

South Holland District Council

Financial Report for the quarter ending December 2015

Revenue Budget

General Fund

Total Budget requirement for the year is £12,403,000 as approved by Council on 20th February 2015.

Forecast out turn for 2015/16 is £12,159,000 (98%) which is £244,000 lower than budget and is analysed in Table 1. These savings will be assigned to the council tax reserve at the end of the year.

Table 1 –Revenue forecast Outturn

Major Variances	Expenditure (Under)/Over budget £'000	Income (Over)/ under budget £'000	Total (Over) /Under Budget £'000	Comments
Corporate Contingency	24	(55)	(31)	Brought forward from Q1
HRA service Review		(384)	(384)	Review of HRA service Costs
Recurring variance exercise	(60)	(18)	(78)	Agreed with budget holders
Homelessness grants budget	(28)		(28)	Commitments review
Lease mowers	(25)		(25)	New leased mowers savings
Members pensions	(29)		(29)	Pension scheme ceased
CPBS contract inflation	(39)		(39)	1% inflation not agreed
Recurring savings	(181)	(402)	(583)	
Devolution project	30		30	Greater Lincolnshire bid
Planning application income		(54)	(54)	Major applications
Legal services	(38)	(26)	(64)	Demand led service. 14/15
ICT invest to save	35		35	Oracle savings 20k savings
Salary Forecast	36		36	Invest to save - £157k cost
Investment income		(25)	(25)	Improved investment returns
Funding- Personal search fees		(57)	(57)	Windfall personal search fee
Funding-New Burdens		(19)	(19)	Additional new burdens
Environmental Services	37	(173)	(136)	Weekly collection grant /
Transfer from Insurance reserve		(37)	(37)	
Statutory accounting adjustments	1,660		1,660	Voluntary MRP (Table 2)
Transfer to Earmarked Reserves	100		100	Pride in South Holland
Transfer from earmarked reserves		(723)	(723)	Council tax reserve
Capital Expenditure financed from reserve		(164)	(164)	Useable Capital Receipts
One off adjustments	1,860	(1,278)	582	

Total corporate contingency	1,703	(1,735)	(32)	
Funding-forecast Q3		(202)	(202)	NNDR additional income
Funding-New Homes Bonus		(10)	(10)	Final grant determination
Sub total funding adjustments	0	(212)	(212)	
Total Forecast budget Savings	1,703	(1,947)	(244)	

HRA & Other Recurring Savings (£583,000)

Housing Revenue Account (HRA) Service Review (£384,000)

A review of all services provided to the HRA has been completed as part of the Medium Term Financial Plan for 2016-17 to 2019-20

Compass Point Business Services activities in respect of: Rent income; rent accounting; responsive repairs & maintenance and Capital Programme accounting were examined as additional management activity is present in all these areas. Apportionment of costs was further examined as our partner Authority (East Lindsey District Council) no longer has an active HRA. Additional costs of approximately £150k were identified and the cost allocation model adjusted accordingly.

Treasury management, including debt management is an integral part of the function of the HRA. This was identified separately under the Housing Subsidy Regime but was omitted from the budget and Business plan approved under self financing regulations. Cost of £75k including treasury advisory service has been identified (£43k in 2011 before additional borrowing of £67m) and this is now being correctly charged to the HRA.

Corporate & Democratic core costs have not been reviewed since the inception of self-financing and have been charged at £335k without adjustment. Corporate management budgets and Members activities & costs have been reorganised during this time and an additional £75k approx. is to be charged to the HRA based on an officer assessment of management & member time required for strategic management of the service.

Member's budgets for Area wide improvements are currently funded entirely from the General fund and a £19k contribution from the HRA based on good Landlord practise has been identified.

