

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Portfolio Holder for Finance and Executive Director - Commercialisation (S151)

To: Cabinet Tuesday, 13 February 2018

(Author: Jane Crosby, Ray Fleming– Compass Point Business Services)

Subject Q3 Finance Report 2017-18

Purpose: This report provides information on Quarter 3 (to 31 December 2017) and forecast full year financial position of the Council

Recommendation(s):

1) That Cabinet notes this report.

Recommendation(s) to Council:

2) That the use of reserves as set out in paragraph 2.4.2 be approved.

3) That the necessary revision to the capital programme as part of the 2018-19 budget report be approved.

1.0 BACKGROUND

1.1 This report provides information on the financial forecast full year financial forecasts at 31st December 2017 in respect of the General Fund and Housing Revenue Account (HRA) revenue, capital and reserves and Treasury Management.

2.0 GENERAL FUND

2.1 General Fund Revenue

2.1.1 This report is the second detailed monitoring report for 2017-18 and shows a forecast out-turn overspend of £306k compared to the revised budget for 2017-18 of £11.4m. This represents a movement of £369k from the position reported for Quarter 1 which showed a forecast surplus of £63k.

2.1.2 This shift has arisen for a number of reasons but primarily due to the identification of historic budget issues arising from over-optimistic savings assumptions, accounting adjustments and incorrect treatment of income resulting in a projected overspend. There are still changes that may take place in the next two months that could move this position and this will continue to be closely monitored.

2.1.3 The current forecast deficit of £306k has arisen primarily due to:

	Variance
	£000
Budget adjustments:	
1. Net savings identified across all services through vacant posts and “budget challenge sessions” including Democratic Services, Health & Safety and Operational Environmental Services.	(152)
2. Additional forecast building control income above budget	(33)
3. Additional forecast planning fee income above budget	(60)
4. Budget adjustments due to amendments and additional pressures identified and built into the 2017-18 base budget	359
5. Over-optimistic savings assumptions in the 2017-18 base budget	128
	242
Other variations:	
6. Alarm monitoring income transferred from the HRA - correction	150
7. Increased charges to the HRA for support services provided	(75)
8. Increased income on investments arising from increased interest rates and higher levels of reserves than budgeted	(71)
9. Slippage in Contracts & Procurement savings	40
10. Potential reduction officer time recoverable through Grants 4 Growth	20
	306

2.1.4 In addition to the above there is an increased levy payment due to Government of £366k in 2017-18 which it has been assumed will be funded from reserves. This has arisen due to additional retained business rates in the Collection Fund of £954k, as a result of the reduction in provision required for one remaining power station appeal. This additional income results in a surplus on the Collection Fund in 2018-19 of £1.004m, of which the SHDC share will be £402k. This has now been included in the draft General Fund budget for 2018-19.

2.1.5 It has taken some time to work through some of the 2017-18 budget assumptions made. However, this detailed work has now been completed in conjunction with budget holders to review all current budget assumptions and savings targets to ensure consistency with the Moving Forward Savings Programme. In addition all income and recharge budgets have been reviewed to ensure that these are robust and achievable.

2.1.6 Detailed “budget challenge sessions” have now been held with all managers to identify immediate surplus budget capacity and to ensure that the revenue budget is sustainable.

2.1.7 The budget management process for 2018-19 is being refined to ensure that all budgets are owned and managed by budget holders with the support of finance staff with updated budget manager training planned for March 2018.

2.1.8 The content and presentation of future budget management reports will be updated to improve the information available to Members throughout the year. This will include regular briefings for portfolio holders on the budgets for their area.

