

South Holland District Council

Financial Report for the Quarter Ending 30 September 2018

This report has five sections

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

General Fund Revenue Outturn

The forecast outturn as at 30 September 2018, including the unallocated Moving Forward savings target, is estimated at a £185k underspend against the approved budget for 2018-19 of £13m.

This is comprised as follows:

• Net Service Overspend	£ 102k
• Additional Financing Income	£ (£392k)
Net Service Underspend	£ (£290k)
• Moving Forward Savings Target	£ 105k
Net Underspend	£ (£185k)

The moving forward target has been reviewed and a balance of £105k is sitting in Corporate Improvement, the unallocated target is as a result of double counting and savings already being built into the base budget, this position will be continuingly reviewed throughout the year.

A Star Chamber process has taken place to scrutinise embedded savings and to look for further savings. To date this has yielded savings of £102k which have been removed from service budgets and is included in the forecast out-turn position. The notes below Table 1 provide further information on the forecast variances from budget.

Based on the information as at 30 September 2018, Table 1 below details the forecast out-turn against the approved budget and the movements from the position reported at Quarter 1.

Significant variances to the approved budget and movements are detailed in the notes below.

Table 1 – General Fund Revenue Outturn

Service Area	Note	Revised Budget at Q2 £'000	Forecast Out-turn at Q2 £'000	Forecast Variance at Q2 £'000
Commercialisation				
Commercialisation	1	397	442	45
Economic Development		121	123	2
Finance		544	544	0
Revenues and Benefits	2	473	485	12
Total – Commercialisation		1,535	1,594	59
Place				
Assets and Property		46	41	(5)
Building Control	3	44	(3)	(47)
Community Development	4	1,140	1,161	21
Environmental Services	5	2,944	3,157	213
Housing	6	181	217	36
Planning	7	(227)	(399)	(172)
Spalding Special Expenses	8	3	3	0
Investment properties		(152)	(152)	0
Total - Place		3,979	4,025	46
Strategy and Governance				
Corporate Improvement and Performance		195	195	0
Communications		124	129	5
Public Protection		388	385	(3)
Corporate Management	9	520	527	7
Democratic Services		1,005	1,005	0
HR		741	743	2
IT and Customer Services	10	1,174	1,184	10
Total - Strategy and Governance		4,147	4,168	21
Statutory recharge to the HRA for support services (*)		(1,355)	(1,342)	13
Internal Drainage Boards & Parish Precepts		3,178	3,178	0
Investment Income	11	(229)	(266)	(37)
Capital and Other Adjustments		0	0	0
Transfers to/from Reserves		1,809	1,809	0
Total Cost of Services		13,064	13,166	102
Financing				
Government Grants	12	(2,213)	(2,258)	(45)
Council Tax		(5,721)	(5,721)	0
Retained Business Rates	13	(5,025)	(5,372)	(347)
Total Financing		(12,959)	(13,351)	(392)
Net Service Variance		105	(185)	(290)
Moving Forward Savings Target (**)	14	(105)	0	105
Net Variance		0	(185)	(185)

() Support service recharges are a non-controllable cost to budget holders, and are therefore not reported as part of the service analysis above. An adjusting line has been added to show the value of recharges to the HRA, for support services and corporate management (including the debt management recharge); a corresponding debit entry is showing in the HRA table below.*

*(**) The Moving Forward Service Target represents Moving Forward savings assumptions built into the budget but not yet allocated to services or work streams. Managers will be tasked with identifying projects and activities to meet this savings target, but until then it is a risk to the Council.*

Notes to Table 2:

1. Commercialisation +£45k overspent.

- Resource requirements in the Delivery Unit are forecast to be £70k over budget as a result of the incorrect use of reserves being used to fund the service (£75k), which is partially off-set by savings (time lags in recruiting to the team).
- Planning Policy is forecast to be underspent by £21k due to vacant posts partially off-set by agency staff.

2. Revenues and Benefits +£12k overspent

- A net overspend in Rent Rebate payments £15k is off-set by a saving in External Audit fees.

3. Building Control (£47k) underspent

- The forecast reflects lower contractor costs for external plan checking now being carried out in-house.

