

Agenda Item No: 7
Report To: Cabinet
Date of Meeting: 9 November 2017
Report Title: Financial Monitoring – Quarter 2 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 half of the financial year, including the General Fund, the Housing Revenue Account and the Collection Fund.

The General Fund is projecting an overspend against the original budget with an overall movement from last quarter of £14,000, there are a number of variances affecting this position detailed in the body of the report, however it should be noted last quarter £100,000 of the service contingency was utilised, this has now been removed from the forecast.

The Housing Revenue Account is projected to be underspent by £78,000, there are a number of variances affecting the position detailed in the body of the report.

Members are asked to delegate authority to the Director of Place and Space in conjunction with the Portfolio Holder for Planning to increase Planning Fees in line with Statutory fee increases.

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. Ask that Council delegate authority to the Director of Place and Space, in consultation with the Portfolio Holder for Planning, to increase Planning Fees in line with Statutory fee increases, paragraphs 10-12**

- III. **Ask that Council approve the transfer of the Section 151 functions to the Director of Finance & Economy which were previously held by the Head of Finance & IT, see paragraph 13**
- IV. **Note the update to the HRA business plan to include the purchase of off plan dwellings, see paragraph 20-22**

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

The Government are expected to announce an increase in the amount Local Authorities can charge for Planning applications. This will see planning fees increase by 20%. Members will be asked to delegate officers to approve an increase in fees once the announcement has been made.

Financial Implications: The General Fund is reporting an overall of £87,000, and with a number of uncertainties, including homelessness, Management Team are monitoring to bring this position back to balanced.

The Housing Revenue Account is reporting an underspend of £78,000. While the 1% rent reduction has led to a pressure in the HRA this has been largely mitigated by savings in the Planned Maintenance programme.

Legal Implications N/A

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

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Introduction and Background

1. This report is to inform Members of the projected outturn for the financial year based on six months information (April to September) 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.

Current Position

3. The current General Fund position reflects a small overspend against budget, this is after reversing the decision in quarter one to use £100,000 of the service contingency.
4. Management Team understand there are a few pressures coming through this year, including homelessness, and they will continue to monitor the situation closely to ensure the outturn stays in line with budgets.

Chief Executive

5. There is a pressure in Policy of £36,000 due to a temporary increase in staffing within the Policy team following the appointment of the Head of Policy, Economic Development and Communications. This increase in staffing is not expected to be long term.

Director of Finance & Economy

6. Part year vacancies for the Director of Finance and Economy, the PA to the Directors and the Head of Finance have generated a total saving this year of £135,000. A favourable variance has also been generated through savings in treasury management fees of £31,000.
7. Bed and Breakfast costs are still causing a pressure, with an additional pressure coming forward this quarter of £31,000.

Director of Place & Space

8. Environmental and Land Management had a residual pressure of £67,000 in the first quarter, following a significant (in excess of 5%) increase in the refuse and recycling contract. However, this pressure has now been managed within existing budgets, with a surplus of £19,000 now anticipated. This is largely due to vacancy savings in Aspire, as well as lower than anticipated repairs and maintenance costs on equipment, and a lower than expected fuel bill.
9. Planning are currently showing a pressure of £128,000, this is as a result of the ongoing costs of the local plan, which are not included in the operational budget and appeals. This pressure will be funded from the Planning and Development Reserve at year end.

Table 1 – General Fund Budget Outturn Forecast as at 30 September 2017 – Directorate

Directorate	Current Budget (net) A £'000	Forecast Outturn (net) to 31/03/18 B £'000	Variance (B-A) £'000	Movement from Quarter 1 £'000
Chief Executive	944	987	43	42
Director of Finance & Economy	3,167	3,238	71	(170)
Director of Law & Governance	1,846	1,878	32	12
Director of Place & Space	9,510	9,641	131	30
Net Service Expenditure	15,467	15,744	277	(86)
Non service specific items	(464)	(654)	(190)	100
Budget Requirement	15,003	15,090	87	14
Financing:	(15,011)	(15,011)	0	0
	(8)	79	87	14