- 2.1.9** In addition increased investment has been made through reserves to provide capacity to ensure delivery of transformational projects and contractual reviews.
- 2.1.10** The budget will continue to be closely monitored and challenged during the remainder of the current financial year and where possible options/action identified to reduce the forecast deficit.
- 2.1.11** As a result of the work carried out and the ongoing savings through the Moving Forward Programme, the Council will start 2018-19 with a budget surplus.
- 2.1.12** As part of the announcements around the Settlement for 2018-19 the government has indicated that there will be one off adjustments required to the 2017-18 business rates tariff values to reflect the revaluation of business rates in 2017. The adjustment value for South Holland's tariff in 2017-18 is an increase of £326k. This will be paid to the government in 2018-19 through an adjustment to the 2018-19 tariff value. This is reflected in the 2018-19 budget assumptions. However, if this is confirmed then it may be appropriate for any such payments to be accounted for in the 2017-18 financial year. This will be dealt with through the closure of the 2017-18 accounts and could provide an additional cost pressure to the 2017-18 outturn position.

2.2 Moving Forward Programme

- 2.2.1** The 2017-18 budget included savings targets for the Moving Forward programme of £675k. The programme is currently forecast to achieve savings of £598k in the current year–including implementation of the Place Review. Activity is currently underway to assess how this programme may be accelerated.
- 2.2.2** These savings are included in the forecast at 2.1.3 above. Details of the Moving Forward Programme are shown in the table:

	Forecast Variance
	£000
Target within Revised Estimates	(646)
Additional savings required re Contracts Team	(29)
Total savings required	(675)
Current Projected in year savings:	
Digitalisation	-
Commercialisation	(361)
Organisational Design	(237)
Aligning Public Services	-
Forecast savings to be achieved	(598)
Projected (Over)/ Under Achievement	77

2.3 General Fund Capital Programme

2.3.1 The original 2017-18 Capital Programme has been subject to a number of amendments to deliver a revised budget which reflects previous year scheme underspends and changes to approved schemes.

2.3.2 The detailed 2017-18 General Fund capital budget and forecast is shown in Appendix 1 and summarised in the following table.

Project	Revised 2017-18 Estimate	Forecast 2017-18 Outturn	Forecast 2017-18 Variance
	£000	£000	£000
Housing Related Schemes	1,666	1,482	(184)
Infrastructure & Buildings	1,114	564	(550)
Other Capital Schemes	906	706	(200)
Total Approved Schemes	3,686	2,752	(934)
Schemes Subject to Approval	1,379	-	(1,379)
Total General Fund Capital Programme	5,065	2,752	(2,313)
Financed By:			
Capital Receipts	1,335	457	(878)
Borrowing	1,006	1,117	111
Grants and Contributions	1,233	737	(496)
Direct Revenue Funding	1,491	441	(1,050)
	5,065	2,752	(2,313)

2.3.3 The above table shows a forecast spend of £2.752m against a revised budget of £3.686m for those schemes which have received detailed approval, a forecast underspend of £0.934m as a result of:

- Disabled Facilities Grant funding of £260k, which is proposed to be slipped into 2018-19:
- Accelerated investment of £111k in Welland Homes to reflect the latest programme phasing due to the first tranche of investment in the scheme at Parkside Crescent, Spalding (subject to Cabinet & Council approval):
- Slippage of the ICT Infrastructure investment (£207k) into 2018-19 due to a delay in device refresh and Office 365 work,
- Spend against the programme of re-roofing industrial units (£167k) which will now be slipped into 2018-19,
- Spend against the provision for Travellers' Sites (£200k) due to the service re-assessing this project. A member decision will be required in due course.

2.3.4 In addition, there is an additional £1.379m of capital budget which has not yet been released for spend. Of this investment in Grounds Maintenance Equipment (£50k) and Digital Vision (£329k) will be brought forward for approval for spend in 2018-19. The unallocated growth fund provision of £1m will be taken out of the capital programme with future schemes brought forward on an individual basis.

2.3.5 The capital programme is subject to the development of new and revised projects and will be updated as necessary during Q4.

