

South Holland District Council

Financial Report for the quarter ending June 2017

This report has four sections

- Section 1 – General Fund Revenue budget
- Section 2 - HRA Budget
- Section 3 - Reserves
- Section 4 – Capital budget
- Section 5 – Treasury update

Section 1 – General Fund Revenue Budget

Based on the information as at 30 June 2017, Table 1 below details the forecast outturn against the approved budget for 2017-18 of £11.4m.

Significant variances to the approved budget are detailed in Table 2.

The forecast outturn is estimated at a £63k underspend compared to the original budget.

Table 1 – Forecast Revenue Outturn

	Budget £'000	Forecast Outturn £'000	Forecast Variance (under)/over £'000	Comments
Commercialisation				
Commercialisation	30	30	0	
Economic Development	91	91	0	
Public Protection	506	536	30	Potential legal costs from court case (offset by projected reduction in overall legal spend when viewed corporately – see democratic services).
Finance	(246)	(279)	(33)	£162k reduction on CPBS contract price Additional agency costs £65k to cover vacant post (offset in part against vacant salary costs in DCHX budgets). Impairment allowance for sundry debts increased by £23k due to increased levels of debt. Ongoing position may change. Bank Charges potentially £34k overbudget. £19k of this is increased AllPay charges for collection of income. (This will be offset by future reduced costs from the closure of the cash office, as reported to members).
Revenues and benefits	771	767	(4)	
Total	1,152	1,146	(6)	
Commercialisation				

	Budget £'000	Forecast Outturn £'000	Forecast Variance (under)/over £'000	Comments
Place				
Assets and Property	236	225	9	Business rates £6k above budget
Building Control	118	122	4	
Community Development	1,351	1,307	(44)	£40k salary underspends (leisure services manager post held vacant to cover property manager post within new Delivery Unit) £18k CCTV cost savings (based on a revised contract price with Boston BC) £7k reduced business rates at Peele School. £17k additional electrical supply works at Ayscoughfee Gdns Pavilion and Sports Centre – work required following a health and safety report. £3k additional subscriptions at Museum.
Housing	(97)	(59)	38	Agency staff costs to cover staff secondment..
Environmental Services	3,013	3,010	(3)	
Planning	(146)	(196)	(50)	Additional Planning Income
Investment properties	(50)	(44)	6	Additional Business rates
Total - Place	4,424	4,384	(39)	
Strategy and Governance				
Corporate Improvement & Performance	104	112	8	
Communications	137	137	0	
Corporate Management	446	464	18	Professional fees for service review work
Democratic Services	1,071	1,053	(17)	Legal budgets held centrally here. Q1 small underspend. £35k reduction projected to bring forecast it in line with last year's outturn spend (will cover additional projected legal costs on public protection). £20k – budget set too low for additional postage and stationery relating to IER
HR	549	543	(6)	
IT and Customer Services	477	481	4	
Total - Strategy and Governance	2,783	2,791	(7)	
Statutory recharge to the HRA for support services	(374)	(374)	0	
Internal Drainage	3,064	3,051	(13)	IDB Levy confirmed at a lower level than included in estimate

	Budget £'000	Forecast Outturn £'000	Forecast Variance (under)/over £'000	Comments
Boards and Parish Precepts				
Investment Income	(88)	(100)	(12)	Forecast based on Q1 position
Capital and Other Adjustments	3,750	1,400	(2,350)	Reduced capital spend on Priory Road
Application of Capital Grants	325	325	0	
Transfers to/from Reserves	(3,635)	(1,286)	2,350	Reduced transfer from Investment and Growth Reserve to offset reduced capital spend
Total Cost of Services	11,401	11,337	(63)	
Financing				
Government Grants	(3,133)	(3,133)	0	
Council Tax	(5,415)	(5,415)	0	
Retained Business Rates	(2,852)	(2,852)	0	
Total Financing	(11,401)	(11,401)	0	
Variance	0	(63)	(63)	Below budget forecasted spend

