have identified a saving on the Council's

Minimum Revenue Provision (MRP) (**£103K**) and have been allocated (**£35K**) from Central Government over the next 2 financial years in order to prepare for Brexit, (**£17.5K**) has been included in the full year forecast.

Conversely, budget pressures remain evident within several service areas, additional air quality and traffic count reports are required as part the Council's Local Plan **+£117k**, reduced occupancy levels on the markets continue **+£15K**, as is reduced activity within Building Control **+£62K**.

Although the corporate staff turnover provision was removed as part of PRT 2 and budgets realigned based on projected phasing of recruitment, the funding of temporary appointments to fill various positions within the Council continues to place pressure in the area.

Garden Waste Collection - The Council's garden waste collection service has generated £904K of income, but a shortfall (+£57K) is still forecast.

The following table illustrates the number of subscriptions gained in 2018/19 and the corresponding financial impact

	Estimated Subscriptions	Actual Subscriptions	Variance	Original Budget £	Actual £	Variance £
Paid prior to 01 April 2018	20,841	17,839	-3,002	833,640	713,560	-120,080
Paid during 2018/19	3,159	4,749	1,590	126,360	189,960	63,600
TOTAL	24,000	22,588	-1,412	960,000	903,520	-56,480

Housing Revenue Account (HRA) – Current underspent by **£87K**, which is forecast to increase to **£143K** by year-end. As reported previously a significant improvement in void property turnaround times which has led to forecast additional rental income (**£100K**). However, additional contributions have been made in respect of staff turnover savings (**£27K**) and direct revenue financing because of slippages within the HRA capital programme.

CAPITAL

Expenditure

General Fund – The Capital Programme remains unchanged from that reported at Quarter 2 totalling £15.251M.

Capital Movements		
Original Capital Programme		£11.400M
Slippage 2017/18	Slippage & accelerated expenditure from 2017/18	£0.515M
Quarter 1 Movements		£0.204M
Quarter 2 Movements		£3.132M
Quarter 3 Movement		£0.000M
Total Movements		£3.851M
Revised Capital Programme		£15.251M

Total spend and commitments to the end of December totalled **£5.191M** leaving **£10.060M** still to spend. A review of the programme has highlighted potential slippage of **£8.510M**. Details of variances over £500K are included below.

General Fund Capital Programme expenditure to date and forecast year-end outturn is included at **Appendix D**.

Service	Scheme	Forecast Year End Variance £	Comments
Environmental Services	Vehicle Renewals	(562,000)	The replacement of some vehicles have been deferred
Health and Housing	Disabled Facilities Grants	(1,178,000)	Forecast based on performance to date
Regeneration & Planning	Morecambe TH12: A View for Eric	(522,000)	Due to the late withdrawal of a partner, it has not been possible to identify an alternative suitable project before the end of the financial year. The remaining expenditure and related grant will therefore lapse.
	Canal Quarter	(2,000,000)	Amount originally allocated to make a bid to purchase land owned by British Land is no longer required. A bid for £550k to facilitate the purchase of alternative strategic land acquisition in Canal Quarter has been put forward for 2019/20
Resources	Corporate Property Works	(2,598,939)	Several schemes within this programme of works have been held back pending review as part of 2019/20 budget round.

Housing Revenue Account (HRA) – The HRA Capital Programme remains unchanged from that reported at Quarter 2 totalling **£4.481M**. Spend and commitments to the end of December totalled **£2.431M** leaving **£2.050M** still to spend. A review of the programme has highlighted potential slippage of **£114K**.

Details of the HRA Capital Programme expenditure to date and forecast year end performance is included at **Appendix E**.

Financing

General Fund

£5.713M of grants and contributions have been received against a revised budget of £6.328M, with capital receipts at the end of December 2018 of £41k; all of these receipts will be utilised in support of the Minimum Revenue Provision.

RESERVES

Details of movements in reserves totalling **£53K** are below. A full list of reserves

Budget Support Reserve – Approved allocations are below, which leave a current balance of **£1.729M** on the reserve.

	£000's
Opening Balance	1,734
ICT Azure Business Case	(5)
Closing Balance	1,729

Renewals Reserve – Approved allocation are below which leave a current balance of **£208K** on the reserve.

