

Agenda Item No: 7

Report To: Cabinet

Date of Meeting: 10 November 2016

Report Title: Budget Monitoring Report – Quarter 2, 2016/17

Report Author & Job Title: Maria Seddon – Accountancy Manager
Jo Stocks – Senior Accountant
Lee Foreman – Accountant

Portfolio Holder Cllr. Shorter
Portfolio Holder for: Finance & Budget, Resource Management and Procurement



Summary: This report presents an assessment of an outturn position for this financial year based on the first half of the year for the General Fund, the Housing Revenue Account and the Collection Fund.

There is currently a forecast underspend of £89,000 within Services, overall during the period the General Fund is broadly balanced, however it needs to be noted that quarter one underspends were transferred to reserves (approved in quarter 1).

The details of this variance are within the report including highlighting any current risks following this review.

The Housing Revenue Account is projecting an overall deficit of £1,578,000, a small movement from last quarter.

Key Decision: YES

Significantly Affected Wards: All

Recommendations: **The Cabinet is recommended to:-**

- I. note the Budget Monitoring position as at 30 September 2016**
- II. note Management Team approval of the installation of a Beacon in North Park to celebrate future national events**
- III. note the work done towards jointly procuring a cash collection contract.**

Policy Overview: The budget is a key element supporting the delivery of the Council's wider Policy Objectives

Financial Implications: At this stage in the year the General Fund is reporting a broadly balance budget which includes quarter ones transfers to reserves of £675,000. The outturn will continue to be monitored and reviewed as pressures and savings/income opportunities arise to keep the outturn within budget.

The Housing Revenue Account is reporting a deficit £1,578,000 compared to a budgeted deficit of £3,088,000, the majority of this movement was reported in the quarter 1 budget monitoring report, for this quarter's movements see the Housing Revenue Account section.

The Council's reserve balances remain healthy.

Legal Implications N/A

Equalities Impact Assessment Not Required because it is done as part of the budget. Policy changes are assessed separately.

Other Material Implications: None

Exempt from Publication: **NO**

Background Papers: N/A

Contact: Maria.seddon@ashford.gov.uk – Tel: (01233) 330547

Report Title: Budget Monitoring Report Quarter 2 of 2016/17

Introduction and Background

1. This report is to inform Members of the projected outturn for the financial year based on the first half year information (April to September) for the General Fund, Housing Revenue Account, and the Collection Fund.
2. The report also updates Members on the Kent Buying Consortium cash collection contract process and Management Team decisions.
- 3.

Proposal/Current Position

4. The Cabinet is asked to note the budget monitoring position for the General Fund, Housing Revenue Account, the Collection Fund and New Homes Bonus schedule.

Budget monitoring assessment to end of September 2016

Key Variations

Cultural Services

5. The Cultural Services budget is forecast to be £45,200 higher than budget, this an adverse movement of £95,200 from quarter 1. The most significant pressure is utilities at the Stour Centre; work will shortly be commissioned to undertake a review to rectify the performance issues.

Environmental & Customer Services

6. Overall the position has not change however there are some movements within the outturn. Management Team have approved to move £50,000 from the Street Cleansing, unscheduled works budget, to Aspire to provide additional resource to manage enhanced services as it is rolled out.

Health, Parking & Community Safety

7. Additional income is projected to be received from parking fees and parking enforcement.

Legal & Democratic

8. External legal advice in respect of due diligence for Corporate Projects including a loan to Ashford College and the commercial quarter. The Ashford College loan has now been paid over this month and contracts for the office building at the Commercial Quarter are due to be sign over the next week.