2.4 General Fund Reserves

2.4.1 The following table sets out the estimated contributions to/from reserves during 2017-18 and the estimated General Fund Reserves Balance at 31st March 2018:

Reserve	Balance 1 April 2017	Contribs into Reserves	Planned Use of Reserves	Balance 31 March 2018
	£000	£000	£000	£000
Transformation	809	-	(239)	570
Investment and Growth	4,752	1,099	(468)	5,383
Earmarked Grants	254	0	(160)	94
Council Tax	2,082	220	(1,164)	1,138
Insurance	220	-	(220)	0
Replacement & Refurbishment	225	136	(167)	194
Total Specific GF Reserves	8,342	1,455	(2,418)	7,379
General Reserve	2,064	-	-	2,064
Total Reserves	10,406	1,455	(2,418)	9,443

2.4.2 Approval is now requested for the following:

- That the Council Tax Reserve be used to fund the additional NNDR levy payment due to central government in 2017/18;
- That £51k be added to the Capital Programme – funded from the Transformation Reserve for customer self-service technology in Priory Road Reception.

3. HOUSING REVENUE ACCOUNT (HRA)

3.1 HRA Revenue

3.1.1 The current HRA Budget forecast for 2017-18 is a surplus of £3.539m, against a forecast surplus of £198k, due primarily to the budgeted revenue contribution to the capital programme no longer being required in the current financial year. The development of the affordable housing programme will mean that this balance will be used to fund the Capital Programme, in future years.

3.1.2 The current forecast position includes one-off redundancy and actuarial strain costs totalling £387k arising from the implementation of the Place Review. The ongoing impact of the review will deliver estimated full-year staffing savings of £510k across HRA Budgets in addition to operational efficiency savings against non-staff budgets. Further work is now being carried out to implement new operating policies and processes and revised charging arrangements, to procure a contractor to provide voids and responsive maintenance support around the reduced core multi-skilled workforce. This review will be implemented during the current financial year with the full benefit of the service redesign delivered in 2018-19.

3.1.3 The table below details the forecast outturn against the original budget for 2017-18:

Area	Budget 2017-18	Forecast 2017-18	Variance 2017-18	Note
	£000	£000	£000	
Income:				
Rent Income – Dwellings	(15,024)	(15,047)	(23)	1
Charges for Services and Facilities	(958)	(1,171)	(213)	2
	(15,982)	(16,218)	(236)	
Expenditure:				
Repairs & Maintenance	3,486	3,234	(252)	3
Supervision & Management	2,343	2,758	415	4
Special Services	1,128	1,286	158	5
Rents, Rates, Taxes and Other Charges	70	70	-	6
Increase in Provision for Bad Debts	119	119	-	7
Depreciation and Impairment of Assets	2,300	2,866	566	8
Debt Management Costs	75	80	5	9
	9,521	10,413	892	
Net Cost of Services	(6,461)	(5,805)	656	
Interest Payable	2,348	2,348	-	10
HRA Investment Income	(62)	(82)	(20)	11
Capital Expenditure funded by the HRA	3,977	-	(3,977)	12
(Surplus)/Deficit in year	(198)	(3,539)	(3,341)	
HRA Balances b/f	(8,968)	(8,968)	-	
(Surplus)/Deficit in year	(198)	(3,539)	(3,341)	
HRA Balance c/f	(9,166)	(12,507)	(3,341)	

Notes to HRA Table:

- 1. Rent Income – Dwellings** - This budget relates solely to property rents net of anticipated void period losses. Additional income of £23k is forecast, assuming the same levels of income in quarter 4 as in the first three quarters.
- 2. Charges for Services & Facilities** - This budget includes income to the HRA in respect of Wardens Service Charges, Alarm Monitoring, Sewerage Charges, and other HRA Fees and Charges. The variation from budget relates to Alarm Monitoring service charges which have been moved back to the HRA from the General Fund, the expenditure for which is shown within Special Services, and also Wardens service charge income for which the budget is understated.