Landlord services within the HRA are also being examined in respect of core / non-core activities. Life-line alarms are classified as non-core and therefore management of the function is to be transferred to Community Development. As part of this transfer £65k of income from services to private residents has been identified which will be subject to commercialisation in the future and accordingly will be accounted for in the Community Development Budget. Other potential assets which benefit the wider community are currently being examined for inclusion in 2016/17 commercialisation projects. A separate report on garages / car parking spaces for rent is included on the agenda for cabinet on 16th February 2016.

The overall position of the HRA was examined in detail by the Governance & Audit committee on 21st January 2016.

Other Recurring Savings (£199,000)

All budgets are subject to a rolling review and additional savings have been identified, and agreed with budget holders, during the current budget setting phase of the Medium term Financial Plan.

The Members Pension scheme has been closed with no new members being admitted in accordance with the Local Government Pension Scheme (Transitional Provision, Savings and Amendment) Regulations 2014 which came into effect on 1 April 2014. Regulation 26 revoked the previous councillor provisions. Budget reduction is in respect of new council contributions no longer necessary.

CPBS contract inflation applied in the 2015/16 Budget has been deleted as it has been agreed that this can be financed from efficiency savings in the contract.

One off adjustments Net cost £582,000

Statutory Accounting Adjustments Net Cost £773,000

Between 2013 & 2015 the Waste collection fleet (30 vehicles) was replaced including 8 Refuse freighters which were financed from the capital element of the weekly waste collection support grant awarded in 2012. Lease funding was used previously for the fleet but this replacement programme was funded from cash balances rather than external financing. The use of these funds however constituted internal borrowing which is reflected in a charge to the revenue budget based on the Minimum Revenue Provision (MRP) policy. This policy was changed in 2014/15, in line with central government guidelines, with the charge to revenue being based on the useful life of the asset rather than a 4% flat charge as per previous guidelines. Net cost of replacement vehicles was £1,507k (after Grant funding of approx. £960k) and the useful life of the vehicles is set at 7 years for Depreciation & MRP purposes giving an annual charge to the revenue budget of approx. £215k. This charge contributed to the shortfall identified in the Medium Term Financial Plan in 2015/16 and a change to Financing is recommended to avoid future pressure in the budget from this acquisition as set out in table 2.

Detailed work on the General Fund Capital Financing Requirement (CFR) was carried out during the quarter which identified other internal borrowing from pre 2008 capital expenditure which also demands, under regulations, an MRP charge in future years. Other minor items relate to a scheme financed from borrowing and the identification of Finance Lease obligations.

Table 2 – Capital financing

Area	£ 000's	£ 000's	Comment
Refuse Vehicles	1,507		Borrowing Need (internal)
Pre 2008 Expenditure	362		Borrowing Need (internal)
Power Optimisation Project	21		Borrowing Need (internal)
Finance Lease obligations	13		Borrowing Need (internal)
MRP charge in 2015/16	(243)		Borrowing Repayment
Net Balance to be Financed		1,660	
In Year Savings	(773)		As per Table 1
Useable Capital Receipts	(164)		Recommended by PMP & PDP
Council Tax Reserve	(723)	(1,660)	One off charge
Net Balance to be Financed		0	

NB: Treatment of technical adjustments in the annual statement of accounts has been provisionally agreed with the external Auditors using voluntary MRP (Accelerated repayment of debt to avoid charges to the revenue budget in future years).

Due to invigorated Right to buy regulations annual sales of dwellings have increased to 20 from 7 assumed in the HRA Business plan. A portion of the receipts from these sales is available for capital expenditure in the Authority as defined in s11 of the Local Government Act 2003 (as amended). It is recommended that the policy of the council be confirmed in accordance with the provisions of the act i.e. useable capital receipts can be applied to any legitimate capital purpose.

The council tax reserve is able to bear this one off charge without any additional pressure on the revenue budget or the reserve position in respect of risks going forward. Other reserves or in year savings may be used if they become available during the closedown of the accounts in March 2016. Any such changes will be included in the Out turn report for the 2015/16 financial year.