Net Interest

9. Borrowing decisions have generated further interest savings of £90,000 this quarter.

Table 1 – General Fund Budget Outturn Forecast as at 30 Sept 2016

| Service | Current Budget (net) | Forecast Outturn (net) to 31/03/17 | Variance (B-A) | Movement from previous quarter |
|------------------------------------|----------------------|------------------------------------|----------------|--------------------------------|
| | A | B | | |
| | £'000 | £'000 | £'000 | £'000 |
| Corporate & Strategy | 1,362 | 1,360 | (2) | (1) |
| Cultural Services | 2,794 | 2,839 | 45 | 95 |
| Financial Services | 2,542 | 2,539 | (3) | (10) |
| Housing Services | 846 | 832 | (14) | 0 |
| Environmental & Customer Services | 4,852 | 4,737 | (115) | 0 |
| Corporate Property & Projects | (1,364) | (1,345) | 19 | (9) |
| Health, Parking & Community Safety | 804 | 671 | (133) | (45) |
| HR, Communications & Technology | 283 | 352 | 69 | (1) |
| Legal & Democratic | 1,384 | 1,449 | 65 | 61 |
| Planning & Development | 1,907 | 1,887 | (20) | 4 |
| Net Service Expenditure | 15,410 | 15,321 | (89) | 94 |
| Capital Charges and net interest | (1,476) | (2,058) | (582) | (90) |
| Levies, Grants and Precepts | 271 | 271 | 0 | 0 |
| Contribution to reserves | 1,317 | 1,992 | 675 | 0 |
| Budget Requirement | 15,522 | 15,526 | 4 | 4 |
| Financing: | | | | |
| Revenue Support Grant | (1,270) | (1,270) | 0 | 0 |
| NNDR. Pool | (3,410) | (3,410) | 0 | 0 |
| NNDR S31 Grant | (538) | (538) | 0 | 0 |
| Council Tax | (6,564) | (6,564) | 0 | 0 |
| CTS Payment For Parish Council | 42 | 42 | 0 | 0 |
| New Homes Bonus | (3,782) | (3,782) | 0 | 0 |
| | 0 | 4 | 4 | 4 |

Risks to the current year's budget

10. Private sector leasing (General Fund housing rents) income could be under pressure in the current year following changes to the benefit cap that was introduced in November this year. The situation will be monitored and officers will be working closely with residents. The Council so holds a discretionary housing payments budget for one off assistance if required.

Vacancy Management

11. The budget contains a number of savings targets to be delivered by managing vacancies totalling £108,130. During the first half of the year £84,050 has been achieved with the remaining target expected to be achieved by the end of the year.

Collection Fund Monitoring

12. The Collection Fund is the statutory mechanism by which income gathered by a billing authority (in this case Ashford Borough Council) from Council Tax and Business Rates is distributed to Government and Precepting authorities (KCC, Fire, Police and Parishes).

Council Tax

13. The monitoring information for the first four months is currently showing a surplus of £2,225,000 (£2,031,000 at first quarter) in the gross amount of council tax collected.
14. The main variance is due the actual collection rates exceeding the budgeted collection rates as a result the bad debt provision is expected to reduce, resulting in a n increased surplus to the Fund.

It should be noted that in the event that there is a surplus on the collection fund at the end of the year, it will be divided between the precepting authorities and in the following year (so the General Fund summary is not effected this financial year), with the Council's share being approximately 10%.

Business Rates

15. The total Business Rate income is expected to be £135,000 lower than originally mainly due to a number of large Rateable Value reductions, however due to growth in the borough additional premises have helped to partly negated the pressure.
16. This forecast surplus will not affect the amount of money the Council will draw from the Collection Fund for the current year. The surplus will be used to calculate the levy owed to Government in 2017/18.
17. The table below shows the current Business Rates forecast position:

Table 2 – Business Rates Forecast

| | Original Budget | Forecast Outturn (net) to 31/03/17 | Variance |
|--|------------------------|---|-----------------|
| | A | B | (B-A) |
| | £'000 | £'000 | £'000 |
| Income from NNDR less discounts and exemptions | (48,540) | (47,928) | 612 |
| Contribution towards previous year deficit | 48,040 | 48,040 | 0 |
| Payments to Precepting authorities | (747) | (747) | 0 |
| Provision for bad debts and appeals | 500 | 23 | (477) |
| | (747) | (612) | 135 |

Reserve Balance

Reserve Balance

18. The table below summarises the estimated reserves forecast to be held within the General Fund as at 31 March 2017. There are no changes to report to members.

Table 3 – Reserve Summary

| | £'000 | £'000 |
|---|---------|-----------------|
| General Reserve | (1,891) | |
| Earmarked Reserves* | (9,049) | |
| Opening Balance 31/03/16 | | (10,940) |
| Known/likely transfers to reserves | | |
| <i>Items previously reported</i> | | |
| Items approved as part of the Budget | (245) | |
| Items reported previously (quarter 1) | (675) | |
| | | (920) |
| Known/likely draw downs | | |
| <i>Items previously reported</i> | | |
| Items approved as part of the Budget | 97 | |
| Items reported previously (quarter 1) | 14 | |
| Beacon – North Park | 30 | |
| | | 141 |
| Estimated Closing Balance | | (11,719) |

* Excludes developer contributions

19. The estimated closing balance of reserves includes balances earmarked for Corporate Projects, maintenance of assets and future expenditure. There is also a minimum balance policy of 15% of net expenditure to ensure risks within the Medium Term Financial Plan can be managed, is equates to £2.3m.
20. Management approved up to £30,000 for the purchase and installation of a Beacon at North Park to celebrate national events such as births, deaths and marriages.
21. The Council has been working with the Kent Buying Consortium to secure a cash collection contract and the contract has been awarded to Contract Security Services Limited. This contact will commence on 9 January 2017. The agreed rates are the same as the old contract with an annual CPI increase.