Table 2 – Variances details

Service Area	Expenditure (under)/over Budget £	Income (over)/Under Budget £	Total variance (under)/over Budget £	Comments
Employee Costs	74		74	Agency overspend in Finance and Housing. Note – The forecast position currently assumes that the salary efficiency savings target (from vacancies) of £151k will be achieved but at the end of Q1 some services (notably Environmental Services) are currently predicting levels of additional agency to cover vacancies that will not deliver the efficiency saving target. This will be monitored during Q2 and services reminded of the need to deliver this saving where possible. The salary cost savings from the Place Review are still to be costed but are assumed to be in line with those included within the transformation savings target for the year.
Premises	27		27	Business rates budgets reduced for 17/18 but payments will be £7k higher due to the introduction of the taper in payment decreases. £17k additional property spend anticipated on Ascoughfee and Sports Centre in response to a health and safety report.
Transport	(51)		(51)	Forecast underspend on Fuel and Tyres – this will be used to support projected overspends on waste sacks and other costs in environmental services (see below).
Supplies and Services	178		178	Unders and overs across a number of budget areas. Main movements: £40k projected additional costs on purchase of green sacks (offset against transport savings above) £34k increased costs of banking charges. (Increased

Service Area	Expenditure (under)/over Budget £	Income (over)/Under Budget £	Total variance (under)/over Budget £	Comments
				All Pay costs will be offset against future savings from closure of cash office) . £30k Legal costs in Public Protection (offset by anticipated reduction in Lincs Legal spend – see line below). £23k Impairment Allowance increased for sundry debts – will be subject to review as year progresses. £15k professional fees for service review. £20k postage and stationery in IER (budget not set at correct level).
Third party payments	(189)		(189)	£35k predicted underspend on Lincs Legal budgets. £162k reduced base contract price for CPBS compared to that budgeted. £10K additional non contract payments to CPBS – covered from government grants.
Transfer payments	(686)		(686)	Estimated reduced spend on rent rebates and rent allowances, offset by reduced grants (see below).
Capital Spend	(2,350)		(2,350)	This is the reduction agreed in capital spend on Priory Road in 2017/18 (with reduced funding from reserves, budgets to be adjusted).
Internal Drainage Board levy	(13)		(13)	Confirmed levies were below that budgeted for.
Grants, Contributions & Reimbursements		656	656	£48k additional Government Grant for benefit related activities (some to be transferred to CPBS to cover additional activity costs). £703k estimated reduced government benefits subsidy to reflect reduced spend noted above.
Fees and Charges		(44)	(44)	£50k increased planning income, offset by other small fees and charges income reductions compared to estimate.
Rents and Service		(3)	(3)	Small additional industrial rental income .

Service Area	Expenditure (under)/over Budget £	Income (over)/Under Budget £	Total variance (under)/over Budget £	Comments
Charges				
Interest Income		(12)	(12)	Forecast based on Q1 position
Transfers to/From Reserves		2,350	2,350	Reduced transfers from Investment and Growth reserve to offset reduced capital spend above.
Net variance			(63)	Net projected spend below budget

Revenue Budget Comments

Place Review - The projected year end forecast as at the end of Quarter 1 is subject to some significant levels of uncertainty, most particularly as a result of the implementation of the Place Review with effect from the 1 September. The impact on the 2017/18 budgets has yet to be fully costed and reflected in revised estimates for both staff and non-staff budget areas.

Transformation Programme

Savings – There are various savings built into the 2017/18 estimates for the Transformation programme (£646k). At the end of Q1 the forecasted outturn position assumes that this will be fully delivered. As noted above the outcome of the Place Review will impact on this forecast.

Spend - At the end of Q1 approximately £21k had been spent on transformation related projects. The budget for spend is held centrally and funded from reserves. Projected spend is currently in line with budget but may change as projects are developed over the coming months.

Staff Estimates – in addition to the impact of the place review on staffing estimates the 2017/18 estimates also included a staff efficiency saving budget on the basis of achieving savings through an assumed level of staff vacancies. At the end of Q1 these savings have in some cases not been achieved and in some service areas, most notably in Environmental Services, staff vacancy savings are being used to fund additional agency staff. The position will be reviewed though Q2.

Planning Income – Whilst income has been buoyant in Q1 compared to the profiled budget there is some uncertainty around the levels that will be achieved in the coming months due to the implementation of the Local Development Plan and a possible downturn in major applications. A £50k above budget forecast is included here and the position will be reviewed at the end of Q2.