- 3. Repairs & Maintenance** - This budget reflects the cost of revenue repairs and maintenance on the Councils properties and includes:
- responsive repairs reported by tenants,
 - work to re-let void properties,
 - planned maintenance including asbestos management, planned painting and essential maintenance of footpaths & roadways, and
 - cyclical maintenance such as gas and electrical servicing.

The current forecast includes one-off redundancy and pension fund strain costs, but this is offset by reduced forecasts for gross pay and the in-year maintenance programme.

- 4. Supervision & Management** - This budget reflects the core supervision and management costs in relation to the Councils properties and includes:
- tenancy allocations,
 - the cost of rent collection,
 - housing advice and enabling,
 - tenant participation,
 - estate management,
 - administration of the right to buy scheme, and
 - general management including support service costs and the HRA share of the Council's "Corporate and Democratic Core".

The overall supervision and management variance in 2017-18 is £415k due to changes in staffing allocations to reflect new roles and responsibilities following the Place Review, one-off redundancy and pension fund strain costs and the use of agency staff to cover key posts. There are also increased recharges from the General Fund to cover additional services (Facilities Management and Legal Services), along with inflationary increases on recharges which have historically remained static.

- 5. Special Services** - This budget includes alarm monitoring, sheltered housing, community facilities and housing sewerage works.
- 6. Rents, rates, taxes and other charges** - This budget relates to rent and business rates for operational assets.
- 7. Increase in Provision for Bad Debts** - The Council reviews its bad debt provision on a regular basis to ensure that there is sufficient provision to cover the non-recovery of current and former tenant rent arrears. The current budget provision is sufficient in respect of current arrears but this will need to be reviewed as part of the 5 year MTFP forecasts to reflect the proposed roll-out of Universal Credit.
- 8. Depreciation and Impairment of Assets** - The Council is required to calculate annual depreciation on its dwellings and operational assets. This sum is transferred to the major repairs reserve to finance capital investment to maintain properties to decent homes standards.
- 9. Debt Management Costs** - This budget reflects the cost of managing the HRA long term debt.
- 10. Interest Payable** - This budget relates to the annual interest payable by the Council on the debt taken on as part of the national changes in 2012/13 to make Council

Housing self-financing. The debt is at a fixed rate of interest so there is no variance from budget.

11. HRA Investment Income - This relates to interest earned through investment of HRA cash balances.

12. Capital Expenditure funded by the HRA - The Housing Revenue Account makes an annual revenue contribution to support the HRA Capital Programme. The need to develop the affordable housing programme currently means that the contribution is not required in this financial year. The balance will be carried forward to fund capital expenditure in future years.

3.2 HRA Capital Programme

3.2.1 The HRA capital programme is currently showing forecast spend of £3.617m against a budget of £6.156m for approved schemes. In addition there is a budget of £3.851m which has not yet been released for spend.

3.2.2 The following table summarises current HRA capital programme and funding:

Project	Revised 17-18 Estimate	Forecast Outturn	Forecast Variance
	£000	£000	£000
Decent Homes	4,134	2,835	(1,299)
Major Area schemes	128	128	0
IT / System	184	184	0
Aids & Adaptations	400	300	(100)
Affordable Housing	1,310	170	(1,140)
Total Approved Schemes	6,156	3,617	(2,539)
Schemes Subject to Approval			
Affordable Housing	3,851	0	(3,851)
Total - HRA	10,007	3,617	(6,390)
Financed By:			
Capital Receipts	1,161	558	(603)
Direct Revenue Funding	3,977	0	(3,977)
Major Repairs Reserve	4,869	3,059	(1,810)
	10,007	3,617	(6,390)

3.2.3 The forecast underspend of £6.390m has arisen due to:

- **Decent Homes** works are currently £1.3m underspent due to the re-roofing contract not yet being let and unspent contingency funding. Heating upgrade planned works are progressing.
- **The affordable housing** relates to schemes at Small Drove, Weston Road and Severn Road, Spalding. These schemes have now slipped into 2018-19 and will progress to detailed planning stage in spring 2018. The wider affordable housing programme has been reviewed as part of the 2018-19 budget and MTFS and additional resources are now being sought to accelerate delivery.