4. Community Development +£21k overspent

- Salary Efficiency target pressure in Community and Voluntary Support - £6k
- Peele School business rates over budget due to a revaluation - £8k
- Ayscoughfee Gardens additional staff costs to cover long-term absence and seasonal operational need - £10k

5. Environmental Services +213k overspent

- Overspend of £80k in relation to staff costs to maintain core services (agency spend increase due to establishment budget forecast issues) including Salary Efficiency Target £50k - allocation of this target to be reviewed for positions that must be filled all year for core service delivery and is therefore unachievable;
- Premises costs £15k overspent due to increased water consumption for road sweepers during hot weather;
- Loss of car park income of £44k due to delay in replacement of car park machine.
- Garden Waste income forecast £76k below estimate due to hot weather which saw a slower uptake of subscriptions at the beginning of the financial year than was forecast. In October the service was made available to all eligible residents, which has resulted in increased subscriptions.

6. Housing +£36k overspent

- Additional resourcing requirements for the team, due to additional work as a result of the homelessness reduction act, partially funded from Homelessness grants. The position will be kept under review and a revised forecast will be presented in the Q3 report.

7. Planning (£172k) underspent

- Additional Development Control income £30k,
- Part of the contractor budget (£127k) and the following salary savings are being used to fund agency staff.
- Salary savings (vacancies) in:
 - Development Control £40k
 - Planning Enforcement £9k
 - Land Charges £20k
- Other minor changes in over and underspends netting to £6k underspent.

8. Spalding Special Expenses on budget. This is a new Department set up to account for ring-fenced expenditure relating to Spalding Special costs. Relevant budgets and actuals have been moved here from Community Development and Environmental Services. The service is in the process of reviewing the likely forecast spend against these budgets and these will be reported to the Spalding Town Forum and in more detail in the Q3 report.

9. Corporate Management +£7k overspent

- This reflects staff costs following in-year recruitment and changes to senior management roles.

10. IT and Customer Services +£10k overspent

- This is due to additional hardware maintenance and contractor costs.

11. Investment Income (£37k) over-achieved

- The increase is based on a revised forecast based on current investments, the position is likely to improve if LA investment rates hold at current levels.

12. Government Grant (£45k)

- Forecast additional s31 grant relating to Business Rates.

13. Retained Business Rates (£347k). The Council has been required to pay an additional tariff of £331k to the government due to a change in the business rates revaluation adjustment. This was a late notification as part of the settlement for 2018/19 and it was budgeted for as part of the 2018/19 budget. However, as part of the closure of accounts this was accrued back into the 2017/18 accounts. CIPFA issued advice that this is how it should be treated in the 2017/18 accounts as the adjustment related to the revaluation with effect from 1 April 2017. This has provided a £331k benefit in the 2018/19 accounts. The balance is a Renewable Energy disregard gain from 2017/18.

Housing Revenue Account

The Q2 forecast position is an £87k reduction in the budgeted surplus for the year, which represents an adverse movement of £20k on the Q1 position, the notes below Table 3 explain the main variances.

Table 3 – HRA Revenue Outturn

Service Area	Note	Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Rent Income - Dwellings		(14,713)	(14,713)	-
Charges for Services and Facilities	1	(1,154)	(1,169)	(15)
Contributions to Expenditure	2	(37)	(27)	10
Total Income		(15,904)	(15,909)	(5)
Repairs and Maintenance	3	3,156	3,249	93
Supervision and Management	4	2,693	2,747	54
Rents, rates, taxes and other charges	5	77	69	8
Depreciation	6	2,923	2,923	-
Movement in the allowance for bad debts	7	169	169	-
Statutory recharge to the HRA for support services	8	1,461	1,461	-
Total Expenditure		10,479	10,618	139
Contribution from Operations		(5,425)	(5,291)	134
Investment Income	9	(62)	(109)	(47)
Interest Payable on £67.456m		2,348	2,348	-
Capital expenditure charged in year		-	-	-
Other Adjustments		-	-	-
Net (Surplus)/Deficit		(3,139)	(3,052)	87

Notes to Table 3:

