

Agenda Item No: 10
Report To: Cabinet
Date of Meeting: 14 September 2017
Report Title: Financial Monitoring – First four months of 2017/18
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Portfolio Holder Cllr. Shorter
Portfolio Holder for: Finance & IT



Summary: This report presents an assessment of the outturn based on the first four months of the financial year, including the General Fund, the Housing Revenue Account and the Collection Fund.

The General Fund is projected to be overspent by £74,000, predominantly due to void periods at International House and homelessness pressures coming through this year which is explained in more detail in the sections below.

The Housing Revenue Account is projected to be overspent by £708,000, this largely due to the 1% rent reduction. The HRA Business Plan has been reviewed in light of this pressure and is still affordable.

The report also updates Members on the new Local Business Rates Relief Scheme and the next steps to implement the scheme.

Members are asked to delegate authority to the Director of Finance and the Economy in conjunction with the Portfolio Holder for Finance and IT to complete the design and consult on a discretionary business rates relief scheme and the scheme which will be reported to Cabinet in December.

Key Decision: NO

Significantly Affected Wards: None

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

- I. Note the outturn position for the General Fund, Housing Revenue Account and the Collection Fund**

- II. Approve and/or note the appropriations between the General Fund and the Housing Revenue Account, paragraphs 15-17
- III. Note the purchase of land near Blind Grooms Lane, paragraphs 18-19
- IV. Note the purchase of 112 Beaver Lane, paragraph 20
- V. Note the continued operation of One You, paragraphs 21-23
- VI. Note the breach of the Investment Policy in paragraph 55
- VII. Resolve to delegate authority to the Director of Finance and the Economy in conjunction with the Portfolio Holder for Finance and IT,
 - a. to complete the design of a proposed Discretionary Business Rates Relief Scheme based on the principles outlined in the report
 - b. Conduct a consultation process on the proposed scheme to gather views on the design of the scheme to report back to Cabinet in December.

Policy Overview: The Budget is a key element supporting the delivery of the Council's wider policy objectives

The Government have introduced a new policy to allow Councils to give relief to businesses that have suffered significant increases in their rates bills. A scheme can now be designed and consulted upon before a final scheme can be approved and adopted by the Council.

Financial Implications: The General Fund is reporting an overspend of £74,000, Management Team are monitoring and working to bring this back in line with budget.

The Housing Revenue Account is reporting an overspend of £708,000, this is many due to income assumptions used to build the original budget. The last HRA business plan does include the outturn assumptions and therefore does not need amending.

Legal Implications N/A

Equalities Impact Assessment As part of Budget Setting 2017/18 a full assessment was undertaken

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Report Title: Financial Monitoring – First four months 2017/18

Introduction and Background

1. This report is to inform Members of the projected outturn for the financial year based on the first four months information (April to July) for the General Fund, Housing Revenue Account, and the Collection Fund.
2. The report includes an update on the treasury activities and current investments are detailed in Appendix A.
3. Members are also being updated on appropriations (movements between the General Fund and the Housing Revenue Account) and approvals under delegation.

Current Position

4. The current General Fund position reflects an overall overspend of £74,000, this is after taking £100,000 service contingency into the outturn.
5. Management Team understand that there is a pressure and will be monitoring the situation closely to ensure the outturn is brought back inline to budgets.

