

Agenda Item No: 8
Report To: Cabinet
Date of Meeting: 14 February 2019
Report Title: Financial Monitoring – 3rd Quarter
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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 3 (quarter 3), 31 December 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 £104,000 at year end which is a reduction of £150,000 on Quarter 2, this position has been supported by the use of the service pressure contingency which is deployed to mitigate pressures in the Planning Service.

The HRA is forecasting a year end underspend of £1,478,000 against the original budget, this underspend has increased from the Quarter 2 position, where an overall underspend of £895,000 was reported, movements are explained later in the report.

The report 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
- III. Approve the release of Section 106 contributions of £235,081, to Tenterden schools Trust, for the

provision of a 3G artificial turf pitch at Homewood School

IV. Approve revenue funding of £30,000 a year for two years to support service provision as the Sk8side

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 pressure of £104,000 having deployed the service contingency of £200,000 to offset additional planning costs which can be no longer be contained within its own reserve.

Planning have earmarked reserves which will be reviewed in line with expenditure over the last quarter to ensure any appropriate spend can be allocated to these reserves accordingly.

The Housing Revenue Account is reporting an overall underspend of £446,000.

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 3

Introduction and Background

1. This report captures the forecast outturn position for 2018/19 quarter 3 which ended on the 31st December 2018.
 2. The report considers each of the following areas of the Council: General Fund, Housing Revenue Account, Capital Spend and Treasury Management.
 3. The current General Fund position is showing an overspend of £104,000 which is a decrease of £150,000 on quarter 2. The movement in forecast from quarter 2 to quarter 3 is shown at Table 1 at a Directorate level, and then further broken down at Table 2 to a head of service level.
 4. The reduction in the quarter has been supported through the deployment of the service pressure contingency budget of £200,000, and the use of some of the in-year repairs and maintenance budget of £167,000, these measures can be seen on the 'contribution to reserves' line of **Table 2**.
 5. After allowing for the above reserve allocation, the in-year transfer to reserves is still forecast to be £861,000 which will strengthen the Council's financial position and providing funding for future plans.
 6. Going into the last quarter, options to mitigate the residual pressure, such as reviewing the use of planning earmarked reserves, and reducing repairs and maintenance works to essential works only, will potentially move then outturn to a balanced position.
 7. It is also anticipated based on previous years that risks allowed for do not always materialise and spending plans slip creating a further surplus for the actual outturn position.
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Table 1 – General Fund Budget Outturn Forecast as at 31/12/2019 – Directorate

*	Directorate	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance	Movement from Quarter 2
		A £'000	C £'000	(C-A) £'000	£'000
a	Chief Executive	1,223	1,205	(19)	11
b	Director Of Finance & Economy	2,955	3,417	462	203
c	Director Of Law & Governance	1,980	2,143	162	3
d	Director Of Place & Space	10,157	10,276	118	200
	Net Service Expenditure	16,316	17,041	724	417
e	Non service specific items	(1,904)	(2,524)	(621)	(567)
	Budget Requirement	14,412	14,516	104	(150)
f	Financing:	(14,412)	(14,412)	0	0
	Total movement	(0)	104	104	(150)

Table 2 - General Fund Budget Outturn Forecast as at 31/12/2019 – Service

*	Service	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance	Movement from Quarter 2
		A £'000	C £'000	(C-A) £'000	£'000
a	Chilmington Management Organisation	71	43	(28)	4
a	Corporate Policy, Economic Development & Communications	1,152	1,162	9	7
b	Corporate Property & Projects	(1,531)	(1,137)	394	177
b	Finance & ICT	3,804	3,549	(255)	(76)
b	Housing Services	682	1,005	323	102
c	Community Safety and Wellbeing	504	490	(14)	(4)
c	HR & Customer Services	70	91	21	(11)
c	Legal & Democratic Services	1,406	1,562	156	18
d	Culture	3,242	3,298	56	24
d	Environmental & Land Management	5,180	5,011	(169)	(25)
d	Planning	1,736	1,967	231	200
	Net Service Expenditure	16,316	17,041	724	417
e	Capital Charges and net interest	(3,388)	(3,642)	(254)	(200)
e	Levies, Grants and Precepts	256	256	0	0
e	Contribution to reserves	1,228	861	(367)	(367)
	Budget Requirement	14,412	14,516	104	(150)
	Financing:				
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
	Total movement	(0)	104	104	(150)

* 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** has very slightly increased by £4,000 from quarter 2 and is now forecasting a saving of £28,000, following the departure of the CMO Lead Officer as reported in quarter 2. **Corporate Policy, Economic Development & Communications** is showing a slight pressure of £7,000 in quarter due to a number of small increases throughout the service.