- Charges for Services and Facilities (£15k) underspent** – Room hire within sheltered housing is forecast to be £10K up, this is a demand driven income. Service Charges annual running £5K above budget due to increased service requirement.
- Contributions to Expenditure – +£10K overspent** - recharge of costs to outside bodies will be recovered under repairs and maintenance below
- Repairs and Maintenance +£93k overspent** – A series of salary adjustments (£30k) and residual costs on last year's place savings (£69k) accounts for the majority of the projected overspend.
- Supervision and Management +£54k overspent** – The forecast has been reduced by £30K due to a reassessment of the costs of general fund staff charged to the HRA. Furniture & equipment on sheltered housing will also generate a saving of £13K. Staff training is expected to increase by £15K, and a General Fund charge for £30K for footpath lighting has been added. A further £48K is for the HRA Accountant which was agreed to be funded by the HRA.
- Rents Rates Taxes and Other Charges (£8k) underspent**– Actual levels for sheltered housing council tax less than budgeted.
- Depreciation** – The forecast is as budgeted
- Movement in the allowance for bad debts +0k** – Provision was set high due to impact of universal credit but could be reassessed following information received regarding the collection of tenants rent post-UC. Forecast kept at budget level - to be reviewed in Q3.
- Statutory recharge to the HRA for support services** – The forecast is as budgeted
- Investment Income (£47k) additional income** - Increased interest rates.

RESERVES

Table 4 – General Fund Reserves

Reserve	Balance 31 March 2018 £'000	Contributions to Reserve £'000	Use of Reserve £'000	Balance 31 March 2019 £'000	Comments
Transformation	(599)		472	(127)	Use – Priory Road self-serve portals £10k; GIS system £13k; Car Park machines £38k; Strategic Property advice £25k; Leisure provision £6k; National Graduate Trainee Scheme £32k; EMT Development fund £4k; South Holland Centre future options £100k; Moving Forward initiatives to be identified £244k
Investment and Growth	(5,218)	(1,007)	707	(5,518)	Contributions - New Homes Bonus £1,007k Uses – Grounds Maintenance vehicles £46k; HIF programme manager £53k; Kings Road access legal costs £13k Garden Waste collection service expansion £90k; Garden Waste vehicles £160k; ; Delivery Unit resourcing £110k; Priory Road Accommodation £10k; Grounds Maintenance Equipment Replacement £50k; Priory Road Heating and Access £160k; Planning for Growth £15k
Earmarked Grants	(313)		98	(215)	Uses - HCA capacity funding £55k; Flexible Homelessness Reduction £43k

Reserve	Balance 31 March 2018 £'000	Contributions to Reserve £'000	Use of Reserve £'000	Balance 31 March 2019 £'000	Comments
Council Tax	(1,299)	(722)	385	(1,636)	Contributions – Business Rates Surplus from 2017/18 £722k Uses – South Holland Centre Emergency Works £250k; Spalding Specials £4k; Information Governance £28k; Pride in South Holland £85k; Castle Sports Complex boiler replacement £18k
Replacement & Refurbishment	(189)	(136)	77	(248)	Contributions – annual budget contribution (£136k). Use - £77k use of Reserve to support in year planned maintenance programme
Total Specific GF Reserves	(7,618)	(1,865)	1,739	(7,744)	
General Reserve	(2,078)			(2,078)	
Total Reserves	(9,696)	(1,865)	1,739	(9,822)	

Table 5 – Housing Revenue Account Reserves

	Balance 31 March 2018	Contributions to Reserve	Use of Reserve	Balance 31 March 2019	Comments
	£'000	£'000	£'000	£'000	
HRA Working Balance:	(12,752)	(3,052)		(15,804)	Transfer to MRR of forecast HRA surplus
HRA Insurance Reserve	(200)	0	0	(200)	
Major Repairs Reserve	(6,435)	(2,923)	5,639	(3,719)	HRA depreciation contribution to MRR is used to fund the capital programme in future years. The transfer from MRR in-year is being used to fund 18/19 capital programme spend
	(19,387)	(5,975)	5,639	(19,723)	

CAPITAL PROGRAMME

Table 6 and 7 below and the following notes detail the forecast outturn position for the GF and HRA capital programmes. This is based on the revised capital programmes as approved in the Q1 finance report.

