

South Holland District Council

Financial Report for the quarter ending December 2016

Introduction

This report provides an update on the current position in relation to the forecast 2016-17 financial outturn for the authority.

This report and its subsequent scrutiny is part of the good financial management within the Council. The budget monitoring process is one of the most important financial controls and ensures that actual expenditure and income is measured against approved financial plans. The process ensures that any areas of under or over spend are recognised as early as possible so that corrective action or re-allocation of resources can take place.

Given the current economic climate and the potential levels of financial risk and uncertainty that exist within the Council's capital and revenue budgets, it is important that financial monitoring is closely scrutinised by members and officers throughout the organisation.

The current report reflects work completed to date in respect of the Quarter 3 (December 2016) position based on a detailed review of the current ledger position and feedback from managers.

This report has four sections:

- Section 1 – General Fund Revenue budget
- Section 2 – Housing Revenue Account budget
- Section 3 – Capital budget
- Section 4 – Treasury update

Section 1 – General Fund Revenue Budget

The table below details the forecast outturn against the revised budget for 2016-17 of £11.594m. Significant variances are detailed in Table 2. The forecast outturn is estimated at £0.237m (surplus), below the original budget.

Table 1 - Forecast Revenue Outturn

	Original Budget £'000	Revised Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Commercialisation				
Commercialisation	160	129	117	(12)
Economic Development	142	175	170	(5)
Environmental Health	630	621	670	49
Finance	866	843	854	11
Revenues and Benefits	781	781	749	(32)
Total - Commercialisation	2,579	2,549	2,560	11
Place				
Assets and Property	72	63	77	14
Building Control	135	107	104	(3)
Community Development	1,903	1,837	1,975	138
Housing	451	443	450	7
Environmental Services	2,872	2,915	3,242	327
Planning	32	(40)	(282)	(242)
Total - Place	5,465	5,325	5,566	241
Strategy and Governance				
Corporate Improvement and Performance	76	71	75	4
Communications	-	(10)	3	13
Corporate Management	270	489	587	98
Democratic Services	1,170	1,086	1,079	(7)
HR	442	442	435	(7)
IT and Customer Services	-	(3)	105	108
Total – Strategy and Governance	1,958	2,075	2,284	209
Corporate Contingency	-	322	-	(322)
Internal Drainage Boards and Parish Precepts	2,988	2,988	2,988	-
Transfers to/from Reserves	(615)	(715)	(381)	334
Investment Income	(206)	(206)	(138)	68
Capital Adjustments	(575)	(744)	(1,195)	(451)
Total Cost of Services	11,594	11,594	11,684	90
Financing				
Government Grants	(3,558)	(3,558)	(3,558)	-
Council Tax	(5,272)	(5,272)	(5,272)	-
Retained Business Rates	(2,764)	(2,764)	(3,091)	(327)
Total Financing	(11,594)	(11,594)	(11,921)	(327)
Variance	-	-	(237)	(237)

The table below shows a summary of some of the main variances within the General Fund. Business partners are currently working with Budget managers, setting 2017-18 estimates continuing work on recurring variances and ongoing savings.

Table 2 – Significant Variances 2016-17 forecast outturn

Major variances	Expenditure (under)/ over budget £'000	Income (over)/ under budget £'000	Total Under / (over) budget £'000	Comments
Recurrent service budget savings	(322)		(322)	Various in year budget saving adjustments were made across a wide variety of service areas (e.g. £100k increased planning income, £53k reduced budgets on vehicle and transport costs, £102k across various supplies and services and £24k on third party payments). These budget adjustments have been taken into a corporate area as an in year saving. (These savings will only be reflected in the 2017-18 estimates where they are deemed to be achievable on an ongoing basis).
Employee Costs	106		106	Employee costs are currently forecast £106k over budget. Further work is underway to determine the final impact on the General Fund.
Premises Costs	55		55	Repairs and maintenance £19k over (Ayscoughfee gardens and West Marsh Road depot) Homelessness housing units - £11k over on void repairs and decorations Electricity and gas £12k over - Ayscoughfee Hall
Members Allowances	15		15	Allowances increased for members after budget agreed for the year
Impairment Allowance for bad debts	(50)		(50)	Increased value of £23k for Sundry debts offset by a reduced value of £73k in council tax and housing benefit overpayments
Lincs legal and other legal costs	9		9	Mainly in Planning
Banking Charges	15		15	Card payment charges and banking costs – budget set too low compared to previous years outturn levels of spend
Licence fees	18		18	Car parking enforcement – contract to pay for administration of enforcement notices but no notices being issued so no offsetting income.
Professional and Contractors Fees	(30)		(30)	Mainly in planning and land charges – reduced estimated use of these services
Planning Income		(200)	(200)	Planning income at end of December is £762k compared to full year revised budget of £700k. £900k is estimated full year income. General uplift in activity.
Building Control Fees		(20)	(20)	General uplift in activity
HB Admin grant		(12)	(12)	Local Council Tax Scheme grant budget set too low compared to amount notified after budgets agreed.