Other one off net savings (£191,000)

Earmarked reserves have been reviewed during the quarter and several reserves are to be closed in respect of income received in advance.

All conditions of the weekly waste collection grant have been met and the balance of the grant of £173k has been released. This represents project costs that had not been charged correctly over the life of the grant. The Planning Reserve included fees received in advance of £154k and as all work associated with relevant applications has been completed the income has been released. The forecast for planning fees is now £654k which is £54k above budget.

The Pride in South Holland project is due to be completed in 2015/16. The results of the project have been provisionally reviewed and a further phase of activity is proposed for 2016/17. £100k from the environmental services savings is to be transferred to the council tax reserve as potential financing. The Street Cleansing standard is to be reviewed in 2016/17 together with the terms of reference for Grounds Maintenance with a view to incorporating the principles of the pride project into these functions within a revised specification for both services. The environmental services budget is being examined as part of the Moving forward programme and any changes associated with the pride project and the transformation review will be submitted as part of the Draft Budget & Medium Term Financial plan activity in 2016/17.

The Devolution bid and associated project activities for Greater Lincolnshire are in progress and is supported by external expertise at a cost of £30k for 2015/16. A further £30k is likely to be incurred in 2016/17.

Environmental services have three insurance claims in year and excess charges of £37k have been incurred. This has been financed from the Insurance reserve.

Other net savings of £94k include recovery of personal fee costs (£57k), additional investment income (£25k), New Burdens Grant (£19k) and a refund of 2014/15 legal costs (£64k) offset by invest to save costs in ITC (£35k) and senior salaries (£36k)

Funding (£212,000)

Additional income in this area is likely to be moved to earmarked reserves at the end of the financial year.

National Non Domestic Rates income is forecast £202k over budget. However the position in respect of appeals from 2005 & 2010 rateable valuation adjustments is not yet secure. Possible appeals from NHS trusts have been identified during the quarter and the provision for appeals is forecast at approx. £1.4m at the end of the year.

New Homes bonus does not support the base budget, with in year income being moved to reserves except for £262k agreed as part of the budget setting process and £24k to fund an empty homes officer post.

Revenues & Benefits expenditure is being closely monitored following the additional burden placed on the budget in 2014/15 from LA error and the subsequent loss of subsidy. Current performance is forecast to achieve budget in 2015/16 which is based on LA error being below the threshold in Housing Benefit regulations for Subsidy purposes.. Revised monitoring reports are in progress and a full analysis of the area has been compiled. However empirical data indicates adjustments are made post audit which is carried out in October / November of each year and therefore additional checks are being performed in all areas of the system to verify the position and underpin the latest forecast. The Council Tax reserve contains an operational risk balance for items of this nature.

Members Budgets

Members have a budget of £15,000 for the term of office (£111k p.a. in the budget). These are closely monitored and reported on in the course of the year. Year to date expenditure is £49k any amount under or over the budget will be transferred to / from an earmarked reserve at the end of the financial year.

Housing Revenue Account

Total Budget requirement for the year is £391,000, £147,000 as approved by Council on 20th February 2015 and £244,000 of capital expenditure carried forward from the 2014/15 programme approved by council on 24th June 2015.

Forecast out turn for 2015/16 is nil and main variances are analysed in Table 3

Table 3: HRA Major Variances

	Expenditure	Income	Total	
	£'000	£'000	£'000	Comments
Approved HRA net expenditure	147		147	
C/F of capital budgets from 14-15	244		244	Capital programme 14-15 c/f into 15-16 (approved Q4)
Revised budget	391		391	
Service Charges	52	747	799	Recharges deleted
Supervision & Management	150		150	Revised Central services costs
Revised Corporate & Democratic Core costs	75		75	management & members changes since 2011/12.
Contribution to Members Budgets	19		19	Contribution to area wide improvements
Debt Management	75		75	Treasury Activity including investments
Supervision & Management	(37)		(37)	Vacancy management
Property maintenance	(973)		(973)	Revised Position in line with 2014/15 Out turn and