Revenues and Benefits

Rebates and Rent Allowances – the current forecast is based on the predicted mid-year position (estimated at the end of July). This shows a reduction in both payments and subsidy compared to budget. The position will become clearer by the end of Q2.

Housing benefits overpayment recovery and court income has risen over the last two years. A better understanding of whether this trend will continue and whether performance against the increased budgets can be sustained will be established during the year.

Internal Drainage Board levies – A £13k underspend is anticipated as the final confirmed levies were less than those estimated.

Investment Income – This is currently being forecast slightly above (£12k) the budgeted level, based on the Q1 position. There have been some reductions in longer term interest rates in the market and some adjustment to counterparty exposures, so it is assumed that based on anticipated maturities of loans and likely levels of reinvestment that the remainder of the year will be in line with budgeted returns.

Funding – At this stage the funding elements of the budget are assumed to be in line with budget. These are being monitored and a more informed forecast should be possible at the end of Q2. The Council has received some additional New Burdens funding from the Government in relation to benefits work. Some of this has been passed on to CPBS to refund direct additional costs that have been incurred. Future amounts will be passed on later in the year based on evidence of spend.

Collection Funds

Council Tax

The Council Tax Collection Fund has a forecast surplus for 2017/18 at 30 June 2017, with South Holland's share being £70k. This will be reflected in future budgets.

Current year forecasts will be updated on a quarterly basis as the year progresses.

Retained Business Rates

The retained NNDR Collection Fund account has a forecast surplus for 2017/18, with South Holland's share being £203k. This will be reflected in future budgets. The movement from a deficit position in 2016/17 to forecast surplus position in 2017/18 is mainly due to a reduction in the provision for appeals for the power station which remains unsettled. This is monitored closely on a monthly basis. Current year forecasts show income slightly lower than expected to date due to movements in reliefs, however this will be monitored on a quarterly basis as the year progresses

Virements and Other Budget Adjustments

1 Spalding Grass Cutting - On 7 June 2017 a Portfolio decision was confirmed to enable the Grounds Maintenance Team to undertake grass cutting for amenity purposes within the wards of Spalding for the 2017 season. The estimated cost of between £7,000 and £10,000 is not covered within the existing Spalding Special budgets. The cost in 2017 will be covered from the Spalding Special contingency held in reserves. Estimates for 2018/19 will be adjusted to include this additional cost.

2 Housing Infrastructure Fund bid preparation - £7,500 (50% of cost to be split with LCC) has been approved to fund the cost of Mouchel leading on the HIF bid. The work will be done alongside the South Western Relief Road master planning work. This cost will be funded from The Council Tax Reserve.

3 Growth and Commercialisation Delivery Unit – Council have approved the establishment of this unit (shared with Breckland) to facilitate the moving forward of significant projects relating to the economic and housing development of the District. This unit will use existing staff and new resources to undertake its work. The estimated required funding is £96k to be funded from the Investment and Growth reserve. The budgets for the unit and the requirement for the drawdown from reserves will be developed over the coming months.

4. North Spalding Sustainable Urban Extension - £100k has been approved to be funded from the Investment And Growth Reserve to support the master planning exercise for this development programme.

Actions/Decisions

- To note the Q1 forecast outturn against the 2017-18 budget.

Recommendations

- No recommendations at Quarter 1

Section 2 – Housing Revenue Account

The revenue estimates for the HRA are subject to some significant changes due to the impact of the place review. For this reason an estimated outturn forecast has not been prepared for Q1. Revised revenue budgets for the HRA are being prepared and will be reviewed at the end of Q2. There are no significant issues to note at this stage.

Actions/Decisions

To note the forecast outturn position for the Housing Revenue Account will be updated at the end of Q2

Recommendations

There are no recommendations in Quarter One

Section 3 - Reserves

3.1 General Fund Reserves

The table below shows the General Fund Reserves balances as at 1 April 2017, projected use of reserves and forecast balance for 31 March 2018. The balances within the table are funds that can be used to finance both revenue and capital expenditure. New project work on commercialisation and transformation will require additional work to be undertaken in Q2 to refine estimates for capital and revenue use in the rest of the year.