Major variances	Expenditure (under)/ over budget £'000	Income (over)/ under budget £'000	Total Under / (over) budget £'000	Comments
Interest Income		68	68	General Fund's share of reduced forecast for returns on investments (Rates reduced in the market and impact of interim investment policy limiting investments to a maximum of 1 month).
Court Income		55	55	Budget increased in 2016-17 by £30k compared to levels of income achieved in 2015/16 – Not expected to be able to deliver this increased level of income.
Net of other variances across income and expenditure	(13)	(2)	(15)	
Use of Reserves	334		334	Transfer of additional NNDR levy to Council Tax Reserve for use to offset 2017-18 deficit
Net Funding variance		(327)	(327)	Reduced NNDR levy due to increased set aside for Power Station appeals (£325k) and other net movements across Council Tax and Business Rates (£2k).
Total variations to Budget	137	(438)	(301)	
Compensation claim	64		64	Local Government Ombudsman local settlement compensation payment. £6k to be met from in year Planning Service revenue savings and balance from General Fund Reserve (£64k)
	201	(438)	(237)	

Table 3 - GENERAL FUND RESERVES

Reserve	Balance 1 April 2016 £'000	Transfers to Reserves £'000	Transfer from Reserve £'000	Balance 31 March 2017 £'000
General Fund Working Balance	2,064	301	(64)	2,301
Specific Reserves				
Council Tax Reserve	2,704	341	(1,508)	1,537
Insurance Reserve	220	-	-	220
Investment and Growth Reserve	3,305	1,569	(50)	4,824
Moving Forward Reserve	973	-	(694)	279
Replacement and Refurbishment Reserve	239	136	(175)	200
Total – Specific Reserves	7,441	2,046	(2,427)	7,060

Investment and Growth Reserve

The contribution to the reserve represents New Homes Bonus grant received in year less £286k which has been used to support in year General Fund expenditure. This reserve will be used in future years to support the Council's capital expenditure.

Council Tax Reserve

An amount of £970k has been transferred from the council tax reserve to offset the Collection Fund NNDR deficit recognised in the General Fund in 2016-17 with an additional £268k to offset an anticipated NHS Mandatory Relief claim being received by the Council. Further transfers from the reserve are expected to finance Local Development Plan Costs (£75k) and Pride project expenditure (£100k).

Additional information to support forecasts:**1. 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 2016-17 is £200,782, which is funded by Spalding Taxpayers, which gives a Band D charge for the financial year of £22.99. There are no significant issues to report in Quarter 3.

2. External Funding - Collection Funds**Council Tax**

The Council Tax collection fund account has a forecast surplus of £510k, with SHDC's share being £61k.

Business Rates

The Business Rates collection fund account has a forecast deficit of £1.432m, with SHDC's share being £573k. The current net rates payable position is £512k higher than estimated at NNDR1, £763k estimated for mandatory relief for NHS appeals not now pursued contributes to this. The increase in provision for appeals for 2016-17 is £3.200m; £2.715m of this is due to increases in the provision for the two power stations (see below).

Business Rates – Power Stations

SHDC use a third party, Analyse Local, to estimate the potential losses as a result of appeals against rateable values of properties, based on comparable cases nationwide. The provision for appeals for the two power station assessments was £2.523m at 31st March 2016, based on an estimated reduction in rateable value of just over 7%, with appeals backdated to 01/04/2010. The Sutton Bridge power station assessment has been amended during 2016-17, to include the pipeline to the power station within this assessment, although this has not increased the rateable value. The information from Analyse is used to calculate the revised appeals provision on a monthly basis, and the power stations are being closely monitored, with additional provisions being provided during the year of £2.715m. This takes into account the additional provision required for 2016-17, and also an increase in the estimated potential rateable value decrease, to 10.1% for Spalding, and 14.7% for Sutton Bridge. The forecast provision required for both power stations at 31st March 2017 of £5.237m is 77% of the total provision of £6.845m.

