

**Agenda Item No:** 15  
**Report To:** Cabinet  
**Date of Meeting:** 9 February 2017  
**Report Title:** Budget Monitoring Report – Quarter 3, 2016/17  
**Report Author & Job Title:** Maria Seddon – Accountancy Manager  
Jo Stocks – Senior Accountant  
Lee Foreman – Accountant  
Maria Hadfield – Senior 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 three quarters of the year for the General Fund, the Housing Revenue Account and the Collection Fund.

There is currently a forecasting an overall favourable variance of £121,000, 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 £444,000 which is lower than the budgeted position.

**Key Decision:** NO

**Significantly Affected Wards:** All

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

**I. note the Budget Monitoring position as at 31 December 2016**

**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 an underspend against budget of £121,000. 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

£755,000 compared to a budgeted deficit of £3,088,000, for this quarter's movements see the Housing Revenue Account section.

There are no movements to the Council's reserve balances t report and they 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

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## **Report Title: Budget Monitoring Report Quarter 3 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 three quarters information (April to December) for the General Fund, Housing Revenue Account, and the Collection Fund.

### **Proposal/Current Position**

2. The Cabinet is asked to note the budget monitoring position for the General Fund, Housing Revenue Account, the Collection Fund and Treasury Management schedule.

### **Budget monitoring assessment to end of December 2016**

#### ***Key Variations***

##### Corporate & Strategy

3. Vacancy savings throughout the organisation are reported in this area and covered in a section later in the report.

##### Housing Services

4. An assessment of Bed and breakfast has taken place and based on increasing demand the outturn has been increased by £56,000. It should be noted that the Budget for 2017/18 is based on current levels due to new initiatives being introduced. This budget needs to be monitored closely.
5. To discourage fly-tipping security fencing has been erected around the utility area at Chilmington Gypsy site, this has cost around £20,000 in addition to the budget.

##### Legal & Democratic

6. Additional expenditure is shown in this area due to the due diligence work that was required for the Elwick development and further legal work that was required for the loan to the College campus. The costs relating to the Elwick project are in line with the projects budget and are being recharged to the capital scheme and will not form a revenue pressure.

##### Net Interest

7. Additional interest from equity based investments is expected to be £75,000 above the estimate this has primarily been driven by the performance of stock markets since the referendum result.
8. The Loan for the construction of the college campus has been draw down and the Interest receivable from the loan of £25,000 has been brought into the forecast. Upon completion of the construction and after the college meets a

number of trigger points the loan will be converted into a grant with interest no longer receivable.

**Table 1 – General Fund Budget Outturn Forecast as at 31 December 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	1,401	1,359	(42)	(40)
Cultural Services	2,779	2,812	33	(12)
Financial Services	2,542	2,539	(3)	0
Housing Services	836	911	75	89
Environmental & Customer Services	4,838	4,723	(115)	0
Corporate Property & Projects	(1,364)	(1,314)	50	31
Health, Parking & Community Safety	804	656	(148)	(16)
HR, Communications & Technology	283	386	103	34
Legal & Democratic	1,384	1,342	(42)	(107)
Planning & Development	1,907	1,887	(20)	0
<b>Net Service Expenditure</b>	<b>15,410</b>	<b>15,301</b>	<b>(109)</b>	<b>(21)</b>
Capital Charges and net interest	(1,476)	(2,058)	(682)	(100)
Levies, Grants and Precepts	271	271	0	0
Contribution to reserves	1,317	1,992	675	0
<b>Budget Requirement</b>	<b>15,522</b>	<b>15,506</b>	<b>(116)</b>	<b>(121)</b>
<b>Financing:</b>				
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
	<b>0</b>	<b>(16)</b>	<b>(116)</b>	<b>(121)</b>

## Vacancy Management

- The budget contains a number of savings targets to be delivered by managing vacancies totalling £108,130. At the end of December savings of £122,930 have been achieved, being £14,800 over target and projected to be £40,000 by the end of the year.

## Housing Revenue Account

10. The Housing Revenue Account has gone through a major review this year, which was reported to Cabinet in December, and work following this review is nearing completion and will be fully implemented by the end of the financial year.