Table 3 General Fund Reserves

Reserve	Balance 1 April 2017 £000	Contrib'ns in to Reserve £000	Use of a Reserve £000	Estimated Balance 31 March 2018 £000	Comments
Transformation	809	-	(273)	536	Use of Reserve - To fund expenditure against approved Transformation projects.
Investment and Growth	4,753	1,099	(1,596)	4,256	Contributions - New Homes Bonus Use relates to: <ul style="list-style-type: none">• Capital prog – planned scheme spend to be confirmed.• Delivery Unit• NSSUE

Earmarked Grants	254	0	0	254	New reserve established to receive Government grants allocated for specific activity (HCA Capacity Funding and Planning initiatives).No current budgeted planned use
Council Tax	2,082	0	(398)	1,684	Expenditure on Local Development Plan, HIF bid, Spalding grass cutting and current planned use of £325k to achieve a balanced budget.
Insurance	220	-	-	220	No required use or contributions
Replacement & Refurbishment	225	136	(162)	199	Contributions – base budget annual contribution (£136k) Estimated Use - £162k to support spend plan in services
Total Specific GF Reserves	8,343	1,235	(2,429)	7,149	
General Reserve	2,064	-	-	2,064	
Total Reserves	10,407	1,235	(2,439)	9,213	

There are a number of Development projects which are in progress and, subject to Council approval, will require drawdown from the Investment and Growth Reserve for both capital and revenue expenditure. The use of reserves in the current and future years will be updated once further details and timing of spend have been confirmed.

3.2 HRA Reserves

The values in Table 4 below are based on the confirmed balances at 1 April 2017 and the estimated movements for 2017/18. The HRA's capital programme (see section 4 below) and revenue budgets are subject to review and as such the forecast outturn values below are likely to change over the course of the year.

Table 4 HRA Reserves

Reserve	Balance 1 April 2017 £000	Contrib'ns into Reserve £000	Use of a Reserve £000	Estimated Balance 31 March 2018 £000
Cumulative Working balance as at 31.3.17	8,968	198		9,166
Budget 2017-18				
Insurance Reserve	200	0	0	200
Major Repairs Reserve	6,696	6,307	(3,796)	9,207
Total Forecast Reserves as at 31.3.2018	15,864	6,505	(3,796)	18,573

Actions/Decisions

- To note the forecast position for earmarked reserves and receive a revised position at the end of Q2

Recommendations

- There are no recommendations at Quarter 1

Section 3 – Capital Budget

This section reports on:

- Quarter One Forecast against 2017-18 approved capital programme
- Risks, issues and key messages

Table 5 – Quarter 1 expenditure against 2016-17 approved capital programme

General Fund

Project	Revised 17-18 Estimate	Forecast Outturn	Forecast (Under)/overspend
Disabled Facilities Grants	585,287	325,000	(260,287)
Decent Homes Unfit And Disrepair	75,000	75,000	0
Welland Homes	1,006,183	1,006,183	0
Travellers Sites	201,445	201,445	0
ICT Infrastructure	336,000	336,000	0
Council Chamber Conference Mic	27,900	27,900	0

Project	Revised 17-18 Estimate	Forecast Outturn	Forecast (Under)/overspend
System			
Digital Vision	182,000	0	(182,000)
Warden Tree Industrial Estate	47,000	47,000	0
Fleet Road Industrial Estate	55,000	55,000	0
Railway lane Industrial Estate	65,000	65,000	0
Priory Road	350,000	350,000	0
Sub Total of Approved Schemes	2,930,815	2,488,528	(442,287)
Schemes Subject to Approval			
Grounds Maintenance Equipment	50,000	50,000	0
Digital Vision	329,000	0	(329,000)
Growth Fund	1,000,000	1,000,000	0
Total General Fund Capital Programme	4,309,815	3,538,528	(771,287)
Financed By:			
Capital Receipts	1,041,900	580,900	(511,000)
Borrowing	1,006,183	1,006,183	0
Grants and Contributions	861,732	601,445	(260,287)
Direct Revenue Funding	1,400,000	1,350,000	0
	4,309,815	3,538,528	(771,287)