Director of Finance & Economy

6. Corporate Property and Projects are reporting a pressure on International House due to two tenants vacating the 10th and 11th floors. Discussions were held with a number of interested parties and a potential long term tenant for the majority of the 10th floor has been identified. Marketing for the remaining vacant space continues and discussions with a number of companies that have expressed an interest in the accommodation have commenced. To mitigate the pressure this year £100,000 of the service expenditure contingency (£200,000 set aside in the budget) has been utilised.
7. In addition to the above it is very encouraging to report that an 'in principle' agreement has been reached for a ten year extension for the lease of 17,000 square feet within the building for a tenant whose lease was due to expire in 2018.
8. Offsetting the International House pressure is an increase of tenants at Park Mall resulting in additional rental and service charge income of £49,000. Park Mall continues to go from strength to strength and is almost fully occupied. Footfall has risen almost every month since the Council acquired the site in 2014.
9. Housing Services are reporting a pressure of £100,000 as a result in the increasing demand for homeless accommodation, with record numbers being reported. The Council has received an additional grant of £60,000 however this has been set aside to fund prevention measures to reduce future homelessness.
10. Housing are currently working on a further homeless facility near the current Christchurch House site. This will help to reduce future years' pressures once it comes on line.

Director of Place & Space

11. Cultural Services are reporting a pressure of £30,000 for utilities at the Stour Centre. An investigation into the Combined Heat and Power unit has been undertaken and a solution has been identified which will reduce future pressures.
12. Environmental and Land Management are reporting a pressure of £100,000 on the refuse contract due to indexation being higher than expected, however £40,000 of this pressure has been offset through savings being set aside from previous reductions in the contract.
13. Planning currently has potential five major appeals and to alleviate this pressure the Planning reserve has been utilised with an estimated expenditure this year of £125,000. With total spend estimated at £300,000-£350,000 this leaves the Planning reserve fully committed; so if there are further appeals the Council need to consider how to fund them. It may be necessary to earmark further funding from reserves to meet these pressures, either from the General Fund reserve, from additional planning income or funding allocated to corporate projects.

Interest and Capital Charges

14. Interest receivable is expected to be higher than budgeted this year, due to a change of the strategy, for details please see the Treasury section below.

Table 1 – General Fund Budget Outturn Forecast as at 31 July 2017 – Directorate

Directorate	Current Budget (net) A £'000	Forecast Outturn (net) to 31/03/18 B £'000	Variance (B-A) £'000
Chief Executive	836	838	2
Director of Finance & Economy	3,029	3,269	240
Director of Law & Governance	1,982	2,002	20
Director of Place & Space	9,628	9,730	102
Net Service Expenditure	15,475	15,839	364
Non service specific items	(464)	(754)	(290)
Budget Requirement	15,011	15,085	74
Financing:	(15,011)	(15,011)	0
	0	74	74

Table 2 - General Fund Budget Outturn Forecast as at 31 July 2017 – Services

Service	Current Budget (net)	Forecast Outturn (net) to 31/03/18	Variance (B-A)
	A	B	(B-A)
	£'000	£'000	£'000
Chilmington	0	0	0
Corporate Policy, Economic Development & Communications	836	838	2
Corporate Property & Projects	(1,391)	(1,270)	121
Finance & IT	3,759	3,775	16
Housing Services	661	764	103
Health, Parking & Community Safety	525	534	9
HR & Customer Services	96	96	0
Legal & Democratic Service	1,361	1,372	11
Culture	3,018	3,050	32
Environmental and Land Management	4,949	5,009	60
Planning	1,661	1,671	10
Net Service Expenditure	15,475	15,839	364
Capital Charges and net interest	(2,033)	(2,223)	(190)
Levies, Grants and Precepts	250	250	0
Contribution to reserves	1,319	1,219	(100)
Budget Requirement	15,011	15,085	74
Financing:			
Revenue Support Grant	(615)	(615)	0
NNDR. Pool	(3,422)	(3,422)	0
NNDR S31 Grant	(500)	(500)	0
Council Tax	(7,079)	(7,079)	0
New Homes Bonus	(3,395)	(3,395)	0
	0	74	74