	£000's
Opening Balance	257k
SALC Swimming Pool Heating Control	(30)
Pool Car replacement	(19)
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Closing Balance	208

General Fund Unallocated Balances

Unallocated General Fund Balances remains unchanged from Quarter 2 at **£5.046M**

A full list of reserves and current forecast year-end balances are included at **Appendix F**. As part of the annual budget setting process, the s151 Officer is required to review the level and purpose of the Councils reserves to ensure they are appropriate for both the internal and external risks to which it is exposed.

LOCAL TAXATION

Council Tax – Current deficit of £599K (£94K deficit as at 31 March 2018). Main changes are:

- Deficit from previous year +£94K
- Reduced cost of Council Tax Support (£107K)
- Reduced charge for Second/Empty Homes +£107K
- Other Movements in Tax Base +£504K

In tax base terms, this equates to approximately 335 net chargeable Band D equivalent properties, bringing the total tax base to 41,417 gross properties.

Retained Business Rates – The latest position on business rates shows net income down by £1.171M when compared to the original estimate, after allowing for an increase in estimated appeals of £1.130M.

	Original £000's	Qrt 1 (June 18) £000's	Qrt 2 (Sept 18) £000's	Qrt 3 (Dec 18) £000's	Movement From Original Fav (-) / Adverse (+) £000's
Net Rates Payable	(64,487)	(65,398)	(64,767)	(64,446)	41
Appeals	3,123	4,132	3,821	4,253	1,130
Business Rates Income	(61,364)	(61,266)	(60,946)	(60,193)	1,171
City Council Retained Income (40%)	(24,546)	(24,506)	(24,378)	(24,077)	469
Less Tariff	18,848	18,848	18,848	18,848	-
Add Net Small Business Rates Relief Grant	(1,102)	(1,042)	(1,054)	(1,069)	33
Net Retained Income	(6,800)	(6,700)	(6,584)	(6,293)	507
Safety Net Payment	-	-	-	-	-
Baseline	(5,518)	(5,518)	(5,518)	(5,518)	-
Growth Above Baseline	(1,282)	(1,118)	(1,066)	(775)	507
50% Levy Payment	616	589	531	387	(229)
Total Retained Income	(6,184)	(6,111)	(6,053)	(5,906)	278

Overall, the total estimated Retained Income is **£278K** down on the original forecast due to the impact of the increase in appeals. This position will inevitably fluctuate during the year. The Business Rates Reserve will be used to negate the impact on the General Fund.

Appeals

Analyse Local currently provide our appeals data and suggest our exposure has increase by **£1.130M** to **£4.253M** from the original budget figure of **£3.123M**, a movement of **£432K** from Qrt 2. The reasons are due to an increase in general appeals, and a volume of specific appeals, regarding Automatic Teller Machines (ATMs) totalling **£517K**.

The s151 Officer is currently reviewing our provision for 2019/20 to ensure it is adequate to address the risk of successful appeals with particular reference to outages at Heysham Power Station and ATM's.

Future Risks

A legal challenge by 20 NHS Foundation Trust to allow them to claim charitable status, which attracts an 80% reduction in their Business Rates. The Council is not party to the initial action but should the case be successful its liability regarding Lancaster Royal Infirmary (LRI), if backdated to 2010 would be approximately **£925K**.

The Council opted out of joining the Lancashire 75% Business Rate Pooling pilot and so continues to enjoy the protection of the Governments Safety Net arrangements for any significant income loss, such as outages at Heysham Power Stations. From 2020/21 when the 75% Business Rate Retention Scheme is introduced nationally there is a risk that without a Safety Net arrangement the other Lancashire Pool members may continue not to propose suitable risk sharing arrangements and the Council may have to bear the full impact of the of the significant risk imposed by Heysham Power Station. This issue is not unique to Lancaster and the Council along with other Councils with nationally strategic assets such as Power Stations are continuing to raise this issue with Central Government.