Table 6 – General Fund Forecast Capital Outturn

Project	Note	Revised Budget 2018/19 £'000	Forecast Outturn 2018/19 £'000	Variance (under)/ overspend £'000
Disabled Facilities Grants	1	585	400	(185)
Decent Homes Unfit and Disrepair		75	75	-
Welland Homes	5	1,708	1,638	(70)
GIS System	2	18	21	3
ICT Infrastructure		205	205	-
Self Serve Reception		10	10	-
Smart Screens		27	27	-
Garden Waste (vehicle)	3	181	160	(21)
Car Park Machines		38	38	-
Grounds Maintenance	4	50	46	(4)
Grants for Growth		896	896	-
South Holland Centre		250	250	-
Castle Sports		18	18	-
Shared Public Protection Software		109	109	-
Crease Drove Industrial Project		70	70	-
Priory Road – Heating and Access		160	160	-
Total Approved Schemes		4,400	4,123	(277)
Financed By:				
Capital Receipts		302	302	-
Capital Grants and Contributions		1,620	1,435	(185)
Internal Borrowing		1,708	1,638	(70)
Revenue Resources		770	748	(22)
		4,400	4,123	(277)
Schemes Subject to Approval				
Digital Vision		302	-	(302)
Total		302	-	(302)
Financed By:				
Capital Receipts		302	-	(302)
Revenue Resources		-	-	
		302	-	(302)
Total All Schemes		4,702	4,123	(579)

Notes to Table 6:

- 1. Disabled Facilities Grants (£185k)** – Forecast expenditure is based on current scheme referrals from LCC. (Any unused grant will be transferred to the capital grants unapplied reserve for future spend).
- 2. GIS System +£3k** – Upon system implementation further requirements were identified. 50% of the overspend funded by a capital contribution from Breckland.
- 3. Garden Waste (£21k)** – Vehicle costs less than estimated.

4. **Ground Maintenance Equipment (£4k)** – Grounds Maintenance Equipment less that estimated.
5. **Welland Homes – (£70k)** Estimated £1,638k spend on Parkside and London Road.

Other potential future schemes identified through Capital Working Group and ICT/Customer Governance Board

Several schemes have been identified at the various working groups which may require the Capital programme to be amended in the future. These include:

1. Replacement of CRM system (2019/20)
2. Vehicle Charging Points
3. LED Lighting upgrades
4. Digitalisation
5. Member device refresh (2019/20)

Table 7 – Housing Revenue Account Forecast Capital Outturn

Project	Note	Revised Budget 2018/19 £'000	Forecast Outturn £'000	Variance (under)/ overspend £'000
Central Heating Upgrade	1	1,614	1,465	(149)
Kitchen and Bathroom Replacement	2	1,169	1,139	(30)
Electrical Upgrade	3	156	150	(6)
Gutters		263	263	-
Council House – Re-Roofing		425	425	-
Doors and Windows	4	3	3	-
Chimneys	4	252	252	-
Paths and Drives	4	36	36	-
Boundary Walls	4	90	90	-
Fees		201	201	-
Decent Homes		4,209	4,024	(185)
Sewerage Treatment Plant		100	100	-
Car Parks		65	65	-
The Square		187	187	-
Major Area Schemes		352	352	-
Housing IT System		150	150	
ICT Strategy	5	51	-	(51)
IT/System		201	150	(51)
Major Adaptions	6	408	350	(58)
Aids & Adaptions		408	350	(58)
Weston Redevelopment Scheme	7	250	430	180
Purchase of Units	8	2,000	637	(1,363)
Severn Road Development Scheme		30	-	(30)
Affordable Housing		2,280	1,067	(1,213)
Total Approved Schemes		7,450	5,943	(1,507)
Financed By:				
Capital Receipts		604	304	(300)
Direct Revenue Funding			-	-
Major Repairs Reserve		6,846	5,639	(1,207)
Grants and Contributions		-	-	-
		7,450	5,943	(1,507)

Notes to Table 7:

1. **Central Heating (£149k)** – Programme valuation reduced.
2. **Kitchen and Bathroom Replacement (£30k)** – Capital forecast reviewed as a result of tenant refusals during Qtr.1. Programme being revised and updated as part of Qtr.3.
3. **Electrical Upgrade (£6k)** – Smoke Alarm and Electrical upgrade Capital Schemes combined to achieve savings.
4. **Chimneys, Paths/Drives, Boundary Walls, Car Parks, Smoke alarms and The Square** – Contracts on procurement planner, intention to spend the budget but will need monitoring to see when the works start on site and revising this figure if necessary. Smoke alarms forecast included in electrical upgrade programme resulting in variance.