3.3 Housing Revenue Account Reserves

3.3.1 The following table sets out the estimated contributions to/from reserves during 2017-18 and the estimated Housing Revenue Account Reserves Balance at 31st March 2018:

Reserve	Balance 1 April 2017	Contribs into Reserves	Planned Use of Reserves	Balance 31 March 2018
	£000	£000	£000	£000
HRA Working Balance	8,968	3,539	-	12,507
Insurance Reserve	200	-	-	200
Major Repairs Reserve	6,697	2,866	(3,059)	6,504
	15,865	6,405	(3,059)	19,211

4. TREASURY MANAGEMENT

4.1 Current Revenue Forecasts

4.1.1 The cash investments held in money market funds (MMFs) and fixed investments was £44.2m at the end of Q3. Total interest earned on investments was £177k against a total profiled budget of £113k.

4.1.2 The bank rate was increased from 0.25% to 0.50% at the Monetary Policy Committee meeting in November 2017 giving a welcome pick up in rates received by the Council on its instant access cash and new investments. Market expectation is that base rates will remain at 0.50% until the end of 2018.

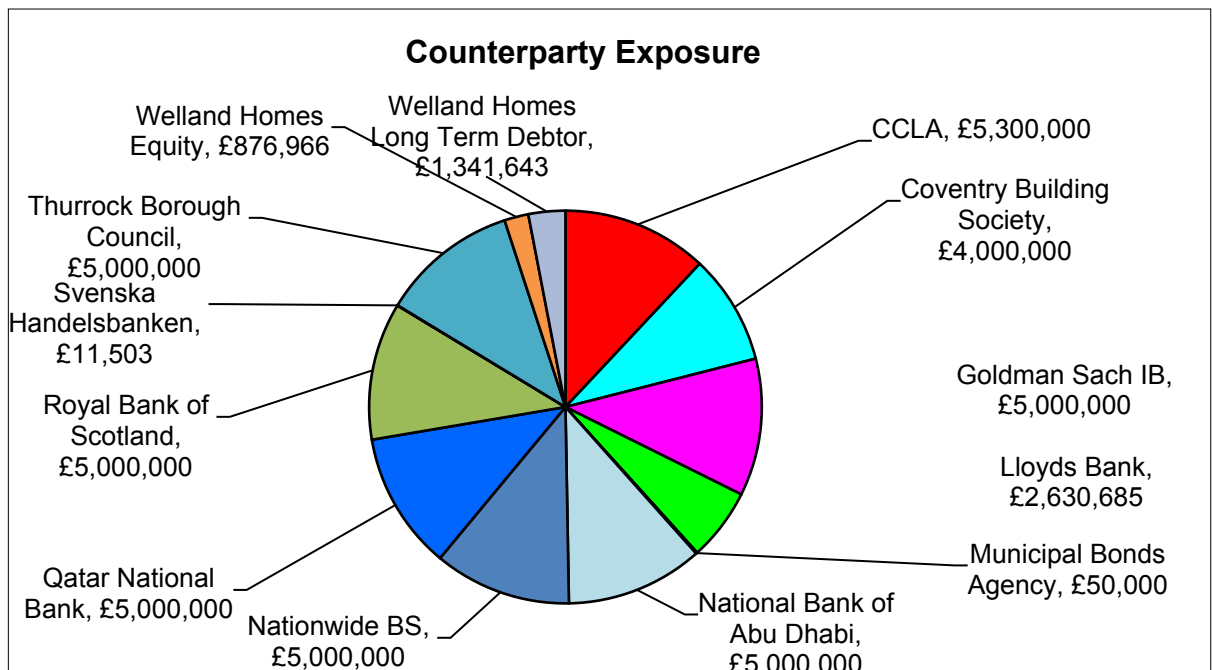
4.1.3 The current projected outturn is for total interest income of £240k compared to a budget of £150k. The increased outturn position can be attributed to increased market rates and higher levels of investment balances.