Appropriation of Assets

15. During this period 138 Beaver Road was appropriated into the Housing Revenue Account from the General Fund. The property was originally purchased to enable the development of Cryol Place an affordable housing scheme now complete. The property is now no longer required for development purposes and is now being held for residential purposes so forms part of the Housing Revenue Account, the transfer amount is valued at £178,434.
16. 1 Shrubcote, The Bungalow has also been transfer to the Housing Revenue Account at a valuation of £99,941, this property was held as part of the shop, but has now been split into a separate dwelling. Both properties were transferred on 1 April 2017.
17. Members are asked to approve the transfer of garages, 63-72 Towers View, into the General Fund (GF) from the Housing Revenue Account (HRA). During 2014/15 the majority of the garage stock was transferred to the GF

with some remaining in the HRA to be ring-fenced for development of affordable homes. These garages are no longer within the development plans so it is proposed to transfer these as at 1 October to the GF at a transfer value of £8,500.

Purchase of Land near Blind Grooms Lane

18. The Head of Property and Projects approved the purchase of land near Blind Grooms Lane using his delegation and in consultation with the Economic and Regeneration Investment Board.
19. The land adjoins the Chilmington development and will help to maintain a buffer zone in the shorter term, however the land has possible investment opportunities in the longer term.

Purchase of 112 Beaver Road – Short Stay Accommodation

20. The Head of Property and Projects approved the purchase of 112 Beaver Road using his delegation and in consultation with the Economic and Regeneration Investment Board. The property will be purchased and used as short stay accommodation, a further paper will be presented to Cabinet in the future detailing the redevelopment of the property.

One You

21. One You Ashford in Park Mall has been running now for eight months. Initially set up as a six month pilot it has now been extended for a further two years following some promising attendance and intervention figures.
22. Activity and user profile continues to be monitoring but it is clear that One You is reaching the people who need support the most in a way that is most accessible to them. This collaborative project with KCC Public Health and Kent Community Health Foundation Trust is providing support to people to take control over their own lifestyle behaviours, there should be a reduced demand on preventable primary care and acute services in support of the Kent and Medway Sustainability and Transformation.
23. Particular interest is being shown in Healthy Weight, drop in weigh-to-go, Health MOTs/Checks and Blood Pressure checks. Support is also being provided for those experiencing mental health pressures. Public awareness of One You is increasing and there is interest from other local authorities.

Housing Revenue Account

24. **Table 3 - 2017/18 Housing Revenue Account Outturn Position**

Budget Page	Current Budget A £'000	Forecast Outturn to 31/03/18 B £'000	Variance (B-A) £'000
Income	(25,463)	(24,518)	945
Supervision and Management	5,102	5,114	12
Repairs and Maintenance	3,328	3,280	(48)
Other	21,923	21,923	(0)
Net Revenue Expenditure	4,890	5,799	909
Capital Works - Decent Homes	4,418	4,217	(201)
<i>Capital Works financed by:</i>			
Major Repairs Allowance (from Self Financing Determination)	(4,418)	(4,418)	0
Net Capital Expenditure	(0)	(201)	(201)
Total Net Expenditure	4,890	5,598	708

Variances

25. The income levels are lower than originally forecast, this is because at the time the budget was set it was unclear which classes of properties the 1% rent reduction would affect and affordable rents were omitted from the calculation, after further guidance it became clear all housing properties were subject to the reduction. This lower rent forecast has been modelled in the HRA Business Plan and the plan is still affordable for the life of the plan.
26. In addition to this a number of new build properties have not come on line as early as originally anticipated, resulting in lower rent levels over the year.
27. There have been a number of savings in repairs and maintenance, including reductions in the number of materials required for electrical testing, these savings have been made possible by the creation of an in-house team of electricians.
28. There have been a number of savings in Capital Works:
 - a. The roof at Oakleigh house has been repaired, rather than replaced, resulting in a £100,000 saving
 - b. Savings of £96,000 for rewiring, with both materials costs and overheads being reduced
 - c. Saving of £20,000 on re-modelling sheltered accommodation, these works are being incorporated into the sheltered capital programme.