Director of Finance & Economy

5. **Corporate Property & Projects** is reporting a further pressure of £177,000 in quarter 3 largely to general building maintenance works, circa £250,000 in total, at sites such as Conningbrook Manor, Bockhanger and the Stour Centre. To fund this emerging pressure £167,000 has been used from the £250,000 proposed in year contribution to repairs and renewals reserve. To mitigate any further pressure, and potentially reduce the current forecast pressure only essential works is being undertaken in the last quarter.
6. Other material pressures in quarter come from festive lighting and the additional Christmas tree at the College site amounting to £22,000, additionally sponsorship was not forthcoming to mitigate these costs as expected.
7. Following the opening of Elwick a rental income of £125,000 has been added to the forecast outturn.
8. **Finance and ICT** has an overall quarter 2 to quarter 3 saving of 76,000 which are identified below.
9. Accountancy has an overall saving in year of £30,000 mainly due to vacancy savings offset by costs associated with an interim structure. The movement has seen an overall pressure of £91,000 due to the interim structure not being reflected in the quarter 2 position.
10. £50,000 of debt management expenses have also been included in the accountant budget, these costs are offset by savings in the interest payable budget which is shown under capital charges and net interest.
11. Revenues and benefits has received higher than anticipated government grant of £88,000 and made £50,000 saving in employee costs, some of the increase in government grant is to fund software costs of £20,000.
12. Other key movements in the service include £60,000 salary saving in ICT from vacancies and £60,000 management team saving in costs due to the Director of Place and Space change in working hours.
13. **General Fund Housing** is showing an increase pressure for quarter 3 of £100,000, which is due to homelessness costs being more than budgeted. There are a number of reasons for this pressure including delays in providing a second Christchurch road facility.
14. **Director of Law & Governance**
15. **Legal and Democratic Services** are showing an increase in forecast due to an increase in Members' special responsibility allowances of £8,000, and increases in Modern.Gov costs of £5,000.

Director of Place & Space

16. **Culture** is showing an increase in forecast at quarter 3 of £24,000. This is the result of an increase in utility costs at the Stour Centre amounting to £52,000 and £18,000 of additional costs are recorded for the battle is over ceremony. These pressures are offset by salary savings in the Cultural Project Team of £48,000 following vacancies and staff reducing hours.
17. **Environmental and Land Management**, the Aspire team are forecasting further reductions in salary costs due to high vacancy rates generating further savings of £25,000 at quarter 3.

18. The **Planning** service identified a risk to budget in quarter 2 due to staffing issues and the need to engage a number of consultants on an ongoing basis. Although the engagement of consultants in conjunction with permanent Officers is helping to reduce the backlog of cases, the financial pressure has not abated as we enter the final quarter with the latest forecast identifying a further £200,000 pressure on the budget. The planning reserve has been exhausted, and therefore the general £200,000 service pressure contingency budget has been earmarked to support this service area.
19. The overall pressures arising in planning are not just staffing but also the significant costs associated with major appeals and enforcement activity. A high level summary of the major variances to budget are detailed below:-
 1. Salary Savings from staff vacancies - £(225,000)
 2. Consultant costs to support general caseload - £434,000
 3. Additional Planning income - £(164,000)
 4. Consultant costs for appeals - £318,000
 5. Consultant costs for planning enforcement - £66,000
 6. Contribution from general planning reserve - £(193,000)
 7. Application of service contingency reserve - £(200,000)
20. Planning will continue to fully review expenditure during the final quarter to identify any spend that can be appropriately allocated to the specific reserves which currently stand at £186,000.
21. In relation to the costs for fighting appeals, in addition the reputational benefits of being seen as an authority who will defend against opportunistic applications, the Council is also pursuing the recovery of costs in cases where applications have subsequently been withdrawn.
22. Although generating a pressure on the budget, the increase in costs on general enforcement action again highlights the Council's attitude and commitment to planning enforcement activities.