Section 2 – Housing Revenue Account Budget

The table below details the forecast outturn against the original budget for 2016-17.

Table 4 – HRA Forecast Revenue Outturn

Area	Original Budget £'000	Revised Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Rent Income - Dwellings	(15,233)	(15,233)	(15,300)	(67)
Charges for Services and Facilities	(948)	(1,129)	(1,135)	(6)
Contributions to Expenditure	(68)	(37)	(51)	(14)
Other Income	(13)	-	-	
Total Income	(16,262)	(16,399)	(16,486)	(87)
Repairs and Maintenance	2,726	2,877	2,789	(88)
Supervision and Management	4,700	4,678	4,508	(170)
Rents, rates, taxes and other charges	49	57	49	(8)
Depreciation	1,595	1,595	2,296	701
Debt management expenses	75	75	75	-
Movement in the allowance for bad debts	120	120	120	-
Total Expenditure	9,265	9,402	9,837	435
Contribution from Operations	(6,997)	(6,997)	(6,649)	348
Investment Income	(62)	(62)	(62)	-
Interest Payable on £67.456m	2,347	2,347	2,347	-
Transfer to Major Repairs Reserve for Capital Investment	4,712	4,712	4,364	(348)
Net (Surplus)/Deficit	-	-	-	-

Housing Rents

A 1% rent reduction has been applied in accordance with Government Policy and was effective from the 1 April 2016.

Depreciation

A change in accounting policy to depreciate individual components within Council Dwellings has led to a significant increase in depreciation.

Major Repairs Reserve

The projected in year surplus after accounting for interest payments/receipts has been set aside in the Major Repairs reserve to finance current and future capital investment. This will maintain the HRA working balance at £8.968m. This reflects current practice to maximise capital resources,

	£'000	£'000
Balance as at 1 April 2016		2,609
Transfers from the HRA		
Depreciation	2,296	
Funding set-aside for Capital Investment	4,364	6,660
Financing of Capital Expenditure		(3,914)
Forecast Balance as at 31 March 2017		5,355

Section 3 – Capital Budget

This section reports on:

- Quarter Three outturn against 2016-17 approved capital programme, and
- Risks, issues and key messages.

Table 5 – Forecast Capital Outturn

Project/Scheme	Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
General Fund			
ICT	-	184	184
Economic Development			
Growth Fund	50	50	-
Broadband Lincs	-	36	36
Housing General Fund			
Travellers Sites	-	330	330
Disabled Facilities Grants	325	458	133
Decent Homes Unfit and Disrepair	75	75	-
Welland Homes	2,051	931	(1,120)
Total General Fund Programme	2,501	2,064	(437)
Housing Revenue Account			
Decent Homes	3,783	3,183	(600)
Major Area Schemes	388	408	20
ICT	98	28	(70)
Aids and Adaptations	450	250	(200)
Affordable Housing			
New Build	1,375	65	(1310)
Purchase of Units	920	-	(920)
Buy Back – Shared Ownership	165	-	(165)
Total Housing Revenue Account Programme	7,179	3,934	(3,245)
Total Programme	9,680	5,998	(3,682)
Financing			
Borrowing - Welland Homes	(2,051)	(931)	1,120
Capital Receipts	(873)	(204)	611
Grants and Contributions	(400)	(863)	(463)
Major Repairs Reserve	(6,306)	(3,914)	2,392
Direct Revenue Financing General Fund	(50)	(86)	(36)
Total Financing	(9,680)	(5,998)	3,682