Housing Revenue Account

22. The Housing Revenue Account review is ongoing and out for consultation. The results of the review and recommendations will be presented at the December Cabinet.

Table 5 - 2016/17 Housing Revenue Account Outturn Position

| | Current Budget A £'000 | Forecast Outturn to 31/03/17 B £'000 | Variance (B-A) £'000 | Movement from previous quarter £'000 |
|---|---------------------------------------|---|---------------------------------|---|
| Budget Page | | | | |
| Income | (24,272) | (25,047) | (775) | 0 |
| Supervision and Management | 5,529 | 5,509 | (20) | 48 |
| Repairs and Maintenance | 3,450 | 3,262 | (188) | (33) |
| Other | 18,463 | 18,073 | (390) | 0 |
| Net Revenue Expenditure | 3,170 | 1,797 | (1,373) | 15 |
| Capital Works - Decent Homes | 4,424 | 4,287 | (137) | (18) |
| <i>Capital Works financed by:</i> | | | | |
| Major Repairs Allowance (from Self Financing Determination) | (4,465) | (4,465) | 0 | 0 |
| Contribution to/(from) Major Repairs Reserve | (41) | (41) | 0 | 0 |
| Net Capital Expenditure | (82) | (219) | (137) | (18) |
| Total Net Expenditure | 3,088 | 1,578 | (1,510) | 3 |

Variances

Supervision and Management

23. A pressure of £20,000 as a result of planning application costs at the Poplars, and associated soil testing costs.
24. £15,000 was spent on the installation of 'smart meters' to support the existing PV panels, and minimise disputes with the energy company.

Repairs and Maintenance

25. Repairs and Maintenance has been reduced by a further £33k, this is as a result of an analysis of historic trends to ensure there are no unnecessary contingencies included.

Capital Works – Decent Homes

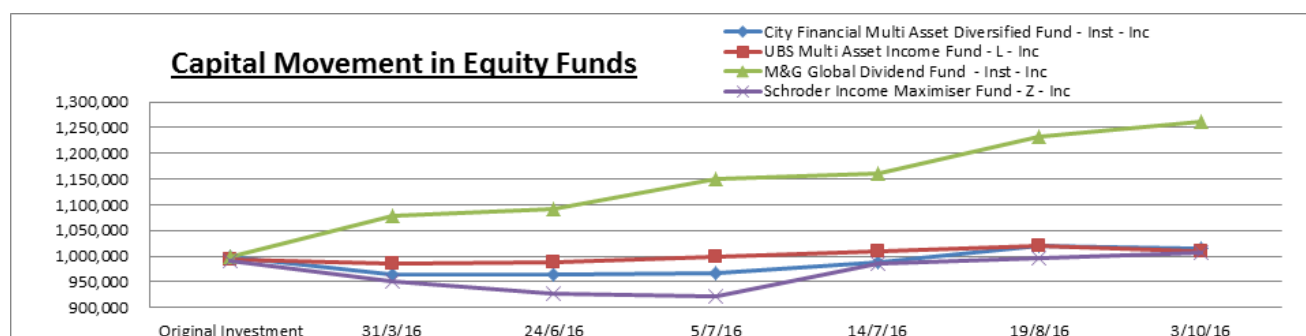
26. A further £50,000 saving on PV panels has been made, due to changes in legislation there is no longer a financial benefit to proactively fit PV panels to existing properties.
27. In order to clear the backlog on loft cavity & wall insulation an additional £32,000 will be spent in this area.

Treasury Management

28. Quarter 2 was the first full quarter of treasury management activity following the Brexit decision of the 23 June, and was not as volatile as originally predicted for the markets and although there was some volatility it was not as bad as some had predicted.
29. As highlighted at quarter 1 the Council has some exposure to the financial markets through equity funds, and movements in corporate property values due to our investment in the CCLA LAMIT (Churches Charities Local Authorities Local Authority Mutual Investment Trust), these positions are in accordance with Treasury Management Strategy approved by members and fundamental to delivering our overall income target. These two investment positions are covered in more detail from paragraph 31.
30. We have seen continued uncertainty around the fines which could be levied against Deutsche Bank, for clarification the council's portfolio has no direct exposure to Deutsche, although our money market funds (MMF) do have around a 5.8% exposure to other German institutions as at 9 October. The Council's use of MMF's and the level of risk is consistent with the Council's strategy and the guidance from Arlingclose (treasury advisors).
31. This quarter saw the Bank of England cut interest rates to 0.25%, this has led to the Council bank deposit rates being reduced and now yield around circa 0.15% for overnight deposits, this has also reduced the yield on MMF's from circa 0.45% to 0.30%. Although it is not anticipated that these reductions will significantly impact on the interest receivable target, the position will be closely monitored during the next quarter.