				informed by a mid year review of all work streams
Bad debt provision	(273)		(273)	Revised provision in line with 2014/15 Out turn and informed by a mid year review of collection performance
Revenue contributions to Capital Expenditure	(166)		(166)	Revised capital programme & Future investment
London Consortium share		(75)	(75)	Framework agreement for Capital Expenditure
Financing Charges	(52)	(9)	(61)	HRA share of additional investment income & Revised Borrowing costs
Rent Income - Non Dwellings		(24)	(24)	Improved usage of assets
Rent Income - Dwellings		100	100	Impact of increased RTB sales in 2014/15 & 2015/16 (20 units per year).
Forecast Outturn	(739)	739	0	
Forecast Variance to revised budget	(1,130)	739	(391)	

This forecast represents no change from the Quarter 2 position which was informed by a substantial review of operations that was examined in detail by the Governance & Audit committee on 21st January 2016.

Further activities in respect of the integration of General Fund and the Housing service are in progress as part of the Moving Forward Transformation programme.

Spalding Special Expenses

Expenditure relating to Spalding Special expenses forms part of the Council's General Fund budget and is included in Table 1 above. The approved budget for 2015-16 is £218,650 of which £195,000 is funded by Spalding Taxpayers and the remainder by council tax support grant and reserve. The Band D charge for the financial year being £23.10. This represents no change to the Quarter 2 position.

Balance Sheet

General Fund Reserve Balances

Balances are monitored in year by the S151 Officer and interim chief accountant and a review of all balances has been completed during the quarter.

Budget Managers have been asked to confirm their intended use of earmarked reserves during 2015-16 and any non-statutory earmarked reserves are being specifically examined for purpose.

The current projection of balances in reserve as at 31st March 2016 is shown in Table 6 and this closes several reserves that are no longer necessary. All minor amounts carried forward by services have been transferred into an Operational risk balance.

The balances within the table can finance revenue and capital expenditure unless there are specific grants for capital within any individual reserves (Forecast includes 100% expenditure of existing Grants in 2015/16).

Table 4: 2015/16 Reserve movements

Ref	Reserve	Balance 31st March 2015	Contributions	Expenditure	Transfers	Balance 31st March 2016
1	Council Tax Funding	(4,480,129)	(730,770)	788,203	2,077,132	(2,345,563)
2	Transformation	(1,818,940)	0	839,331	(36,454)	(1,016,063)
3	GF Insurance	(256,767)	0	36,767	0	(220,000)
4	Repairs & Renewals	(200,924)	(136,000)	254,342	(66,441)	(149,023)
5	Investment & Growth	0	(694,330)	795,374	(3,401,002)	(3,299,958)
	Earmarked Reserves	(6,756,760)	(1,561,100)	2,714,017	(1,426,764)	(7,030,607)
	Affordable Housing	(118,000)	0	0	118,000	0
	Climate Change	(47,154)	0	0	47,154	0
	Community Cohesion	(19,189)	0	19,189	0	0
	Planning Reserve	(366,872)	0	236,872	130,000	0
	Section 106	(40,080)	0	0	40,080	0
	Spalding Special Expenses	(153,823)	0	17,000	136,823	0
	Property Acquisition Reserve	(1,000,000)	0	0	1,000,000	0
	Emergency Planning Reserve	(10,000)	0	10,000	0	0
	Capital Financing	(761,708)	0	807,000	(45,292)	0
	Closed Reserves	(2,516,825)	0	1,090,061	1,426,764	0
	Total GF Specific Reserves	(9,273,585)	(1,561,100)	3,804,078	0	(7,030,607)

NB: Balances include all movements proposed in this report

In addition to these specific reserves there is a General Fund working balance of £2,023,000.

