

**Agenda Item No:** 10  
**Report To:** Cabinet  
**Date of Meeting:** 8 November 2018  
**Report Title:** Financial Monitoring – 2<sup>nd</sup> Quarter  
**Report Author & Job Title:** Lee Foreman – Senior Accountant  
Maria Hadfield – Senior Accountant (Capital Monitoring)  
**Portfolio Holder** Cllr. Shorter  
**Portfolio Holder for:** Finance & IT



**Summary:** This report presents the forecast outturn for 2018/19 as at the end of Quarter 2 (Q2), 30 September 2018 and covers the performance and forecasts for the General Fund and Housing Revenue Account (HRA), with commentary supporting key variances in the body of the report.

The current projections indicate that the General Fund will have a deficit of £254,000 at year end which is an increased pressure of £28,000 from Quarter 1 (Q1).

The HRA is forecasting further savings of £441,000 from Q1 due to increases in rental and service charge income, with notable contributions coming from Farrow Court which is now fully occupied.

The report also provides an update on large capital projects and provides an update on the Council's Treasury Management Activity.

**Key Decision:** No

**Significantly Affected Wards:** None

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

- I. Note the forecast outturn position for the General Fund and the Housing Revenue Account**
- II. Note the Capital Monitoring and Treasury Management position**

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

**Financial Implications:** The General Fund is reporting an overall overspend of £254,000. Within the budget is a General Fund service

contingency of £200,000; although Management Team will work hard to bring this pressure back in line with budget this contingency will be used if they are unable to do so.

The Housing Revenue Account is reporting an overall underspend of £895,000.

These positions will continue to be monitored and reported to Management Team to enable them to introduce strategies to manage if required.

**Legal Implications**

N/A

**Equalities Impact Assessment**

As part of Budget Setting 2018/19 a full assessment was undertaken

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## **Report Title: Financial Monitoring – Quarter 2**

### **Introduction and Background**

1. This report captures the forecast outturn position for 2018/19 Q2 which ended on the 30<sup>th</sup> September 2018. The aim of this report is to inform management team and members of variances from the budget (both positive and negative) so that these movements can be understood and to enable pro-active action to be taken to mitigate risks to the Council.
2. The report considers each of the following areas of the Council; General Fund, Housing Revenue Account, Capital Spend and Treasury Management.

### **Summary of Current Overall Position**

3. The current General Fund position is showing an overspend of £254,000 which is an increase of £28,000 on Q1. The movement in forecast from Q1 to Q2 is shown at Table 1 at a Directorate level, and then further broken down at Table 2 to a head of service level.
4. Although some services are showing some pressures coming through overall the outturn has been stable over the last quarter with the Housing homelessness pressures seeing a reduction rather than the current trend of rising homelessness and costs.



**Table 1 – General Fund Budget Outturn Forecast as at 30/09/2018 – Directorate**

*	Directorate	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance	Movement from Quarter 2 (C-B) £'000
		A £'000	C £'000	(C-A) £'000	
a	Chief Executive	1,215	1,193	(22)	(25)
b	Director Of Finance & Economy	2,927	3,214	287	32
c	Director Of Law & Governance	1,986	2,140	154	92
d	Director Of Place & Space	10,188	10,077	(111)	(17)
	<b>Net Service Expenditure</b>	<b>16,316</b>	<b>16,624</b>	<b>308</b>	<b>82</b>
e	Non service specific items	(1,904)	(1,958)	(54)	(54)
	<b>Budget Requirement</b>	<b>14,412</b>	<b>14,666</b>	<b>254</b>	<b>28</b>
f	Financing:	(14,412)	(14,412)	0	0
	<b>Total movement</b>	<b>(0)</b>	<b>254</b>	<b>254</b>	<b>28</b>