**Table 5 - Housing Revenue Account Outturn Position as at 31 Dec 2016**

<b>Budget Page</b>	<b>Current Budget A £'000</b>	<b>Forecast Outturn to 31/03/17 B £'000</b>	<b>Variance (B-A) £'000</b>	<b>Movement from previous quarter £'000</b>
Income	(24,272)	(25,325)	(1,056)	(281)
Supervision and Management	5,529	5,139	(390)	(370)
Repairs and Maintenance	3,450	2,943	(507)	(319)
Other	18,463	18,073	(390)	0
<b>Net Revenue Expenditure</b>	<b>3,170</b>	<b>827</b>	<b>(1,611)</b>	<b>(970)</b>
Capital Works - Decent Homes	4,424	4,123	(301)	(164)
<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	<b>(82)</b>	<b>(383)</b>	<b>(301)</b>	<b>(164)</b>
<b>Total Net Expenditure</b>	<b>3,088</b>	<b>444</b>	<b>(2,644)</b>	<b>(1,134)</b>

### *Variances*

#### Income

11. Rent income has increased as a result of an increase in the number of void conversions to affordable rents which have a higher rent than social housing.

#### Supervision and Management

12. Works on New Town play area have been delayed until next year creating a favourable variance of £131,000. This will need to be allocated to the Reserve to allow for the expenditure to be funded next year.
13. Land study costs have reduced due to developments being delayed or not required resulting in a favourable variance of £50,000.
14. The outturn includes salary savings from vacancies and maternity leave totalling £164,000.

#### Repairs and Maintenance

15. The Gas Heating contract, to service and maintain heating systems, has been retendered achieving better value than expected saving £171,000 this year.

16. The balance of this variance is made up of savings from unscheduled works budgets that are not being commissioned.

#### Capital Works – Decent Homes

17. Savings have been achieved through works not being done to some scheduled properties for various reasons amounting to £343,000, this is offset by additional works on contracts of £222,000.

## **Capital Monitoring**

### Junction 10a

18. As reported elsewhere on the agenda the Council will receive £16,000,000 forward funding from Communities and Local Government for a new motorway junction and associated link roads to relieve congestion at junction 10 of the M20. The new junction will be known as 10A and will deliver growth in southern and eastern Ashford. In a similar arrangement to the RIF agreement that funded improvements to Junction 9 and Drivers roundabout, this funding will be repaid to the HCA from S106 and CIL collected by the Council from developers.

### Property Portfolio

19. The Property Company has drawn down and further £560,000 in loans in 2016/17. This has been used to purchase 3 apartments in the newly refurbished Panorama Building and a 3 bedroom mid terrace property in Arcon Road, South Ashford.

### Elwick Place

20. The Council has completed on the final land purchase to facilitate the development at a cost of £35,000 and incurred other associated costs of the development of £43,500, which will be funded by New Homes Bonus. A further commitment has been incurred in Legal Services of £200,000, to prepare the necessary legal documents, this figure was included within the financial appraisal of the scheme.

### Spearpoint Pavilion

21. In October the football pavilion at The Ridge, Kennington was completed; the final expenditure in 2016/17 was £677,100. This project has been funded by the Football Foundation, Sport England and S106 funding.

### Grounds Maintenance Service

22. The construction of the new grounds maintenance depot at Carlton Road, was completed in September at a cost of £1,180,000. A further £512,000 has been spent on major pieces of equipment to facilitate the running of the service.

### Ellingham Industrial Estate

23. The works to construct 3 new units at Ellingham Road industrial estate have been completed in 2016/17 expenditure in this year of £194,000.

### Planned Maintenance Schedule Works

24. Work has been completed on the Sk8side building costing £29,700, replacing the existing roof and refurbishing and making good to the interior fittings. £15,000 has been spent on Ellingham Industrial Estate repairing footpaths and access ways. New flooring has been laid at the Stour Centre at a cost of £6,600.