Council Tax funding is used for operational risks including loss of Housing Benefit subsidy, Rates Appeals and other movements required by services. Any release of this reserve to services will be controlled by the introduction of a business case approach in 2016/17 which will be administered by the s151 officer.

Transformation is specifically for the Moving Forward Programme and will be managed by the Transformation Board.

Insurance is required for excess costs on claims that may be incurred by services.

Repairs & Renewals is a medium term mechanism for planned maintenance mainly in respect of council buildings and is administered by Asset & Property.

Investment & Growth will be administered on a Business case basis for all applications which will be examined in the first instance by the Strategic Growth Group before submission to the Executive management team and Cabinet.

This review of balances will be completed at the end of the Financial Year as part of the Annual Statement of Accounts activity and a full analysis of all movements will be presented to Cabinet in the annual out turn report for approval.

Council Tax Collection

At the end of December 2015, the collection rate for council tax was 86.10% against a collectable debit of £39.1m.

Table 5: 2015 / 16 Collection Performance

	October	November	December
Year	% Collected	% Collected	% Collected
2015-16	67.60%	76.80%	86.10%
2014-15	67.74%	77.02%	86.29%

Business Rates Collection

At the end of December 2015 the collection rate was 85.05% against a collectable debit of £27.4m.

Table 6: 2015 / 16 Collection Performance

	October	November	December
Year	% Collected	% Collected	% Collected
2015-16	67.10%	75.86%	85.05%
2014-15	67.70%	75.75%	85.03%

All debt is currently being reviewed in preparation for the end of the financial year. This will entail a 100% collectability review and this in turn will inform a write off report.

This write off report will be issued in June 2016 for approval and the details of the collectability review results will be included in the 2015/16 Out Turn report.

HRA Reserve Balances

The HRA General reserve can be used for revenue or capital purposes and the Major Repairs Reserve can be used for capital purposes including repayment of debt.

The quarter three position reflects no change to the previous position reported in December 2015.

As part of an overall Treasury management review the Capital Financing Requirement of the HRA will be examined in 2016/17 together with available borrowing capacity to determine the limit of borrowing available which could potentially be used to support an increase in the Affordable Housing programme in the future.

Table 7: Projection of Reserve Balances

Housing Revenue Account Reserves	Total £000's
Cumulative Working Balance	8,968
Budget 2015-16	(147)
Rollover of capital programme from 2014-15 approved	(244)
Forecast outturn variance	391
Forecast balance on the HRA at 31.3.16	8,968
Insurance Reserve	200
Major Repairs Reserve	2,409
Total HRA reserves at 31.3.16	11,577

Housing Rent Collection (HRA)

At week 40 the collection rate was 99.07% against a collectable debit of £10.1m.

Table 8: Rent collection performance

Key performance Indicator	Collection performance 2014-15 Week 40	Collection performance 2015-16 Week 40
% of income collected	99.79%	99.07%
Bad Debt write off	£9,510	£33,224

All debt is currently being reviewed in preparation for the end of the financial year. This will entail a 100% collectability review and this in turn will inform a write off report.

This write off report will be issued in June 2016 for approval and the details of the collectability review results will be included in the 2015/16 Out Turn report.

Capital Budget

All programmes have been reviewed and a revised position statement is shown below.