**Table 2 - General Fund Budget Outturn Forecast as at 30/09/2018 – Service**

*	Service	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance	Movement from Quarter 2 (C-B) £'000
		A £'000	C £'000	(C-A) £'000	
a	Chilmington Management Organisation	71	39	(31)	(32)
a	Corporate Policy, Economic Development & Communications	1,144	1,154	10	7
b	Corporate Property & Projects	(1,527)	(1,314)	213	67
b	Finance & ICT	3,770	3,624	(145)	(72)
b	Housing Services	684	904	219	37
c	Community Safety and Wellbeing	491	494	3	(8)
c	HR & Customer Services	89	102	13	(27)
c	Legal & Democratic Services	1,406	1,544	138	127
d	Culture	3,242	3,274	32	(2)
d	Environmental & Land Management	5,180	5,036	(144)	(16)
d	Planning	1,766	1,767	0	1
	<b>Net Service Expenditure</b>	<b>16,316</b>	<b>16,624</b>	<b>308</b>	<b>82</b>
e	Capital Charges and net interest	(3,388)	(3,442)	(54)	(54)
e	Levies, Grants and Precepts	256	256	0	0
e	Contribution to reserves	1,228	1,228	0	0
	<b>Budget Requirement</b>	<b>14,412</b>	<b>14,666</b>	<b>254</b>	<b>28</b>
	<b>Financing:</b>				
f	NNDR. Pool	(4,190)	(4,190)	0	0
f	NNDR S31 Grant	(349)	(349)	0	0
f	Council Tax	(7,395)	(7,395)	0	0

f	New Homes Bonus	(2,478)	(2,478)	0	0
	<b>Total movement</b>	<b>(0)</b>	<b>254</b>	<b>254</b>	<b>28</b>

\* Cross referencing of Directorate Table to Service table

5. The following narrative provides high level explanations of the movements in the table above which are grouped into their directorate headings:

### **Chief Executive**

6. The budget for the **CMO** is forecasting a saving of £32,000 following the departure of the CMO Lead Officer. **Corporate Policy, Economic Development & Communications** is showing a slight pressure of £7,000 due to reduced Farmers Market income and a staff regrading in the Communications team.

### **Director of Finance & Economy**

7. **Corporate Property & Projects** is reporting an overall pressure of £67,000 in quarter 2 which is expanded on below:
8. A potential pressure is arising from rent increases not increasing as much as anticipated, a £20,000 reduction in forecast is being made to reflect the possibility that further planned increases are below expectations. Rental income from garages following demolitions is also expected to come in £10,000 below budget.
9. Carlton Road, which is soon to be purchased by the Council, has added a pressure of £38,000 to the Q2 position, this is as a result of additional costs which include the marketing and letting of the units and a small reduction in rental income from original budget.
10. **Finance and ICT** has increased its forecast savings since the last quarter and is now showing a further saving of £72,000 following actual costs for pension back funding being less than forecast and budgeted for.
11. **General Fund Housing** is showing an increase of costs for Q2 of £37,000 which consists of; £52,000 expenditure for Chilmington Gypsy Site to cover costs for fly tipping clearance, fly tipping prevention measures, and electrical testing works at the site.
12. £15,000 additional income from ABC letting following an increase in the number of properties taken on this year.
13. Due to the proactive work of the homeless intervention team no further pressure is being reported on temporary accommodation, and homelessness levels have started to reduce and savings are expected to come through later in the year.

### **Director of Law & Governance**

14. **Community Safety and Wellbeing** is reporting further savings of £8,000 for Q2 with significant factors being Elwick Place car park, which is expected to generate income of £125,000 to the year end. This has however been offset from diverting resources to HGV parking enforcement and vacancies within the enforcement team, which has resulted in a reduction in penalty charge notice income of £90,000.

15. **HR and Customer Service** is showing a Q2 reduction of £26,000 however this is due to transferring Q1 pressures to relevant Services where the costs will be managed.
16. **Legal and Democratic Services** are showing a Q2 deficit of £127,000 this is mainly due to the income of chargeable legal costs to third parties is expected to be £50,000 less than budget. It is also acknowledged that due to ongoing recruitment issues in the department the £80,000 saving forecast from restructuring the team will not be deliverable until later in the financial year.

#### **Director of Place & Space**

17. **Environmental and Land Management**, the Aspire team are forecasting further reductions in salary costs due to high vacancy rates which are generating further savings of £19,000 at Q2.
18. **Planning** continues to have staffing pressures and the inability to recruit has forced Planning to continue engaging consultants with forecasted spend of £323,000 (£205,000 at Q1) which is partly offset by vacancy savings of £221,000. Work is ongoing by the Head of Service to address resourcing issues within Planning and additional financial resources are planned going forward and will be recognised in the Budget for 2019/20. This year's risk to forecast will be monitored and reported at Q3 accordingly.
19. Other consultant costs for appeals, to support applications and the local plan are now forecast at £350,000. These additional costs are being supported by additional planning income of £150,000 with the balance coming from the earmarked planning reserve.
20. The pressure arising from the above items will require £302,000 draw from the planning reserve which stands at £392,000 including some funds which are tentatively earmarked. A full review of the flexibility of the reserve will be conducted to see if the current pressure can be fully absorbed.