## Treasury Management

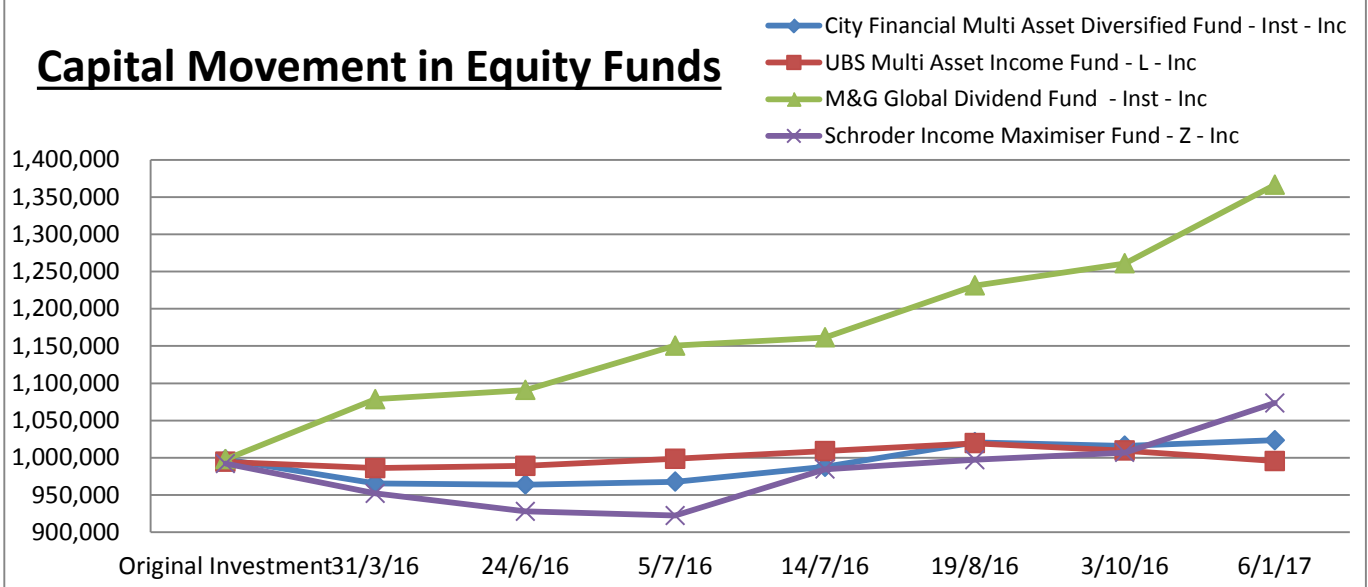
25. Quarter 3 saw a strengthening of UK Equities and an upturn in the valuation of the Council's Corporate Property investment with CCLA having seen a markdown following the Brexit vote. Q3 did include the result of the US presidential election and despite some minor turbulence in the markets the Council's investment in the M&G Global Investment fund which is heavily invested in US equities continues to strengthen in capital value.
26. Last quarter saw concerns for Deutsche (and possibly Germany) with continued uncertainty around the fines which could be levied by US authorities, this was (subject to final approval) resolved just prior to Christmas with a proposed settlement of £5.9bn.
27. There have been increasing concerns over Italian banks, Monte dei Paschi which has been supported by the Italian Government, for clarification the Council has no direct exposure to Monte dei Paschi, and no secondary exposure through our money market funds (MMF's) which have no exposure to Italy as a Country.
28. the Bank of England has maintained interest rates to 0.25%, this has continued to weaken the return on MMF's although they are still paying more as they have to hold large amounts of readily available investments (cash).

## Equity Funds

29. The original investment in equity funds total £3.98m with a current capital valuation of £4.46m giving a capital gain of £475,689 in addition to average revenue returns of circa 4.3%.
30. The components of the equity fund which deal with multi assets (City Financial and UBS) remained relatively flat during the quarter, the two funds predominately invested in US and UK equities (M&G and Schrodgers) continue to strengthen allowing for a minor blip following the outcome of the US Election.
31. The graph and supporting figures below show the movement in capital values of these funds and the indicative yield, shaded in grey.