Table 9 – Forecast out turn

	Original Budget	Approved Budget	Quarter 3	Forecast	Variance
	2015-16	2015-16	Actuals	2015-16	
	£000's	£000's	£000's	£000's	£000's
Commissioning					
Priory Road					
Assets and Property - Other	99	60	8	25	(35)
ICT Schemes	330	359	4	52	(307)
Housing - Gypsy and Travellers Sites	550	550	68	275	(275)
Private Sector Housing	451	400	134	350	(50)
Environmental Services	49	49	0	0	(49)
Environmental Health	30	83	83	83	0
Planning					
Total Commissioning	1,509	1,501	297	785	(716)
Place and Governance					
Community Development - Leisure	40	50	0	4	(46)
Community Development -CCTV	0	10	0	10	0
Economic Development	607	1,503	520	1,449	(54)
Democratic Services	0	57	0	57	0
Total Place and Governance	647	1,620	520	1,520	(100)
HRA					
Public Sector Housing					
Improvements & Enhancements of Council Dwellings	6,248	6,248	2,443	4,108	(2,140)
Improvements to Waste water Treatments	60	60	0	60	0
Other	533	631	528	727	96
Disabled Adaptations - Public	395	466	162	466	0
ICT Schemes	20	95	37	85	(10)
Total HRA	7,256	7,500	3,170	5,446	(2,054)
Grand Total	9,412	10,621	3,987	7,751	(2,870)

Table 9 – Forecast out turn

	Approved Budget	Forecast	Variance
	£'000	£'000	£'000
Use of Capital Receipts	697	673	(24)
Capital Grants and Contributions	1,510	1,235	(275)
Direct Revenue Funding/Use of Reserves	8,414	5,843	(2,571)
Total	10,621	7,751	(2,870)

General Fund Capital Programme

Project reviews have been completed in respect of expenditure and financing in the current year. The 2nd phase of the review is in progress and is examining the original estimates for each project to determine likely costs going forward. These will be analysed in respect of direct works, external fees & internal fees as an initial step and project financial records will be introduced as part of monitoring for 2016/17 onwards.

This review will also inform any requests for carry forward of budget which will be included in the 2015/16 out turn report

ICT schemes are being re-examined technically to ensure they meet all the requirements of the Digitalisation theme within the Moving forward Programme.

The Gypsies & Travellers sites project has suffered some delays in respect of discussions with Highways and provision of electricity to site. Project has commenced and is forecast to be completed by the end of June 2016.

Economic Development (ED) projects include a Broadband contribution to Lincolnshire County Council at £607k. Officer discussions from both authorities are in progress to finalise this cost as the project is complete. Work on industrial units on Creese Grove is due to commence in March 2016 with a total budget of £60k and forecast expenditure of £6k.

Grants for Growth £520k is also included in the ED forecast but this was omitted from the original budget. All activity is funded from external grants.

Discussions on the acquisition of Open space in Moulton Park are at an advanced stage and £316k has been included in the ED forecast. This will be funded from the Investment & Growth reserve. A portfolio holder decision is expected in February 2016 to confirm this purchase.

Discussions on the acquisition of a new microphone system for the council chamber are at an advanced stage and £57k has been included in the forecast. This will be funded from the Capital Financing reserve. A portfolio holder decision is expected in February 2016 to confirm this purchase.

HRA Capital Programme

All works to stock activities have been examined and accounting treatment between revenue and capital redefined in line with component accounting regulations.

Planned maintenance is funded directly from revenue and includes items such as External Painting & Gas Servicing. Asbestos management was previously classified as capital expenditure but as no asset creation is present this has been re-classified as planned maintenance.

The Decent Homes replacement activities are based on information from the HRA Codeman asset management system. The system includes representative useful asset life assumptions and this in turn generates a forecast for replacement. The system has become unstable due to lack of support and a new system is currently being installed.

The current budget is based on this forecast data but the actual management system includes a further step which is to determine condition of the component.

In order to ensure that only assets that require replacement due to failure are actioned in the programme a change in useful life criteria is proposed. This will extend the replacement time for existing records which will allow individual component condition to be determined before replacement action is considered. The change will also reflect actual experience of asset life since the inception of self-financing to the HRA.

It is not anticipated that any of the reductions in the HRA programme will result in carry forward requests at the end of the financial year.

The projection shown in table 9 is after examining all existing Codeman forecast records in respect of condition to ensure that only assets that require replacement based on this criteria are in the programme.