#### **Housing Revenue Account (HRA)**

21. The Housing Revenue Account is showing an increase underspend in Q2 of £441,000 taking the total underspend projection to £895,000. A breakdown of the Q2 movement is shown in the table below with further commentary below that.

**Table 3 – 2018/19 Housing Revenue Account Outturn Position**

Housing Revenue Account	Current Budget (net) A £'000	Forecast Outturn (net) to 31/03/19 C £'000	Movement from Quarter 2 (C-B) £'000
Income	(24,979)	(25,287)	(330)
Supervision and Management	5,267	5,207	(111)
Repairs and Maintenance	3,418	3,539	0
Other	17,445	17,408	0
<b>Net Revenue Expenditure</b>	<b>1,151</b>	<b>867</b>	<b>(441)</b>
Capital Works - Decent Homes	4,620	4,009	0
Net Capital Expenditure	<b>4,620</b>	<b>4,009</b>	<b>0</b>

<b>Total Net Expenditure</b>	<b>5,771</b>	<b>4,876</b>	<b>(441)</b>
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### **Commentary on HRA Variances**

22. **Income** for Q2 has increased by £330,000 overall as a result of; £118,000 additional income from tenants as additional properties now being occupied including Farrow Court, Homebridge and Cherry Court.
23. Additional service charge income of £211,000 is expected above budget for 2018/19 following the completion of a service charge review which includes additional recharges of Farrow Court £62,000 and an increase in heating and hot water charges £52,000.
24. **Supervision and Management** has seen a reduction in forecast following the capitalisation of the Children's play area at new town green.
25. The other budget lines in the table are still as reported in Q1.

## Capital Monitoring

### Property Portfolio

26. The Property Company has drawn down a further £823,000 for the first stage of works on the agreed Victoria Way development.

### Elwick Place

27. Final fit outs to the Cinema and Hotel are all but complete, carpets in the hotel are laid and back of house areas are nearing completion. The temporary site office has been removed to enable completion of the car park with block paving and lighting in this area nearly complete.
28. The official opening of Elwick Place will take place on 8<sup>th</sup> December 2018, followed by an unveiling of the statue to Queen Marie of Romania by Romanian dignitaries on the 15<sup>th</sup> December 2018.
29. The statue to Queen Marie of Romania has been donated by the Romania Government and will sit on the Plaza within the complex. Queen Marie has strong links with Ashford having been born at Eastwell Manor and was the granddaughter of Queen Victoria and notably served as a nurse in military hospitals following the outbreak of World War 1.

### Other Current Projects

30. The Beacon in North park has been completed, final costs are still being compiled but it is expected to be in the region of £63,000. An official opening took place on 4<sup>th</sup> October 2018.
31. An invest to save project to replace all public space CCTV cameras in Ashford and Tenterden with new and improved cameras had a further £260,000 agreed at Cabinet in September 2018. The final costing for the project is being worked up and it is currently forecast that a further £20,000 to complete all works required will be requested. With the previously agreed budget approved in February 2018 will take the total funds available for the project to £480,000.
32. The rebuilding of the SWAN Centre football changing rooms and clubroom has commenced with initial site surveys and feasibility works undertaken. This project agreed at Cabinet July 2017 is to be funded by S106 contributions, Kent County Football Association, and Bromley Green Football Club.

### HRA Projects

33. Danemore redevelopment of sheltered accommodation will be completed in November 2018 and plans are already in place for occupation by residents soon after this date. Although provisional, the final cost of build is forecast to be £7,764,000 and is slightly over budget by £194,000. The cost includes the construction of 4 chalet bungalows which will be sold giving the HRA an estimated capital receipt of £1,400,000.
34. East Stour Court redevelopment will commence shortly and will be delivered to the same high standard. The budget has been re-profiled and it is expected that £500,000 will be spent on demolition, site clearance and architects fees in 2018/19 with the remaining £7,500,000 to be profiled between 2019/20 and 2020/21.
35. The Affordable Housing programme will deliver 12 fully completed units and 6 partially complete units, incurring expenditure of £2,150,000 in 2018/19.