Table 2 - General Fund Budget Outturn Forecast as at 30 September 2017 – Service

Service	Current Budget (net) A £'000	Forecast Outturn (net) to 31/03/18 B £'000	Variance (B-A) £'000	Movement from Quarter 1 £'000
Chilmington	70	70	0	0
Corporate Policy, Economic Development & Communications	874	917	43	42
Corporate Property & Projects	(1,363)	(1,274)	89	(33)
Finance & IT	3,899	3,732	(167)	(183)
Housing Services	631	780	149	46
Health, Parking & Community Safety	497	507	10	2
HR & Customer Services	96	116	20	20
Legal & Democratic Service	1,253	1,255	2	(10)
Culture	3,018	3,030	12	(19)
Environmental and Land Management	4,949	4,930	(19)	(79)
Planning	1,543	1,681	138	128
Net Service Expenditure	15,467	15,744	277	(86)
Capital Charges and net interest	(2,033)	(2,223)	(190)	0
Levies, Grants and Precepts	250	250	0	0
Contribution to reserves	1,319	1,319	0	100
Budget Requirement	15,003	15,090	87	14
Financing:				
Revenue Support Grant	(615)	(615)	0	0
NNDR. Pool	(3,422)	(3,422)	0	0
NNDR S31 Grant	(500)	(500)	0	0
Council Tax	(7,079)	(7,079)	0	0
New Homes Bonus	(3,395)	(3,395)	0	0
	(8)	79	87	14

Planning Fees

10. The Government's Housing White paper indicated the likelihood of an increase in planning fees to help enable local planning authorities to put in place sufficient staff resources to help deliver the housing growth the Country needs. Currently income from planning fees covers only around 83% of the Council's staff costs in the planning and development service. The original forecast for 2018/19 indicated that this would reduce to 73% following expansion of the planning and development team, however this increase in fees will support this growth and increase the funding of staff costs to 88% (based on a 20% increase).
11. Implementation of the fee increase has been delayed by the general election but the Government's chief planner recently stated that the necessary approval of Parliament was likely to be sought before Christmas. The increase is an optional one for local authorities but officers are of the view that the increase should be implemented locally to help cover the costs of dealing with the high applications workload currently, including a number of speculative applications being made on sites not identified in the emerging local plan.
12. This report therefore includes a recommendation to the principle of implementing a planning fee increase, up to the maximum amount allowable as soon as the decision is taken nationally, by delegating authority and the handling of detailed arrangements to the Portfolio holder and Director of Place & Space.

Section 151 Officer Functions

13. Following the appointment of the Director of Finance & Economy it is asked that Cabinet recommend to Council to approve that the Section 151 Officer functions are transferred to this role; previously held by the Head of Finance and IT.

Housing Revenue Account

14. 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	Movement from previous quarter £'000
Income	(25,463)	(24,953)	510	(435)
Supervision and Management	5,111	5,128	17	5
Repairs and Maintenance	3,328	3,353	25	73
Other	21,923	21,923	0	0
Net Revenue Expenditure	4,899	5,451	552	(357)
Capital Works - Decent Homes	4,424	3,794	(630)	(423)
<i>Capital Works financed by:</i>				
Major Repairs Allowance (from Self Financing Determination)	(4,424)	(4,424)		
Net Capital Expenditure	0	(630)	(630)	(423)
Total Net Expenditure	4,899	4,821	(78)	(780)

Variances

15. Service Charge income has been increased by £200,000 following a review, this is in line with the income received in 2016/17.
16. Supporting People income from Kent County Council (KCC) has been confirmed as £165,000 higher than anticipated, and expected reductions have been delayed; however, it is unlikely that funding will be reduced in future years.
17. As part of the affordable homes programme we are able to convert void 2 & 3 bed properties from social to affordable rent. The projection on conversions is more favourable than expected, this has helped to reduce the pressure on income reported last quarter.
18. Repairs & Maintenance costs are expected to increase by around £70,000.
19. Planned maintenance is forecast to be around £420,000 lower than originally budgeted, reasons for this include:
 - Tenants not taking up the work offered,
 - Properties being removed from the list after inspections revealed they didn't require the level of works,
 - The roof at Oakleigh House was expected to be replaced, but this will now be repaired.