Table 6 - Explanation of variance and required slippage

Project/Scheme	Slippage from 2015/16 £'000	Over/ (under) spend £'000	Slippage into 2017-18 £'000	Explanation/Comments
General Fund				
ICT	305	61	(182)	Projects currently on hold awaiting SHDC ICT infrastructure Strategy (105k). Estimated 166k forecast assumed for Infrastructure review agreed at Council in December 2016. Digital Vision project to be slipped into 2017/18.
Assets and Property	28		(28)	15-16 Council Chamber Digital/Audio Equipment upgrade. Project currently on hold due to Priory Road Project and as a result requests the transfer of £28k to 2017/2018.
Economic Development				
Broadband Lincs	36			The Lincolnshire Broadband project is in progress with measured installations 94% complete. The remaining cost to the scheme is due to be paid before the 31 st March 2017
Housing General Fund				
Travellers Sites	408		(78)	The Spalding Travellers site project is in progress. There is a temporary site to be constructed in Long Sutton and this is due to commence in April 2017 following consultation.
Disabled Facilities Grants	133			Increase in processing applications and requests in 16-17
Welland Homes			(1,120)	Expected outturn for 2016/2017 £931k to enable the purchase of 14 units to be completed before March 2017. The balance is requested to be transferred to 2017/2018.
Total General Fund Programme	910	61	(1,408)	
Housing Revenue Account				
Decent Homes		(600)		Kitchen and Bathroom contract start date delayed resulting in a £500k underspend. Central Heating is expected to be £100k underspent at the end of the year.
Major Area Schemes		20		Additional costs in relation to site variations on The Square
ICT		(70)		PIMMS (Asset Management Software) budget no longer required as costs accrued in 15-16
Aids and Adaptations		(200)		Increase in cases which are not practical for adaption.

Project/Scheme	Slippage from 2015/16 £'000	Over/ (under) spend £'000	Slippage into 2017-18 £'000	Explanation/Comments
Affordable Housing				
New Build			(1,310)	Delay in the approval to progress the scheme/rehome the tenants on Weston Redevelopment Scheme. Building contract period expected to be between September 2017 and December 2018. Request for budget variance to be slipped into 2017-18.
Purchase of Units			(920)	Officers are presently developing a number of proposals that will bring about opportunities for the council to invest its capital affordable housing budgets into new stock that will service the council's Housing Revenue Account.
Buy Back Shared Ownership		(165)		Please see above
Total HRA Programme		(1,015)	(2,230)	
Total Programme	910	(954)	(3,638)	

Section 4 – Treasury

This section reports on:

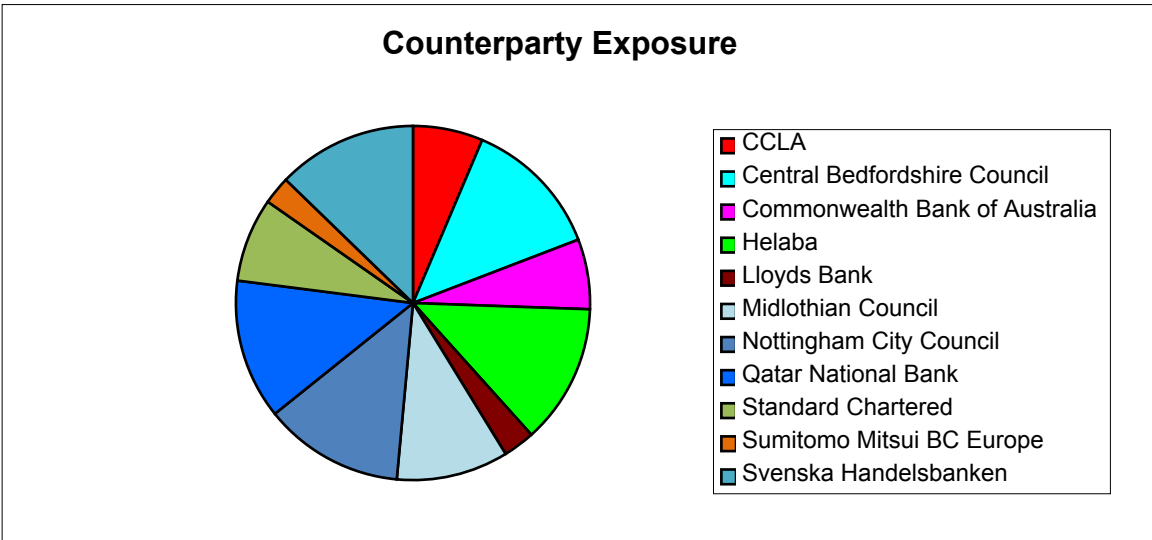
- Security, Liquidity and Yield of Investment portfolio
- Current Debt Position
- Risks, issues and key messages

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 were within the recommended maximum duration at the time the investment was made.