5. **ICT Strategy (£51k)** – Revised infrastructure replacement Capital Bids submitted for 19-20 Estimate process.
6. **Aids & Adaptions (£58k)** - Programme is demand-led due to the nature of the works.
7. **Weston Redevelopment** - *Original budget was £1.0M, but this was reduced to £250K* in the Q1 report. The revised estimate of £430K is therefore above the previous forecast, but under the £1.0M original budget. The project is behind plan but will be completed in 2019/20 within the business Plan timescale
8. **Purchase of Units – (£1,363k)** Only one of the identified three proposed S106 sites will be delivered in 2018/19, a further site will be delivered in 2019/20 (£782K) and the third in 2020/21 (£280K), leaving £301K of the £2.0M available.

Capital Receipts

They have been 13 right-to-buy receipts in the year to date, resulting in total receipts of £768k. There is £611K of 1-4-1 receipts available up to the end of Q1 2018/19. A further update will be provided in Quarter 3.

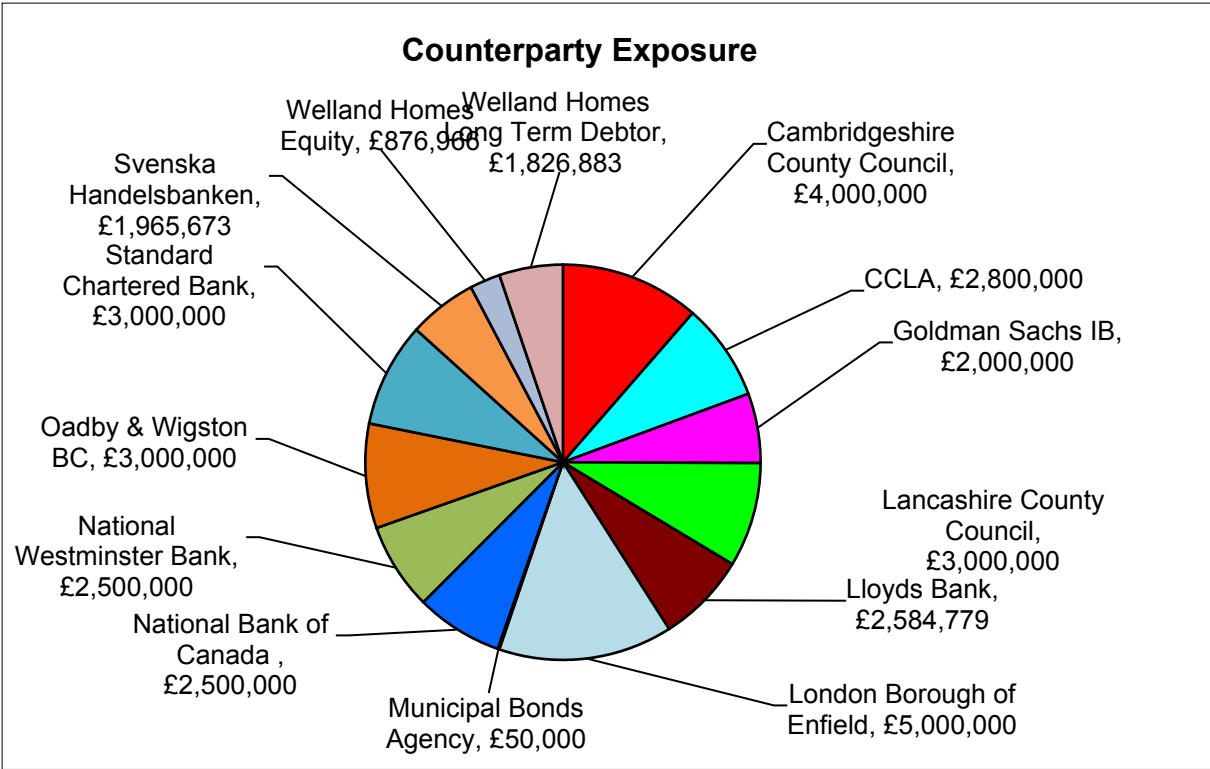
Treasury

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 Link 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.