4.2 Security

4.2.1 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 Link Asset Services which provides a maximum duration for investments depending on the colour rating calculated for each financial institution.

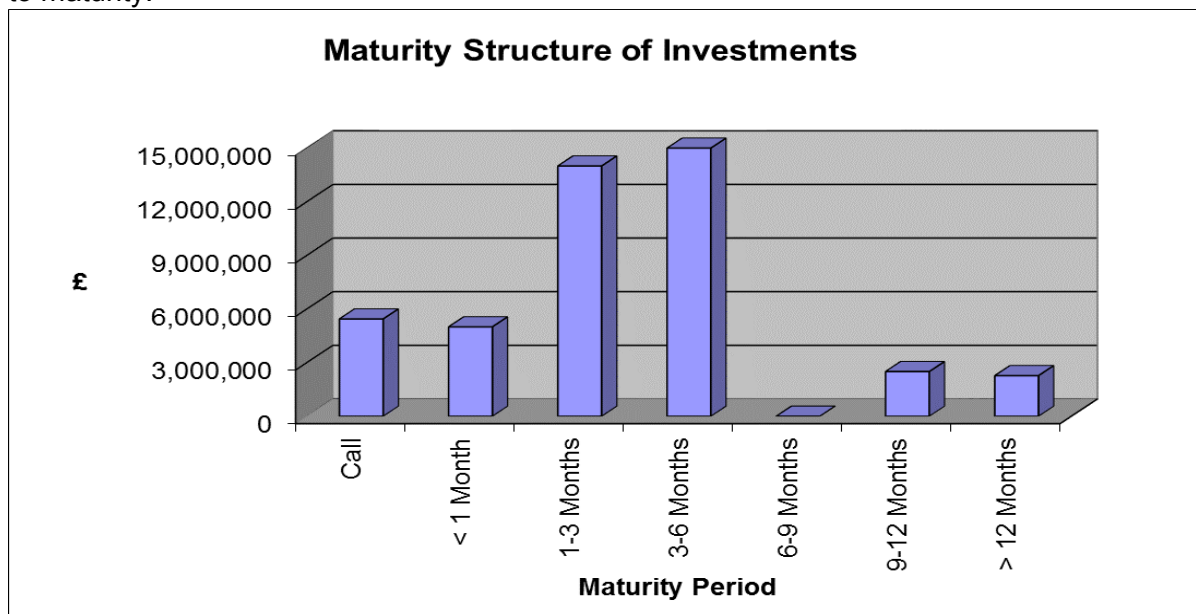
4.2.2 All investments held by the Council were within the recommended maximum duration at the time the investment was made. Qatar National Bank has had the maximum investment duration reduced to 100 days from 12 months so any future investments with Qatar will not exceed 100 days unless the maximum duration changes.

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



4.3 Liquidity

4.3.1 The Council's average level of cash deposits for Quarters 1 to 3 was £41m. As at 30 December 2017 the Council had £5.4m instant access cash available to meet cash flow requirements. The table below shows the amounts held in relation to the remaining period to maturity.



4.4 Yield

Budgeted Interest 2017-18	£149,900 (£87.9k General Fund and £62k HRA.)
Actual Interest achieved to 31/12/17	£177,181
Forecast Outturn for 2017-18	£240,000
Target yield (Average 3 month LIBID)	0.23%
Actual Yield achieved to 31/12/17	0.570%
Actual Yield outturn for 2016/17	0.554%
Actual Yield as at Q3 2016/17	0.606%

4.5 External Borrowing

4.5.1 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.

4.6 Interest Rates

4.6.1 The bank rate was increased from 0.25% to 0.50% at the Monetary Policy Committee meeting in November 2017 giving a welcome pick up in rates received by the Council on its instant access cash and new investments. Market expectation is that base rates will remain at 0.50% until the end of 2018.