HRA

Project	Revised 17-18 Estimate	Forecast Outturn	Forecast (Under)/overspend
Central Heating Upgrade	1,317,000	1,200,000	(117,000)
Kitchen / Bathroom	1,454,000	1,200,000	(254,000)
Electrical Upgrade	107,000	100,000	(7,000)
Renewable Energy and Energy Efficiency	125,000	100,000	(25,000)
Decent Homes Component Replacements	211,000	0	(211,000)
Re-Roofing	701,016	600,000	(101,016)
Fees	219,000	0	(219,000)
Decent Homes	4,134,016	3,200,000	(934,016)
Sewage Treatment plant	65,000	65,000	0
The Square	63,000	63,000	0
Major Area schemes	128,000	128,000	0

Project	Revised 17-18 Estimate	Forecast Outturn	Forecast (Under)/overspend
ICT Infrastructure	184,000	184,000	0
IT / System	184,000	184,000	0
Major Adaptations	400,000	200,000	(200,000)
Aids & Adaptations	400,000	200,000	(200,000)
New Build - Weston Development	1,145,000	50,000	(1,095,000)
Buy Back - Shared Ownership	165,000	70,000	(95,000)
Affordable Housing	1,310,000	120,000	(1,190,000)
Sub Total of Approved Schemes	6,156,016	3,832,000	(2,324,016)
Schemes Subject to Approval			
Affordable Housing	3,850,505	0	(3,850,505)
Total - HRA	10,006,521	3,832,000	(6,174,521)
Financed By:			
Capital Receipts	1,161,452	36,000	(1,125,452)
Direct Revenue Funding	3,977,000	0	(3,977,000)
Major Repairs Reserve	4,868,069	3,796,000	(1,072,069)
	10,006,521	3,832,000	(6,174,521)

Table 6-Summary of variances

TABLE 6 CAPITAL VARIANCES AND BUDGET CARRY OVER REQUIREMENTS		
Project/Scheme	Over/ (under) spend £	Explanation/Comments
General Fund		
ICT	(511,000)	Digital Vision schemes on hold awaiting further detail from Project lead

TABLE 6 CAPITAL VARIANCES AND BUDGET CARRY OVER REQUIREMENTS		
Project/Scheme	Over/ (under) spend £	Explanation/Comments
DFG	(260,287)	Spend assumed at original estimate for 17-18. Additional funding received from LCC. Service to confirm revised likely spend for the year.
Total General Fund Programme	(771,287)	
Housing Revenue Account		
Decent Homes	(934,016)	<p>A detailed analysis of the variations against the Decent Homes Budget is set out in the table above.</p> <p>A review of the overall HRA Business Plan is currently being carried out and this will include a revised Asset Management Strategy.</p> <p>Immediate short term priorities have been reviewed and appropriate contracts and programmes are in place.</p> <p>The underspend in the current year will be carried forward into 2018/19.</p>
Aids and Adaptations	(200,000)	
Affordable Housing		
New Build	(4,945,505)	The HRA Affordable Housing programme is being reviewed as part of the overall HRA Business plan update.
Buy Back Shared Ownership	(95,000)	Purchased 23 Farrow Avenue. Currently anticipate no further buy backs
Total HRA Programme	(6,174,521)	

The original Capital Programme was approved at Council in February 2017. Further amendments have been made to deliver a revised budget which reflects previous year scheme underspends and changes to approved schemes. Further notes on individual schemes are provided below. The capital programme for both the HRA and General Fund

will be reviewed during Q2 and further changes reported to members for approval at that stage.