Collection Performance

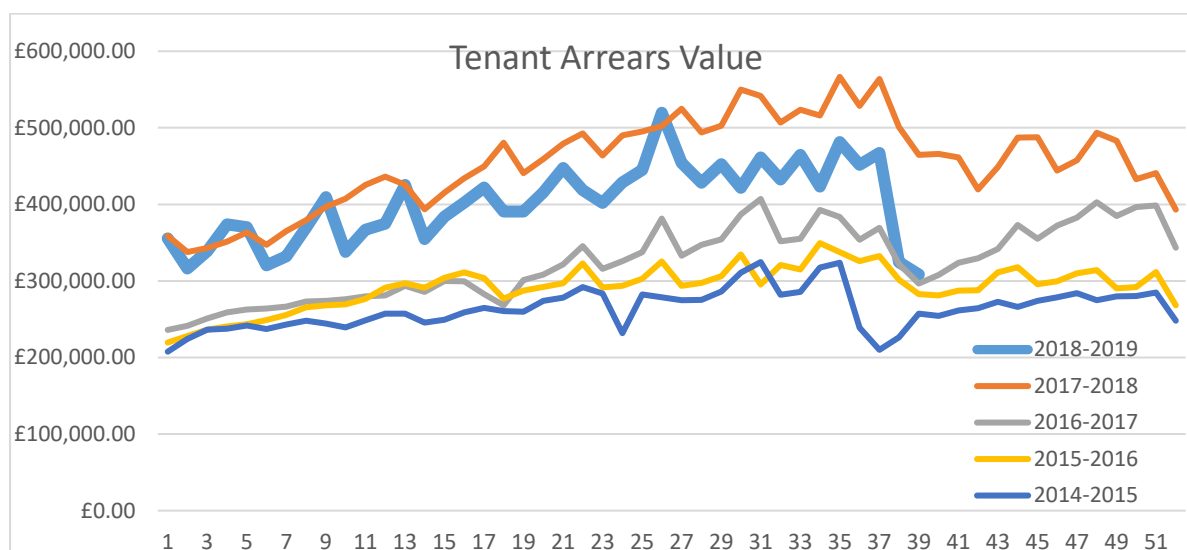
	Full Year Target	Qrt 3 Target	Qrt 3 Actual	Variance Fav (-) / Adverse (+)
Council Tax	96.1%	84.3	84.4	(0.1)
Business Rates	98.7%	79.9	79.9	0

Both Council Tax and Business Rates collection rates are in line with the annual profile, with the expectation the full year targets will be achieved.

No specific action is required at this point.

INCOME COLLECTION

Council Housing Rent Arrears – At the end of week 39 the level of current council housing rent arrears was **£308K** (2.3% of **£13.337M** rent debit). This represents a decrease of **£212K** on the previously reported Qtr2 figure of **£520K**, and a **£156K** (34%) reduction against 2017/18 Q3 arrears values (**£465K**). This reflects Council Housings increased focus on intervention, and a more intensive approach to income management.



Sundry Debts – At the end of December, the level of debt was **£2.671M**, which is a decrease of **£339K** from Qtr2. The bad debt provision (BDP) currently stands at **£2.491M**, which is **£57K** higher than the required level. No action is required at present. We will review our BDP as part of our year-end assessment.

SERVICE	< 28 Days	28-59 Days	60-91 Days	92-183 Days	184-364 Days	365+ Days	2018/19 QUARTER 3 TOTALS	Compared to 2017/18 Quarter 3 totals
	£	£	£	£	£	£		
Environmental Services	63,236	63,243	7,504	24,772	113,578	15,407	287,740	252,213
Regeneration & Planning	10,727	170	32,500	1,267	342	26,807	71,812	48,607
Resources	135,911	25,076	65,018	49,210	46,392	49,909	371,516	468,340
Health & Housing	24,251	1,338	20,296	11,707	26,791	23,795	108,178	79,727
Governance	-	225	-	885	-	967	2,077	500
Hsg Benefits (Revenues)	25,361	43,386	38,970	65,046	174,029	1,482,919	1,829,711	1,955,584
2018/19 Quarter 3 Totals	259,485	133,439	164,287	152,887	361,133	1,599,804	2,671,035	2,804,971
2018/19 Quarter 2 Totals	351,592	151,079	109,769	497,851	250,150	1,649,672	3,010,113	

CONTRACT PROCEDURE RULES AND OTHER EXCEPTIONS TO TENDER

Exceptions to Tender – There were two exceptions to tender in Quarter 3:

Microsoft Enterprise Agreement Renewal.

Renewal of the Councils Microsoft Enterprise licences via a direct award using the KCS framework in order to secure current prices.

Lancaster Canal Quarter Regeneration Preparation of a Strategic Regeneration.

Use of Homes England Framework, competition was carried out but from select list of suppliers.