4.7 Counterparty Risk

- 4.7.1** 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.
- 4.7.2** In November 2017 Lloyds Bank had their credit outlook increased by Standard and Poors Global Ratings. Following this, Link Asset Services have lengthened the maximum duration for investment with Lloyds Bank from six months to a year.

5. OPTIONS

- 5.1** To note the report.

6. REASONS FOR RECOMMENDATION(S)

- 6.1** To provide information to Members on the overall financial position of the Council.

7. EXPECTED BENEFITS

- 7.1** Given the current economic climate and the potential levels of financial risk and uncertainty that exists within the Council's capital and revenue budgets, it is important that financial performance is closely scrutinised by Members and officers. Regular reporting will ensure that members are updated regularly on the overall Council financial position, in order to better inform future decision making.

8. IMPLICATIONS

8.1 Carbon Footprint / Environmental Issues

N/A

8.2 Constitutional & Legal

The Constitution requires the Council to receive regular financial reports to keep Members informed and aid future decision making. Financial reporting is also required as any recommended changes to the Council's budgets will require varying levels of Member or full Council approval.

8.3 Contracts

N/A

8.4 Corporate Priorities

The Council's budgets and associated spend support the Council's Priorities.

8.5 Crime and Disorder

N/A

8.6 Equality and Diversity / Human Rights

N/A

8.7 Financial

This report is financial in nature and relevant financial information is contained within it.

8.8 Health & Wellbeing

N/A

8.9 Reputation

N/A

8.10 Risk Management

The regular and timely reporting of financial performance enables the Council to address any financial risks as and when they are identified

8.11 Safeguarding

N/A

8.12 Staffing

N/A

8.13 Stakeholders / Constitution / Timescales

Budget holders have been consulted with as part of the preparation of the forecast financial position.

8.14 Moving Forward Programme

The Council's Moving Forward Programme includes projects to deliver financial savings in the current and future years. These projects are being monitored and the report references the financial details of the Moving Forward Programme where relevant.

9. WARDS/COMMUNITIES AFFECTED

All

10. ACRONYMS

N/A.

Background papers:- The approved 2017-18 budget presented to Council in February 2017

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory and Discretionary Service

Appendices attached to this report:

Appendix 1 General Fund Capital Programme 2017-18

General Fund Capital Programme 2017-18

Project	Revised 17-18 Estimate £'000	Forecast Outturn £'000	Forecast Variance £'000
Housing Related Schemes:			
Disabled Facilities Grants	585	325	(260)
Decent Homes Unfit And Disrepair	75	40	(35)
Welland Homes Developments	1,006	1,117	111
	1,666	1,482	(184)
Infrastructure & Buildings			
Priory Road DWP Works	350	350	0
SHDC Self Service Reception	51	51	0
Council Chamber Conference Mic System	28	28	0
ICT Infrastructure	336	129	(207)
Digital Vision	182	6	(176)
Warden Tree Industrial Estate	47	0	(47)
Fleet Road Industrial Estate	55	0	(55)
Railway lane Industrial Estate	65	0	(65)
	1,114	564	(550)
Other Capital Schemes:			
Travellers Sites	201	1	(200)
Grants For Growth	371	371	0
Garden Waste	240	240	0
Appropriation of Land	94	94	0
	906	706	(200)
Total Approved Schemes	3,686	2,752	(934)
Schemes Subject to Approval:			
Grounds Maintenance Equipment	50	0	(50)
Digital Vision	329	0	(329)
Growth Fund	1,000	0	(1,000)
Total General Fund Capital Programme	5,065	2,752	(2,313)
Financed By:			
Capital Receipts	1,335	457	(878)
Borrowing	1,006	1,117	111
Grants and Contributions	1,233	737	(496)
Direct Revenue Funding	1,491	441	(1,050)
	5,065	2,752	(2,313)