- ICT infrastructure projects continuing to progress and the Digital Vision project lead is currently reviewing the scope of the scheme.
- Microphones in the member's chamber have been purchased. Audio Visual upgrades including enhance projection equipment will be completed in the near future as a result of the Priory Road Capital programme status being confirmed.
- Two permanent travellers' sites have now been delivered – one at Holbeach and, last year, a second at Drain Bank, Spalding. The Spalding site is now complete and ownership has been transferred to the travellers. We have, as a consequence, taken ownership of their former site in Gosberton. The remaining budget is required to deliver a third element, that of a temporary stop-over site. This site originally selected was at Sutton Bridge. The latest gypsy and traveller survey does not suggest the demand identified in 2006 for temporary stop-over accommodation is still there. The service are re-assessing the situation and it is more likely that we will now consider providing alternative stop-over accommodation which we can quickly put in place should the need arise. This will need to be a Member decision in due course.
- Disabled facilities grants are an ongoing statutory, mandatory service. This is demand lead and is funded by the Better Care Fund administered by Lincolnshire County Council. The council has received additional funding, however, based on current levels of demand the service is likely to only spend up to the original budgeted level. Discussions are still ongoing with LCC about the potential wider and alternative use of the DFG funding made available and arrangements for any underspent grant across the County.

HRA Capital Schemes

- The HRA Affordable Housing programme is being reviewed as part of an overall HRA Business Plan.

Actions/Decisions

To note the 2017-18 forecast capital programme outturn

Recommendations

There are no recommendations as at Quarter 1.

Section 4 – Treasury

This section reports on:

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

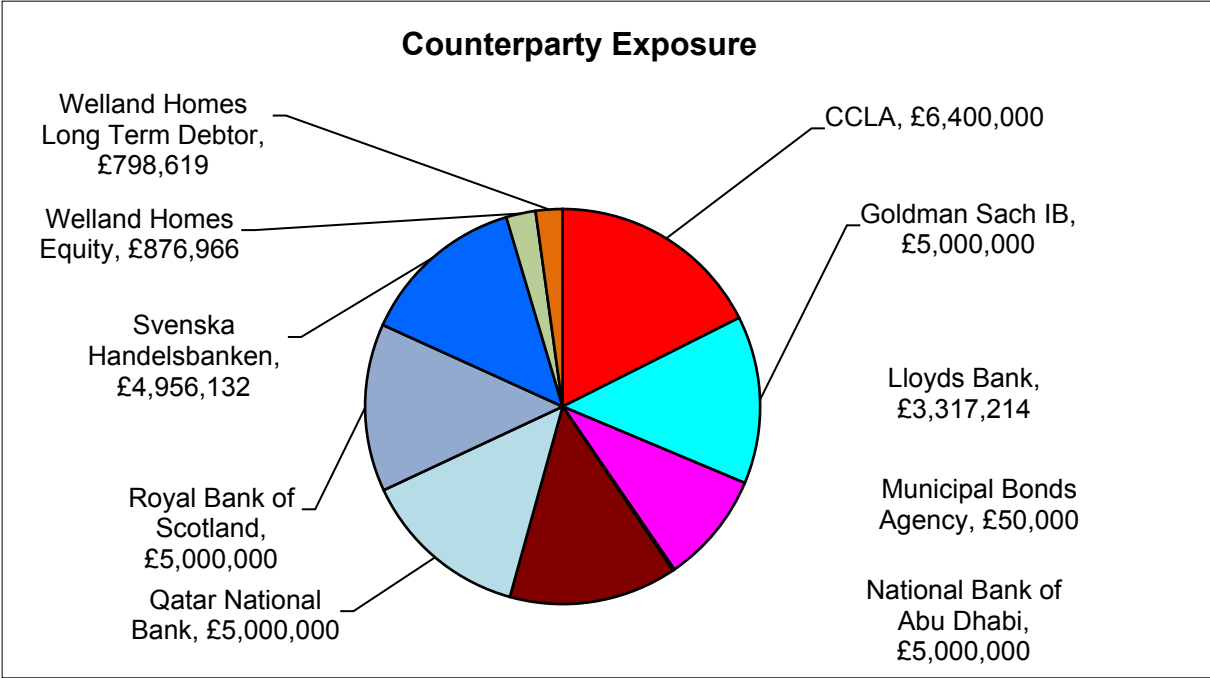
Security

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. Qatar National Bank has had the maximum investment duration reduced to 100 days from 12 months so any future investments with Qatar will not exceed 100 days unless the maximum duration changes.