Collection Fund

29. 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

30. At the end of the previous financial year the element of the Collection Fund that relates to Council Tax was in surplus by £2.9m. The Council declared a surplus to major preceptors of £2.0m, which will be distributed during the year with the Council receiving £0.235m of this, which was included in the budget. This means that the Collection fund has a historical surplus balance of £1.0m, which will be held by the Council and distributed next year.
31. For the current financial year, the Council budgeted to bill council tax at £71.8m, but has actually billed £72.4m. This means that as things stand the collection funds surplus will increase by another £0.6m, however this is affected by changes in bands of properties, changes to council tax discounts and exemptions awarded and new properties being completed.
32. As part of the monitoring process, the level of historic debt is reviewed and a bad debt provision calculated. The review of historic debt suggests that, due to the Council collection of historic debts, the provision for prior year debt can be reduced by £0.15m. The Council has budgeted to make a provision of £0.5m for bad debts within the current years liability, currently it is a little early to tell whether this will be needed in full as the Council needs to assess how in year collection proceeds but this figure could be reduced.
33. Therefore for Council Tax the Collection Fund is forecasting a surplus in year of £0.7m and an overall surplus of £1.6m.

Table 4 – Council Tax Forecast

	Forecast Outturn (net) to 31/03/18
Opening Surplus	(2,944,562)
Surplus distributed to Major Preceptors	1,995,691
2017/18	
Amount of Council Tax to be paid to Major Preceptors	71,270,041
Amount of Council Tax billed	(72,376,320)
Changes to bad debt provision	388,917
In year (Surplus)/Deficit	<u>(717,362)</u>
Overall (Surplus)/Deficit	<u>(1,666,233)</u>

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

34. For the element of the collection fund that relates to business rates there was a deficit of £2.8m, which had accrued due to the decision to spread the creation of the appeals provision over 5 years. The Council declared a deficit of £2.4m which will be recovered from the precepting authorities, this will leave a historical deficit of £0.4m to be recovered in next year.
35. The total Business Rate income for the current year was expected to be £52.4m and £51.7m has been billed, this is a small shortfall in year, however it is reasonable to expect that during the year a number of new bills will be raised to reduce this shortfall. There has also been a reduction in the amounts due for prior year's business rates due to appeals and changes in rateable values, which totals £200k which will be charged to the Collection Fund.
36. The level of provisions for bad debts and appeals is also reviewed and has been reduced by £1m. This is as a result of collection rates being maintained and a number of appeals being cleared that affect the level of the provision required. The appeals process has been changed for the current year and that makes estimating the level of provision needed difficult. The in-year provision has been calculated by taking 4.7% of the net rates payable figure, this is a percentage that was used by government when funding allocations were made and this will need to be tested against actual performance as data is gathered.
37. The table below shows the current Business Rates forecast position:

Table 5 – Business Rates Forecast

	Original Budget	Forecast Outturn (net) to 31/03/18
Opening (Surplus)/Deficit		2,867,507
Deficit recovered from Major Preceptors		(2,378,178)
2017/18		
Amount of Business Rates to be paid to Major Preceptors	49,481,875	49,481,875
Amount of Business Rates Billed	(52,412,324)	(51,702,264)
Other Items Charged to the Collection Fund	241,449	241,449
Bad Debts/Appeals	2,689,000	1,686,743
In year (Surplus)/Deficit	0	(292,196)
Overall (Surplus)/Deficit		197,133

38. The forecast surplus will not affect the amount of money the Council will draw from the Collection Fund for the current year.

Local Business Rates relief scheme

39. In the Budget, the Chancellor of the Exchequer introduced three new reliefs for businesses that were suffering from the impact of the revaluation of business rates, those three measures were:
- Any business coming out of small business rate relief will benefit from a cap which prevents the rate that it pays from going up by more than £50 per month.
 - government would also provide a £1,000 discount on business rates bills for all pubs with a rateable value of less than £100,000
 - government would provide local authorities with a £300m fund to "deliver discretionary relief" in local areas
40. Officers have been working with the software providers to introduce the first 2 elements and they will be awarded to ratepayers as soon as the systems have been adapted to provide these reliefs.
41. The Government has announced that the council will receive the following funding for the scheme.