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

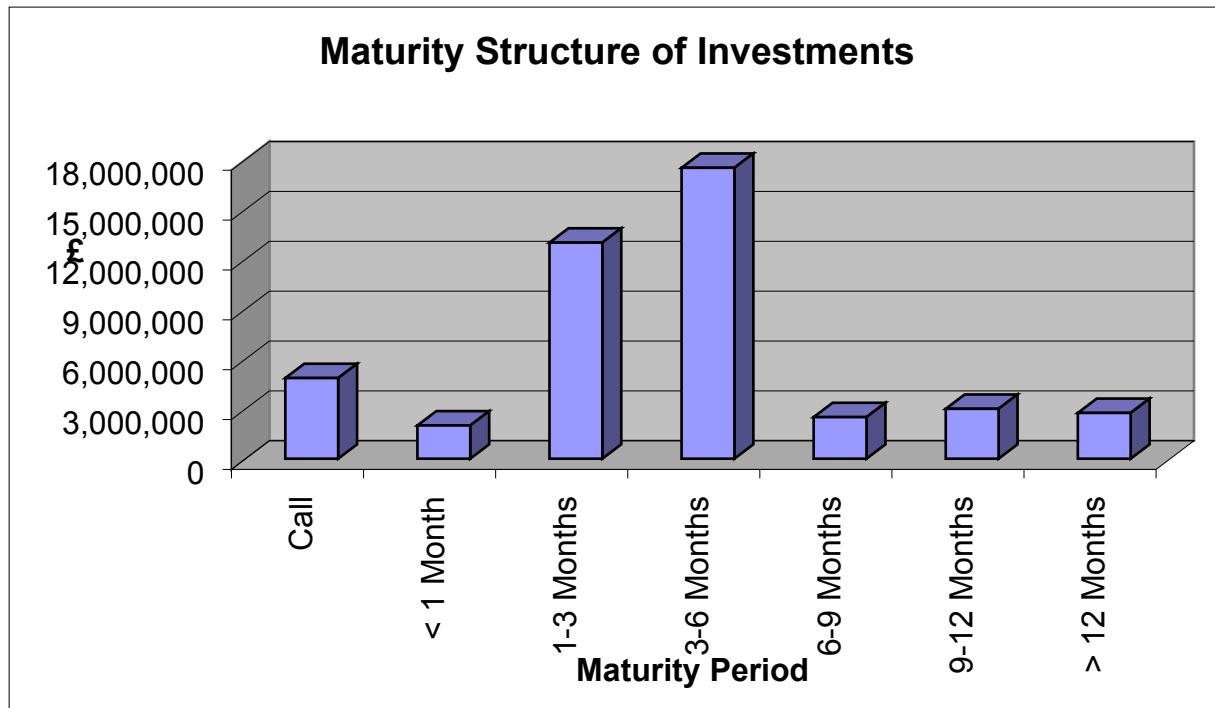


Cash

The Council’s average level of deposits during 2018/19 to date was £44.8m. As at 30 September 2018 investments held were £45.6m of which £4.85m was instant access cash available to meet cash flow requirements. Longer term investments were made up of:

- £38m - short term investments up to 12 months
- £877k - Welland Homes equity
- £50k – Municipal Bond Agency Equity
- £1.827m - loans to Welland Homes

The chart below shows the amounts held in relation to the remaining period to maturity.



Yield

Budgeted Interest 2018/19	£258,000 (£196,000 GF, £62,000 HRA)
Actual Interest achieved 2018/19	£184,510 (£129,175 GF, £55,335 HRA)
Projected Outturn 2018/19	£375,000 (£266,200 GF, £108,800 HRA)
Target yield (Average 3 month LIBID)	0.606%
Actual Yield achieved for 2018/19	0.835%
Actual Yield achieved for 2017/18	0.622%

The increased levels of investment interest achieved can be attributed to higher levels of investment balances being held and also higher than anticipated interest rate levels in the market, in particular the inter-authority rates which are now higher than those offered by financial institutions.

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.