Useful Life data for all Dwelling components was approved by Council in 2012 and it is recommended that the changes identified in Table 10 are adopted for all future programme replacements.

Table 10: Useful life Criteria – HRA Dwelling components

Component	Existing Useful Life	Proposed Useful Life	Comments
Roof	60	72	Concrete tiles
Kitchen	20	25	As near neighbour – EL
Bathroom	25	30	As near neighbour – EL

Further changes to life cycles may be necessary due to changes in technology in respect of Central Heating systems which are currently being examined.

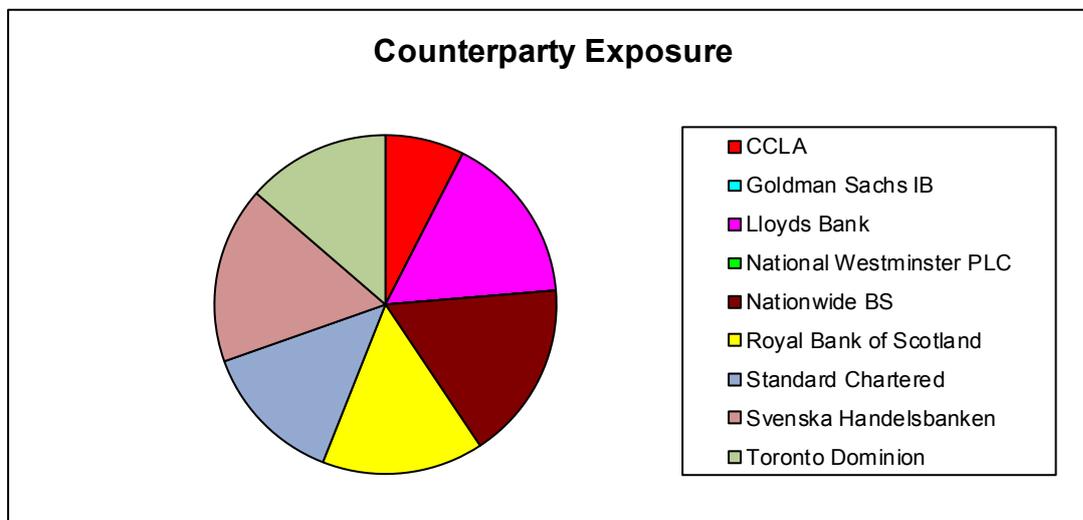
This was discussed and examined in detail by the Governance & Audit committee on 21st January 2016 in conjunction with the Housing Landlord Manager.

Treasury

Security

The Council has not adopted any formal benchmarks for the management of risk as Officers believe that decisions on counterparties and maximum investment levels are adequate to monitor the current and trend positions and amend the operational strategy to manage risk as conditions change. The Council uses the creditworthiness service provided by Capita Asset Services which provides a maximum duration for investments depending on the colour rating calculated for each financial institution. All investments held by the Council are within the recommended maximum duration.

The chart below shows how the Council's funds are spread between differing counterparties.



Cash

The Council's average level of deposits at the end of Quarter 3 was £32.4m. As at 31st December the Council had £7.4m instant access cash available to meet cash flow requirements.

Yield

Budget Interest 2015-16	£154,800 (£126k General Fund and £28.8k HRA.)
Actual Interest achieved to 31/12/15	£168,600
Estimated Outturn for 2015-16 HRA.)	£220,000 (£162.6k General Fund and £37.4k HRA.)
Target yield (Average 3 month LIBID)	0.43%
Actual Yield achieved to 31/12/15	0.69%
Actual Yield in 2014-15	0.645%
Actual Yield as at Q3 2014-15	0.634%

External Borrowing

The Council borrowed £67.456m from the PWLB on 28th March 2012 to meet its obligations under the Housing Revenue Finance Reforms. This was borrowed for a period of 50 years on a maturity basis at a rate of 3.48%. No new borrowing has been undertaken or is planned this financial year.