Table: Local authority distribution of £300m discretionary pot

Local authority	2017-18 Gross bill increase (given property criteria ¹) (£000s)	Amount of discretionary pot awarded (£000s)			
		2017-18	2018-19	2019-20	2020-21
Ashford	2,976	350	170	70	10
England Total	1,486,987	175,154	85,000	35,000	5,000

¹Distribution based on the bill increases of properties given the following criteria: their business rates bill is increasing by more than 12.5% following revaluation, and their 2017 rateable value is less than £200k. Bill changes were calculated using a multiplier after inflation and with adjustment for appeals (0.466). Central list properties are excluded from this analysis. Based on the VOA's draft 2017 rating list (September 2016).

42. To deliver the third option officers have been awaiting guidance from government on parameters for the design of a discretionary scheme, which were published earlier in the summer and have since worked to design a scheme that will then need to be agreed by the cabinet to go to consultation before a final scheme is adopted by the Council.

Criteria for relief

43. Officers have been working to design a scheme that will award relief using the following criteria
- The scheme is designed to help ratepayers who have suffered significant increases in rate liability due to the revaluation and subsequent increase to their rateable value.
 - Relief will not be granted where mandatory relief is already granted
 - In assessing any potential entitlement to award the council will compare the following
 - The rate liability at 31 March 2017 after any relief and reductions
 - The rate liability at 1 April 2017 taking into account any transitional relief or discretionary relief within this policy
 - Relief will be awarded where the calculation in c (above) would result in an increase of more than 12.5%.
 - Relief would only be given to premises which are liable for occupied rates, no relief in this scheme will be granted for unoccupied premises.

- f) Relief will only be granted to ratepayers who were in occupation at 31 March 2017 and in occupation on 1 April 2017 and for each day subsequently
- g) Ratepayers taking up occupation after 1 April 2017 will not qualify for relief on the basis that a new ratepayer would not have suffered from increases due to revaluation.
- h) Relief will be targeted to local businesses and not those that are national or multi-national in nature. Local businesses are, for the purposes of this scheme, those which have premises wholly in the Councils area
- i) Relief may be awarded for more than one premises as long as all other criteria are met
- j) Relief will not be awarded where:
 - Mandatory relief is awards
 - Where the ratepayer has applied for a reduction under S44a of the Local government and Finance Act 1988
 - The hereditament has an increase in Rateable Value after 1 April 2017 which increases the rate charge above the 1 April 2017 value
 - The award would qualify as state aid.

Amount of Relief

- 44. The amount of relief will be tapered over 2 years in line with the reduction in support received from the government.
- 45. 2017/18 award = the increase in liability as calculated by applying the criteria above LESS the 12.5% acceptable increase.
- 46. 2018/19 Award = The 2017/18 award x 50% (for clarity this will be half of the relief awarded in 2017/18).
 - For the final 2 years of the scheme, the council will determine any award on a case by case basis and will take into account:
 - The amount of increase in liability due to the revaluation
 - The amount of rates in relation to other business expenses and income of the business
 - The amount of reserves held by the business
 - The ability of the business to pay the increase

Applications for Relief

- 47. The Council is keen to identify ratepayers who may qualify for the relief and as such will look to encourage certain ratepayers to apply. The Council will look to simplify the application process wherever possible, but it will expect any ratepayers to provide such information as is required by the Council to support their application process.

Consultation process

- 48. Due to the delays in getting to the stage where the Council is able to design a scheme for this relief there is now a greater urgency to design and consult upon a scheme and achieve full Council approval so that this relief can be given to the businesses in the Borough. Cabinet is therefore asked to resolve to approve the scheme design as outlined above for a primarily online

consultation, which will enable the Council to have a 6-12 week period of consultation on the scheme with a view to reporting to the December Cabinet with a final proposal with a recommendation to the December Cabinet.