Housing Revenue Account (HRA)

23. The Housing Revenue Account is showing an overall underspend of £1,480,000 in quarter 3. This underspend is largely the result of a decrease in the funding of capital expenditure. This decrease in capital funding is the result of a number of projects slipping into 2019/20. In addition to this in year saving, the forecast spend on capital works (for Decent Homes) has been increased, this brings the forecast in line with the original budget. A breakdown of the quarter 3 movements 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)	Forecast Outturn (net) to 31/03/19	Variance	Movement from Quarter 2
	A £'000	C £'000	C-A £'000	
Income	(24,979)	(25,287)	(308)	0
Supervision and Management	5,267	5,163	(104)	(44)
Repairs and Maintenance	3,418	3,414	(4)	(125)
Other	17,445	16,099	(1,346)	(1,309)
Net Revenue Expenditure	1,151	698	(453)	(169)
Capital Works - Decent Homes	4,620	4,627	7	618
Financed by:				
Major Repairs Allowance	(4,620)	(4,627)	7	(618)
Net Capital Expenditure	0	0	0	0
Total Net Expenditure	1,151	(611)	(1,762)	(1,478)

Commentary on HRA Variances

24. The **Repairs and Maintenance** underspend of £125,000 is the result of both savings and income. For example £27,000 recharge income in respect of pumping station costs. There are also savings in unscheduled works and area planning, where works have not been identified throughout the year, leading to savings.
25. The financing of capital projects has been reviewed, a number of projects have not progressed as originally planned, with in year slippage of £1,300,000, it is expected that any slippage in the current year will be used to fund projects in future years.
26. The **Capital Works** budget was forecasting an underspend of £895,000 at Quarter 2, however this saving did not take into account works needed on void properties, these costs have now been added in, as well as new contracts for external wall insulation and A rated boilers. As a result of these additional costs quarter 3 is now back in line with the original budget.

Capital Monitoring

Property Portfolio

27. The Property Company has drawn down a further £820,000 for the second stage of works on the agreed Victoria Way development, £659,000 being the deposit for the former B&Q site and £6,517,425 the final payment for the La Scierie apartments.

Elwick Place

28. The official opening of Elwick Place took place on 15th December 2018, with the two anchor tenants Travelodge and Picture House now in occupation and trading. The construction of the complex was delivered on time and the schedule of the final costs is currently being worked on. It is expected to be within forecast.

Other Current Projects

29. Repton Park Community Centre opened at the end of October 2018 within budget at a final build cost of £1,825,000. The facility delivering a main hall, meeting rooms, kitchen and multi-use games area has been well received by the community. Bookings are currently increasing steadily with a variety of functions such as social clubs, children's parties and various community groups utilising the building.
30. The Council completed in November 2018 on 28 light industrial units at Carlton Road, Cobbs Wood. The purchase, funded by borrowing, had a final cost included stamp duty and professional fees of £6,823,100. Approved at Cabinet September 2017, the site has now been redeveloped improving the amenity of the local area, increasing employment opportunities and providing the Council with an additional income stream.

HRA Projects

31. The redevelopment of Danemore sheltered accommodation has been slightly delayed since the quarter 2 report with tenants due to occupy the development in February 2019. Final provisional costs are, as previously reported, £7,764,000, which is slightly over budget by £194,000. This cost includes the construction of 4 chalet bungalows which will be sold, giving the HRA an estimated capital receipt of £1,400,000.
32. Redevelopment of East Stour Court will commence shortly, and will be delivered to the same high standard. Demolition works are budgeted at £150,000 with £50,000 already spent on surveys, searches, hoarding, architectural and planning fees. Further expenditure will then not be incurred until 2019/20.

Treasury Management

33. The volatility in markets continued in quarter 3 which has seen further reduction in capital values for equity funds by £247,000. While downward movements are trending, 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.
34. 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.
35. 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.
36. Investment income projections at quarter 3 have increased by £90,000 and further savings on external interest payable of £110,000 have been identified, with £50,000 of this being used to offset an increase in debt management expenses shown within Finance and the Economy.
37. A full list of the Council's investment and borrowing portfolio is shown at Appendix A

Homewood school 3G Artificial Turf Pitch: Section 106 Expenditure

38. Following dialogue with Tenterden Town Council and Ashford Borough Council, Homewood School have requested a S106 contribution from TENT1A for outdoor pitches to be allocated to their 3G pitch which has been forward funded by the School Trust and in operation since October 2018.
39. The project was included in the 2017 Playing Pitch Strategy for the borough as adopted by Cabinet in Dec 2017.
40. The contribution is to be made only on the understanding that the school adheres to a strict Community Use Agreement drawn up under Sport England and Football Foundation guidelines. This will be reflected in the Funding Agreement and monitored over a 25 years period
41. Members are asked to approve the release Section 106 contributions of £235,081, to Tenterden schools Trust, for the provision of a 3G artificial turf pitch at Homewood School, subject to the signing of a Section 106 Funding Agreement and a Community Use Agreement between the Schools Trust and the Council.
42. By approving this contribution the Council is not committing any further funding, capital or revenue.