Purchase of Existing Street Properties

20. As part of the Housing Delivery Report (Cabinet July 2017) it was agreed that the Head of Housing and Head of Finance & IT, with the relevant portfolio holders, be given delegated authority to vary the programme of the purchase of street properties to suit the available resource.

21. Following this report there has been a number of opportunities for the purchase of dwellings off plan and the HRA business plan has been updated to include these.
22. Members are asked to note that the exist street properties budget will include the purchase of off plan dwellings.

Collection Fund

23. 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

24. At the end of the previous financial year the element of the Collection Fund that relates to Council Tax was in surplus by £2,900,000. The Council declared a surplus to major preceptors of £2,000,000, which will be distributed during the year with the Council receiving £235,000 of this, which was included in the budget. This means that the Collection fund has a historical surplus balance of £1,000,000, which will be held by the Council and distributed next year.
25. For the current financial year, the Council budgeted to bill council tax at £71,800,000, but has actually billed £72,400,000, this is in line with the figures reported at first quarter, and is due, in part to a reduction in the amount of Council Tax Support being paid, as well as an increase in the band D equivalent tax base of around 300 properties.
26. 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 the current provision is a little high at £1,200,000 and can be reduced by £100,000 to £1,100,000. Officers will continue to monitor this position and report adjustments to these figures in future monitoring reports.
27. As a result of this, the Collection Fund, in respect of Council Tax, is forecasting a deficit in year of £1,300,000 and an overall surplus of £2,200,000.

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	(72,433,763)
Changes to bad debt provision	(102,515)
In year (Surplus)/Deficit	<u>(1,266,237)</u>
Overall (Surplus)/Deficit	<u>(2,215,109)</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

28. For the element of the collection fund that relates to business rates there was a deficit of £2,800,000, which had accrued due to the decision to spread the creation of the appeals provision over 5 years. The Council declared a deficit of £2,400,000 which will be recovered from the precepting authorities, this will leave a historical deficit of £400,000 to be recovered in next year.
29. The total Business Rate income for the current year was expected to be £52,400,000 and £50,700,000 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 been
30. There has also been a reduction in the amounts due in respect of prior year's business rates as a result of appeals and changes to rateable values, these changes total £950,000, which will be charged to the Collection Fund.
31. The level of provision for bad debts and appeals is continuously reviewed and is still in line with the first quarter estimate, which, when compared to the original budget is a reduction of about £1,000,000. This is as a result of collection rates being maintained and a number of appeals being cleared which affects the level of provision required.
32. The appeals process has been changed for the 2017 valuation list (Check. Challenge. Appeal.), this makes estimating the level of provision difficult. According to the valuation office there have not yet been any appeals, in respect of Ashford's 2017 list. However, 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.
33. 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 2017/18		(2,378,178)
Amount of Business Rates to be paid to Major Preceptors	49,481,875	49,481,875
Amount of Business Rates Billed	(52,412,324)	(50,725,149)
Other Items Charged to the Collection Fund	241,449	241,449
Bad Debts/Appeals	2,689,000	1,652,927
In year (Surplus)/Deficit	0	651,103
Overall (Surplus)/Deficit		1,140,432

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

Capital Monitoring

Property Portfolio

35. The Property Company has drawn down £1,445,000 and it is anticipated that the remainder of the £2,500,000 will be drawn down to further fund the 28 residential units at Victoria Crescent before the end of the year.

Elwick Place

36. Work began on the project in May 2017 and is currently on target to be completed by December 2018. The project is now fully procured, with all contracts and appointments signed. Regular meetings have been held with Travelodge and Picture House, and no major changes have been made to the design. Expected spend in the current year will be in the region of £16,000,000.