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



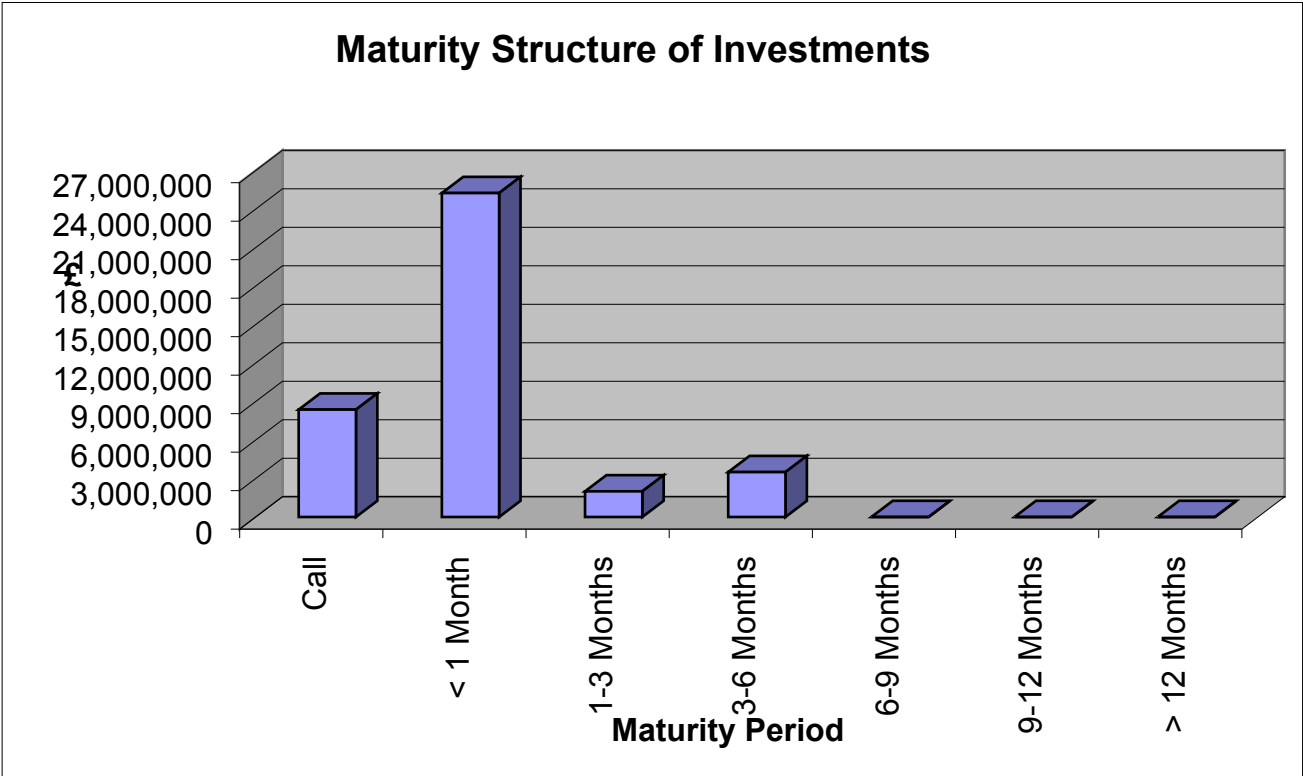
Liquidity

Cash

On 27th July 2016 Council approved an interim change to the Treasury Management Strategy. It was agreed that as funds were returned from counterparties they will be reinvested for a maximum period of 1 month while cash flow requirements for Welland Homes were being finalised.

The Section 151 Officer was also given delegated authority to amend counterparty limits to accommodate the additional balances held on a short term basis. As at 31st December 2016 the only limit that has been increased is the CCLA Money Market Fund which has been increased from £5m to £10m.

The Council's average level of deposits as at Quarter 3 was £37m. As at 31 December 2016 the Council had £8.3m instant access cash available to meet cash flow requirements. The table below shows the amounts held in relation to the remaining period to maturity.



Yield

Budgeted Interest 2016-17	£267,600 (£205.6k General Fund and £62k HRA.)
Actual Interest achieved to 31/12/16	£169,196
Estimated Outturn 2016-17**	£200,000
Target yield (Average 3 month LIBID)	0.340%
Actual Yield achieved to 31/12/16	0.606%
Actual Yield outturn for 2015/16	0.710%
Actual Yield as at Q3 2015/16	0.690%

** The estimated outturn of £200,000 excludes any Welland Homes transactions. Adjustments will be made to this forecast once the timings of such transactions become known.

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 during the financial year.