## Treasury Management

36. During the 2<sup>nd</sup> quarter the Council has maintained its long term investment positions and has seen some volatility in markets with the fair value of these investments reducing by £46,704 with the most notable movement being in the Schroder Income Maximiser fund which has reduced by £61,261. While downward movements are evident it is worth remembering that these are long term strategic funds which are susceptible to capital fluctuations and do not signify a need to sell our positions.
37. However, with the current market volatility increased internal monitoring of the fund positions will be undertaken in addition to the comprehensive monitoring arrangements which are undertaken by our Advisors (Arlingclose) as part of the wider Treasury Management contract.
38. Not in direct response to the current fluctuations in the market, but following a sustained period of the same long term investments, the Council in conjunction with its treasury management advisors is undertaking a full review of the strategic long term portfolio to ensure the risk profile of all the funds is appropriately balanced and diversified. This will potentially involve changing current investment amounts and the potential introduction of new funds.
39. In relation to income the current outlook for investment income has not changed since Q1 and is forecast to hit budget.
40. The current borrowing has increased by £31,000,000 between Q1 and Q2 which is required to meet capital commitments as they fall due during the remainder of the year. A decision was taken to secure £33,000,000 of borrowing in September to support the £15,000,000 from 11/6/2018 which have maturity profiles beyond the 1<sup>st</sup> April 2019, this is to mitigate the risk of a tightening local authority market towards then end of the financial year which causes rates to climb, this also mitigate in the short term any impact from a possible February 2019 base rate rise.
41. Because of the decisions taken above the debt management costs are forecasting a further saving between Q1 and Q2 of £54,000.
42. A full list of the Council's investment and borrowing portfolio is shown at Appendix A

## Portfolio Holder's Views

43. To be given at the meeting

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## Treasury Management Positions as at 30 September 2018

Counter Party	Deal Date	Rate %	Amount £	Fair Value £	Comment
<b>Investment Accounts</b>					
Goldman Sachs	Various	0.61%	50,000	51,295	**
ICD Portal - BNP Paribas	Various	0.67%	12,286,250	12,286,250	*
ICD Portal - Black Rock	Various	0.65%	12,286,250	12,286,250	*
ICD Portal - HSBC	Various	0.60%	12,286,250	12,286,250	
ICD Portal - Invesco	Various	0.63%	12,286,250	12,286,250	
Payden Global MMF	Various	0.73%	3,000,000	2,993,137	**
<b>Total Investment Accounts</b>			<b>52,195,000</b>	<b>52,189,433</b>	
<b>Long Term Investments</b>					
<b>Local Authority Investments</b>					
Blaenau Gwent	21/10/2014	2.00%	3,000,000	3,000,000	Matures 21/10/2019
<b>Property Investment</b>					
CCLA Local Authority Property Fund	Various	4.52%	10,000,000	11,269,864	
A Better Choice of Property Ltd.***	Various	3.69%	175,000	517,016	Value as at 31/03/2018
<b>Equity Funds**</b>					
City Financial Multi Asset Diversified Fund	27/08/2015	3.57%	997,687	953,812	**
UBS Multi Asset Income Fund	26/08/2015	2.03%	2,993,552	2,965,064	**
M&G Global Dividend Fund	27/08/2015	2.75%	997,914	1,523,235	**
Schroder Income Maximiser	03/11/2015	7.28%	992,152	1,050,851	**
CCLA Diversified Income Fund	Various	3.07%	3,000,000	3,008,427	**
<b>Total Long Term Investments</b>			<b>22,156,305</b>	<b>24,288,269</b>	
<b>Total Investment Portfolio</b>			<b>74,351,305</b>	<b>76,477,701</b>	

\* Money Market Fund (MMF) are AAA rated deposit facilities which have variable rates of interest but have constant net asset values. Interest rates are shown at the time of producing this report.

\*\* Equity funds and the Property fund have variable rates of interest and also have fluctuating capital values, the amount stated is the current fair value.

\*\*\* A Better Choice Of Property Ltd. is a solely owned subsidiary of ABC

## Debt Portfolio as at 30 September 2018

Counter Party	Deal Date	Rate %	Amount £	Fair Value	Comment
<b>Temporary Borrowing</b>					
London Borough of Newham Council	21/05/2018	0.62%	5,000,000		Maturity 21/11/2018
Greater Manchester Pension Fund	11/06/2018	0.80%	15,000,000		Maturity 21/05/2019
West Yorkshire Police	23/07/2018	0.55%	6,000,000		Maturity 23/10/2018
Durham County Council	31/07/2018	0.70%	8,000,000		Maturity 31/10/2018
Somerset Pension Fund	06/09/2018	0.97%	8,000,000		Maturity 05/04/2019
Greater London Authority	28/09/2018	1.02%	25,000,000		Maturity 05/04/2019
<b>Total Temporary Borrowing</b>			<b>67,000,000</b>		
<b>Long Term Borrowing</b>					
Public Works Loan Board***	various	various	114,664,150		Maturity Date - various
<b>Total Long Term Borrowing</b>			<b>114,664,150</b>		
<b>Grand Total Borrowing</b>			<b>181,664,150</b>		