Equity Funds

32. The original investment in equity funds total £3.98m with a current capital valuation of £4.29m with an average return circa 4.3%.
33. The components of the equity fund portfolio have been relatively flat during the quarter with the exception of M&G which continues to strengthen; this has led to an overall capital gain position of £310,970, £262,989 coming from M&G.
34. The graph and supporting figures below show the movement in capital values of these funds and the indicative yield, shaded in grey.

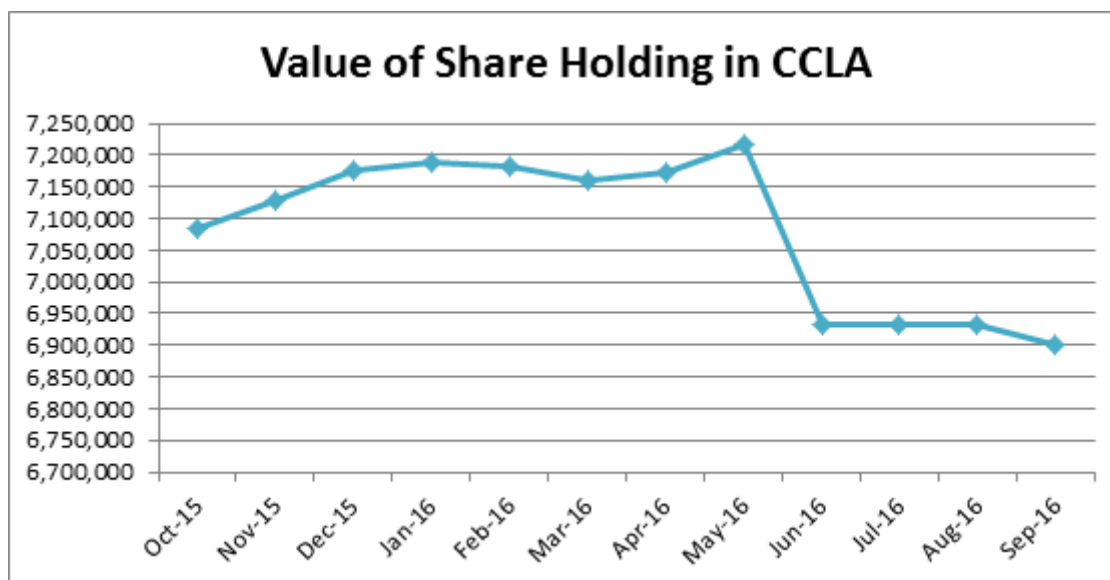


| Fund | Original Investment | 31/3/16 | 24/6/16 | 5/7/16 | 14/7/16 | 19/8/16 | 3/10/16 | Forecast Interest Yield |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|
| City Financial Multi Asset Diversified Fund - Inst - Inc | 997,687 | 965,605 | 963,885 | 967,816 | 987,798 | 1,020,637 | 1,015,887 | 2.60% |
| UBS Multi Asset Income Fund - L - Inc | 994,504 | 986,089 | 989,070 | 998,609 | 1,008,943 | 1,019,475 | 1,009,539 | 3.39% |
| M&G Global Dividend Fund - Inst - Inc | 997,914 | 1,078,660 | 1,090,797 | 1,150,506 | 1,161,410 | 1,231,373 | 1,260,903 | 3.48% |
| Schroder Income Maximiser Fund - Z - Inc | 992,152 | 951,921 | 927,928 | 922,365 | 984,631 | 997,241 | 1,006,897 | 7.68% |
| Total Portfolio Balance | 3,982,256 | 3,982,275 | 3,971,680 | 4,039,296 | 4,142,781 | 4,268,727 | 4,293,226 | 4.29% |

* Original Investments were made between 26/08/2015 and 3/11/2015.

CCLA Corporate Property Portfolio

35. The original investment in the CCLA fund is £6,000,000, with a current capital value of £6,901,087 resulting in an average return of circa 4.9%.
36. Corporate property values have been slowly creeping downwards over the second quarter following the clearly visible markdown post the 'Brexit' vote, see graph below.



37. A full schedule of the treasury management positions as at 19 October 2016 are shown at Appendix A, this excludes loans to the Councils Property Company and K College which are £3,645,000 and £2,000,000 respectively.

Portfolio Holder's Views

38. To be given at the meeting

Contact and Email

39. Maria Seddon
40. Maria.seddon@ashford.gov.uk