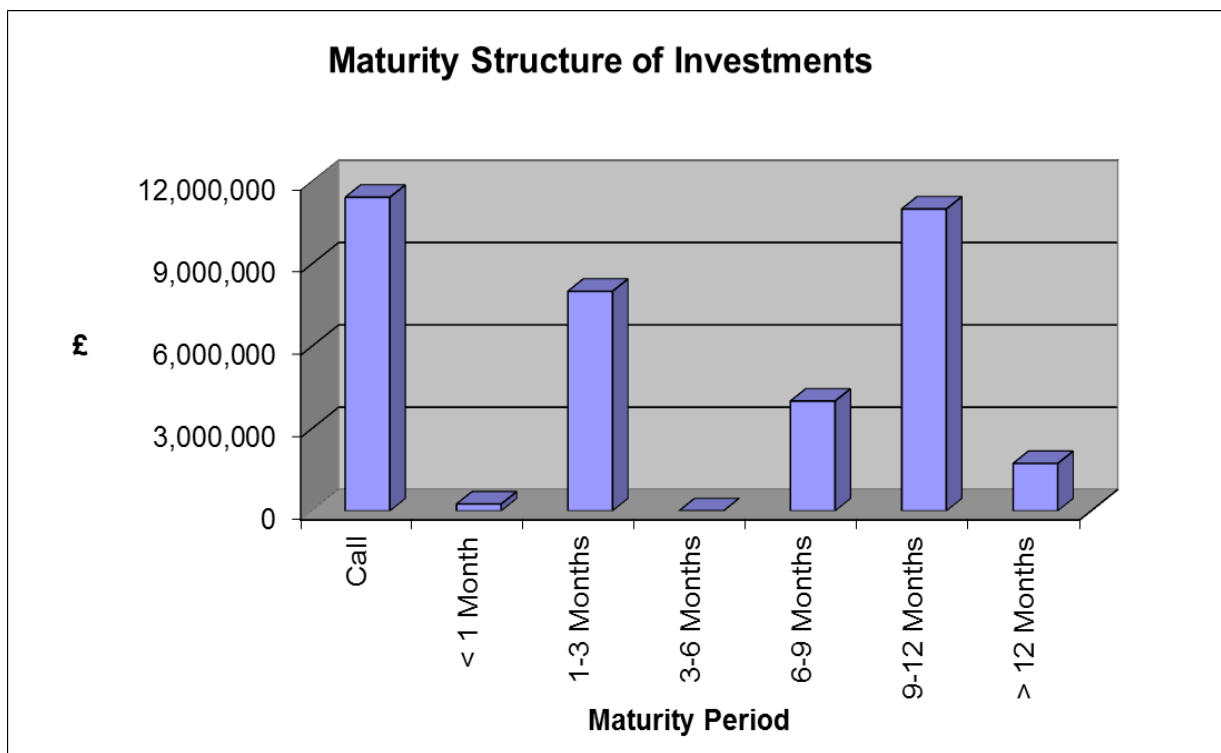
The chart below shows how the Council’s funds are spread between differing counterparties.



Liquidity

Cash

The Council’s average level of deposits during Quarter 1 was £38m. As at 30 June the Council had £11.4m 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 2017/18	£149,900 (£87.9k General Fund and £62k HRA.)
Actual Interest achieved to 30/6/17	£ 52,135
Forecast Outturn for 2017/18	£170,000
Target yield (Average 3 month LIBID)	0.190%
Actual Yield achieved to 30/6/17	0.549%
Actual Yield outturn for 2016/17	0.554%
Actual Yield as at Q1 2016/17	0.766%

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.

Interest Rates

The bank rate continues to be at record low levels of 0.25% and therefore money market rates available to the Council remain low. The Monetary Policy Committee voted 5-3 to leave rates at 0.25% at its last meeting in June and expectations of an increase in the rate in August have reduced following the reduction in the inflation rate in July.

Counterparty Risk

The Council has £5m invested in Qatar National Bank who had their credit rating reduced in May and June 2017 by the three main credit rating agencies. The maximum duration for new investments has now been reduced from 12 months to 100 days for new investments by our external treasury advisors. This situation is being monitored on an ongoing basis.

Actions/Decisions required

That the quarter 1 position for 2017-18 and expected outturn be noted.

Recommendations

There are no recommendations as at Quarter 1.