## Capital Movement in Equity Funds

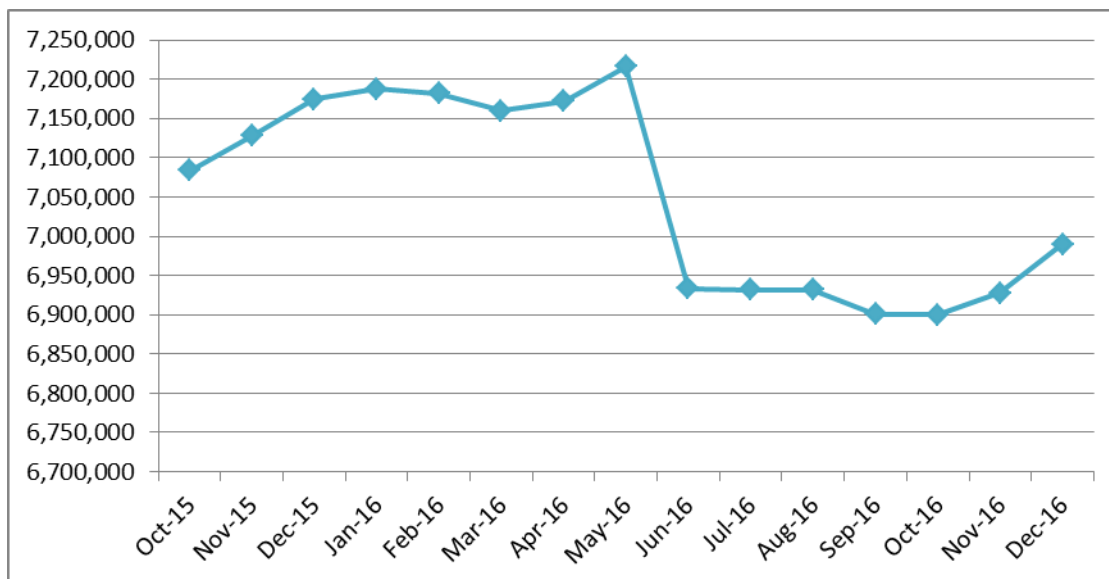


Fund	Original Investment	31/3/16	19/8/16	3/10/16	6/1/17	Forecast Interest Yield
City Financial Multi Asset Diversified Fund	997,687	965,605	1,020,637	1,015,887	1,023,585	2.47%
UBS Multi Asset Income Fund - L - Inc	994,504	986,089	1,019,475	1,009,539	995,429	4.10%
M&G Global Dividend Fund - Inst - Inc	997,914	1,078,660	1,231,373	1,260,903	1,366,433	2.78%
Schroder Income Maximiser Fund - Z - Inc	992,152	951,921	997,241	1,006,897	1,073,498	7.68%
<b>Total Portfolio Balance</b>	<b>3,982,256</b>	<b>3,982,275</b>	<b>4,268,727</b>	<b>4,293,226</b>	<b>4,458,945</b>	<b>4.26%</b>

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

### CCLA Corporate Property Portfolio

32. The original investment in the CCLA fund is £6,000,000, with a current capital value of £6,989,477 with an average return of circa 4.9%.
33. Corporate property values had a visible markdown following the 'Brexit' vote but these have started to recover over the past few months as below.



34. A full schedule of the treasury management positions as at 9 January 2017 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**

35. To be given at the meeting

### **Contact and Email**

36. Maria Seddon - [Maria.seddon@ashford.gov.uk](mailto:Maria.seddon@ashford.gov.uk)

## Treasury Management Portfolio as at 9 January 2017

Counter Party	Deal Date	Rate %	Amount £	Comment
<b>Temporary Investments</b>				
Lloyds Banking Group	04/01/2016	0.65	3,000,000	175 day notice account
National Counties	18/11/2016	0.35	3,000,000	Matures 22/02/2017
<b>Total Temporary Investments</b>			<b>6,000,000</b>	
<b>Long Term Investments</b>				
Blaenau Gwent	21/10/2014	2.00	3,000,000	Matures 21/10/2019
Newport City Council	10/11/2014	1.50	2,500,000	Matures 10/07/2017
<b>Total Long Term Investments</b>			<b>5,500,000</b>	
<b>Investment Accounts</b>				
Santander	Various	0.25	2,500,000	Deposit Account
National Westminster Bank plc	Various	0.15	808,357	Deposit Account
Goldman Sachs	Various		50,000	AAA rated deposit facility *
ICD Portal - Invesco	Various	0.30*	5,000,000	AAA rated deposit facility *
ICD Portal - BNP Paribas	Various	0.34*	5,000,000	AAA rated deposit facility *
ICD Portal - Black Rock	Various	0.18*	1,200,000	AAA rated deposit facility *
ICD Portal - HSBC	Various	0.21*	5,000,000	AAA rated deposit facility *
Payden Global MMF	Various	variable	3,000,000	AAA rated deposit facility *
Federated MMF	Various	variable	1,500,000	AAA rated deposit facility *
<b>Total Investment Accounts</b>			<b>24,058,357</b>	
Local Authority Property Fund	Estimate	4.90	6,000,000	Rate is Net of Management Fees (Variable Rate of Return)
<b>Total pooled funds Accounts **</b>			<b>6,000,000</b>	
City Financial Multi Asset Diversified Fund	27/08/2015	variable	997,687	Long term investment **
UBS Multi Asset Income Fund	26/08/2015	variable	994,504	Long term investment **
M&G Global Dividend Fund	27/08/2015	variable	997,914	Long term investment **
Schroder Income Maximiser	03/11/2015	variable	992,152	Long term investment **
<b>Total Equity funds **</b>			<b>3,982,257</b>	
<b>Total Investment Portfolio</b>			<b>45,540,614</b>	
<b>Long Term Borrowing</b>				
Public Works Loan Board***	various	various	119,664,150	Maturity Date - various
<b>Total Long Term Borrowing</b>			<b>119,664,150</b>	
<b>Grand Total Borrowing</b>			<b>119,664,150</b>	

\* Money Market Fund (MMF) are AAA rated deposit facilities which have variable rates of interest but have constant net asset values. Interest rates shown are as at 19/10/2016 where readily available

\*\* Equity funds and the Property fund have variable rates of interest and also have fluctuating capital values

\*\*\* HRA borrowing