Commercial Quarter Enabling Works

37. This area comprises a number of projects to facilitate the redevelopment of the Commercial Quarter. When the capital plan was built, last Autumn, final costings were not yet available, as a result there are now some projects reporting increases in costs:
- Elwick Temporary Car Park: This was completed and open for use in September, it had a final spend of £122,000, which is £17,000 over the original estimate
 - Stour Centre Taxi Car Park: Currently under construction and expected to be completed and operational by December 2017. Current costs are expected to be £140,000, which is £20,000 over the original estimate
 - Zebra Crossing on Station Approach: This project is expected to be completed by the end of the year, but is dependent on the taxi rank relocation. Current costs expected to be £82,000, which is £27,000 over the original estimate.
38. The resurfacing of the car park at International House (IH) has been brought forward from 2018/19 into 2017/18 to take advantage of the opportunity to use the new Quinn CQ car park on a temporary basis. This will minimise the disruption to IH tenants. It is estimated to cost £230,000 and expected to be completed by the end of the financial year.

Model Railway

39. The loan for £850,000 to AIMREC has been removed from the plan in 2017/18, and is likely to form part of capital planning in future years.

Repton Park Community Centre

40. The planned construction of the new community centre is complete, although there are some minor works to landscaping yet to be completed. The forecast expenditure for 2017/18 is £916,000 and on target.

Stour Centre

41. The allocation of £682,000 for energy efficiency measures to be spent in 2017/18 has been re-phased and will be allocated as part of the capital plan for future years.

Street Lighting Replacement

42. Works have been slow to start as we are dependent on third party contractors, therefore £970,000 will be re-allocated to 2018/19.

CCTV Single Operating Platform

43. Works will start in 2017/18 on cameras in Tenterden at a cost of £50,000. However, the planned camera work for Ashford, costing £150,000, will now be completed in 2018/19.

Public Toilets Demolition and Hothfield Cafe

44. There is no current plan to progress the café at Hothfield and the allocation of £280,000 has been removed from the plan.

Treasury

45. The forecast outturn for treasury management is still in line with quarter 1 which predicted additional income of £190,000.
46. Treasury management activity has been as expected through the last quarter, although liquid investment balances have reduced, as payments fall due for the Elwick Place development.
47. Officers have progressed with the previously reported strategy of borrowing for previous capital projects, such as International House, with a view of placing the created balances into equity funds. This treasury management strategy is now being implemented and in October £3,000,000 was invested in the CCLA Diversified Income Fund. Further deposits of £11,000,000 are still to be made which will be split between two existing fund managers and a new fund manager, once the due diligence process has been completed.
48. As we look to quarter 3 the Council's strategy will further develop and given further payments for Elwick and the Council's property company, the Council will need to go to the market to borrow, borrowing will be reported in future updates.
49. A full list of the Council's investment portfolio show at Appendix A

Portfolio Holder's Views

50. To be given at the meeting

Contact and Email

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Treasury Management Activity

Counter Party	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 - BNP Paribas	Various	0.22*	1,003,300	5,000,000	AAA rated deposit facility *
Payden Global MMF	Various	variable	3,000,000	3,003,195	AAA rated deposit facility *
Total Investment Accounts			5,988,300	9,989,490	
Pooled Funds					
CCLA Local Authority Property Fund	Estimate	4.90	10,000,000	10,932,865	Rate is Net of Management Fees (Variable Rate of Return)
Total pooled funds Accounts **			10,000,000	10,932,865	
Equity Funds					
City Financial Multi Asset Diversified Fund	27/08/2015	variable	997,687	1,012,939	Long term investment **
UBS Multi Asset Income Fund	26/08/2015	variable	994,504	1,018,482	Long term investment **
M&G Global Dividend Fund	27/08/2015	variable	997,914	1,388,435	Long term investment **
Schroder Income Maximiser	03/11/2015	variable	992,152	1,053,053	Long term investment **
Total Equity funds **			3,982,257	4,472,909	
Total Investment Portfolio			24,970,557	30,395,263	
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					