Treasury

49. The forecast outturn for treasury management at Quarter 1 shows additional income of £190,000.
50. The additional income is forecast following a change in the strategy as previously reported in the outturn report for 2016/17. This change has seen the Council start to realise previous borrowing decisions which have been previously internally funded. This additional financing is then being deposited in longer term investments.
51. One of these investments was a further £4,000,000 deposit with the CCLA Corporate Property Fund which we anticipate will generate an additional £90,000 in 2017/18.
52. Further increases to budgets include an increase of £75,000 for the Council's equity investments, which more accurately reflects the performance of these funds since the budget setting cycle.
53. In relation to equities, a risk to the overall forecast is the possibility that a further £14,000,000 of investments in Multi Asset funds will be concluded by the end of the year, this strategy is being actively pursued at present and any projections for additional income will be identified in the next financial monitoring report.
54. Further interest receipts of around £25,000 has also been added for additional lending to the Council subsidiary company, A Better Choice for Property Ltd. The additional lending of £1,445,000 now takes the total lent to the Company to £5,090,000.
55. During the period the Council has had excess cash balances therefore has made a 3 months placement of £2,000,000 in National Counties Building Society (the 12th largest building society in the UK with 1.5bn of assets). As National Counties is an un-rated building society the Treasury strategy limits this type of investment to £1,000,000. Therefore the Strategy has been breached although no action is recommended on breaking the investment early.
56. A full list of the Council's investment portfolio show at Appendix A

Portfolio Holder's Views

57. To be given at the meeting

Contact and Email

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Counterparty	Deal Date	Rate %	Amount £	Fair Value £	Comment
Temporary Investments					
National Counties	17/07/2017	0.36	2,000,000	2,000,000	Matures 25/10/2017
Total Temporary Investments			2,000,000	2,000,000	
Long Term Investments					
Blaenau Gwent	21/10/2014	2.00	3,000,000	3,000,000	Matures 21/10/2019
Total Long Term Investments			3,000,000	3,000,000	
Investment Accounts					
Santander	Various	0.25	1,935,000	1,935,000	Deposit Account
Goldman Sachs	Various	0.15	50,000	51,295	AAA rated deposit facility *
ICD Portal - Invesco	Various	0.20*	5,000,000	5,000,000	AAA rated deposit facility *
ICD Portal - BNP Paribas	Various	0.25*	5,000,000	5,000,000	AAA rated deposit facility *
ICD Portal - Black Rock	Various	0.19*	1,391,000	1,391,000	AAA rated deposit facility *
Payden Global MMF	Various	variable	3,000,000	3,003,757	AAA rated deposit facility *
Total Investment Accounts			16,376,000	16,381,052	
Local Authority Property Fund	Estimate	4.90	10,000,000	10,897,901	Rate is Net of Management Fees (Variable Rate of Return)
Total pooled funds Accounts **			10,000,000	10,897,901	
City Financial Multi Asset Diversified Fund	27/08/2015	variable	997,687	1,020,637	Long term investment **
UBS Multi Asset Income Fund	26/08/2015	variable	994,504	1,018,879	Long term investment **
M&G Global Dividend Fund	27/08/2015	variable	997,914	1,395,314	Long term investment **
Schroder Income Maximiser	03/11/2015	variable	992,152	1,083,684	Long term investment **
Total Equity funds **			3,982,257	4,518,514	
Total Investment Portfolio			35,358,257	36,797,467	
Long Term Borrowing					
Public Works Loan Board***	various	various	117,664,150		Maturity Date - various
Total Long Term Borrowing			117,664,150		
Grand Total Borrowing			117,664,150		

* Money Market Fund (MMF) are AAA rated deposit facilities which have variable rates of interest but have constant net asset

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

*** HRA borrowing