Funding support for Sk8side Facility

43. Sk8side CIC currently provide services for young people via a lease and service level agreement with the Borough Council from the Council's building adjacent to Ashford Skate Park. The services provided help to minimise anti-social behaviour and provide a focus for youth engagement activities in the area. The Council has recently refurbished the building at a cost of £70,000 which is in a strategic location adjacent to the Stour Centre and Civic Centre. The work of the CIC provides a level of security for the Council and its partners in the area.
44. Having withdrawn from a contract to provide services on behalf of Kent County Council, the CIC require support funding to enable the current level of service provision to be maintained. A contribution of £60,000 over the financial years 2019/20 and 2020/21 is sought from the Council (£30,000 per year). The CIC will use the Council's contribution as match funding for the remaining £60,000 required over the two financial years. A revised service level agreement will be implemented from 1st April 2019.
45. The CIC offers a range of activities and programmes including; arts and crafts, mental health workshops, cultural theme programmes, volunteering schemes, running skate park events and a skateboard shop for young people that are easy to access and provide them with valuable life skills. As such this a valuable service the Council wishes to continue supporting.
46. This request is supported by Councillors Bennett and Bradford as portfolio holders of Culture and Health. The Chief Executive and Directors of Ashford Borough Council similarly sanctioned this requested on 7th January 2019.

Portfolio Holder's Views

47. As ever, this quarterly report enables the monitoring of spending trends and creates the ability to implement counter measures to deliver a balanced budget at year end.
48. In this report, significant movement can be seen from Q2 to rectify the identified budget pressures, particularly in the field of Planning. Significant use of Consultants and the servicing of resources to counter and challenge appeals is identified. The agreement of the Local Plan has/will relieve the pressure in terms of both resources and funding. The imminent restructuring of the Planning Service will address the funding pressure for consultants but the trajectory of implementation will determine how soon this pressure will affect next year's budget.
49. I am very pleased with the continuing delivery and professionalism of the finance team, in all areas and fully support this report.

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Treasury Management Positions as at 31st December 2018

Counter Party	Deal Date	Rate %	Amount £	Fair Value £	Comment
Investment Accounts					
Goldman Sachs	Various	0.61%	50,000	51,295	**
ICD Portal - BNP Paribas	Various	0.67%	10,000,000	10,000,000	*
ICD Portal - Black Rock	Various	0.65%	2,783,000	2,783,000	*
ICD Portal - HSBC	Various	0.60%	0	0	
ICD Portal - Invesco	Various	0.63%	9,650,000	9,650,000	
Payden Global MMF	Various	0.73%	3,000,000	2,988,937	**
Total Investment Accounts			25,483,000	25,473,232	
Long Term Investments					
Local Authority Investments					
Blaenau Gwent	21/10/2014	2.00%	3,000,000	3,000,000	Matures 21/10/2019
Property Investment					
CCLA Local Authority Property Fund	Various	4.52%	10,000,000	11,269,109	
A Better Choice of Property Ltd.***	Various	3.69%	175,000	517,016	Value as at 31/03/2018
Equity Funds**					
City Financial Multi Asset Diversified Fund	27/08/2015	3.57%	997,687	918,024	**
UBS Multi Asset Income Fund	26/08/2015	2.03%	2,993,552	2,889,223	**
M&G Global Dividend Fund	27/08/2015	2.75%	997,914	1,461,902	**
Schroder Income Maximiser	03/11/2015	7.28%	992,152	1,043,643	**
CCLA Diversified Income Fund	Various	3.07%	3,000,000	2,942,067	**
Total Long Term Investments			22,156,305	24,040,984	
Total Investment Portfolio			47,639,305	49,514,216	

* 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 31 December 2018

Counter Party	Deal Date	Rate %	Amount £	Fair Value	Comment
Temporary Borrowing					
Greater Manchester Pension Fund	11/06/2018	0.80%	15,000,000		Maturity 21/05/2019
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
Durham County Council	31/07/2018	0.92%	8,000,000		Maturity 30/04/2019
London Borough of Newham Council	21/05/2018	0.90%	5,000,000		Maturity 23/04/2019
Total Temporary Borrowing			61,000,000		
Long Term Borrowing					
Public Works Loan Board***	various	various	114,664,150		Maturity Date - various
Total Long Term Borrowing			114,664,150		
Grand Total Borrowing			175,664,150		

*** HRA borrowing

