

Agenda Item No: 6
Report To: Cabinet
Date of Meeting: 12 September 2019
Report Title: Financial Monitoring – First four months of 2019/20
Report Author & Job Title: Lee Foreman – Senior Accountant
Jo Stocks – Senior Accountant (HRA Section)
Maria Hadfield – Senior Accountant (Capital Section)
Portfolio Holder Cllr. Bell
Portfolio Holder for: Finance & IT



Summary: This report presents the forecast outturn for 2019/20 based on actual information to the end of July 2019. The report covers the performance and forecasts of the General Fund and the 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 £309,000 at year end with significant pressures arising from rental income on commercial properties, reduced parking income, and an increase in temporary accommodation costs. To offset these pressures savings from changes to the corporate borrowing strategy.

Management Team (MT) have considered a number of action points to mitigate the pressure including a review of commercial property, managing vacancies, and a reduction in non-essential works. The actions taken are covered in the report.

The HRA is forecasting an overspend of £9,000 for the year with anticipated savings in the capital programme being used to support additional repairs and maintenance works.

The report provides and 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. **Recommend to Council that delegated authority be given to the Head of Environmental Services to approve spend from repairs and renewals reserve for operational equipment at Aspire.**
- IV. **Recommend to Council that delegated authority be given to the Chief Executive in conjunction with the Leader, relevant portfolio holders, S151 officer and Monitoring Officer for the release of up to £500,000 of the Economic Resilience Reserve to support the letting of the Council's commercial property.**
- V. **Cabinet are asked to note the contribution to support the Woodchurch Wagon under delegated authority by the Head of Community Safety and Wellbeing**
- VI. **Cabinet is asked to recommend to Council that that Stray Dog fees are set at £25 as per statutory requirements.**

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 £1.068m in services which is being supported by a reduction in borrowing costs of £509,000 and the repairs and renewals annual allocation of £250,000. The General Fund does have a service contingency budget of £200,000 which can still be deployed in year if the deficit position cannot be recovered.

The Housing Revenue Account is reporting an overall overspend of £9,000.

These positions will continue to be monitored and reported to Management Team to enable them to introduce strategies to manage the pressures going forward.

Legal Implications

N/A

Equalities Impact Assessment

As part of Budget Setting 2019/20 a full assessment was undertaken

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Report Title: Financial Monitoring – First Four Months of 2019/20

Introduction and Background

1. This report captures the forecast outturn position for 2019/20 based on information available until the end of July 2019. The aim of this report is to inform management team and members of variances from budget (both positive and negative) so that these movements can be understood and managed.
2. The report considers each of the following areas of the Council; General Fund, Housing Revenue Account, Collection Fund, Capital Expenditure and Treasury Management.

Summary of Current Overall Position

3. The current General Fund position is showing a forecast overspend of £309,000. This includes savings in corporate interest payable of £509,000 and funding in year repairs and renewal of £250,000 rather than transferring to the repairs and renewals reserve.
4. Table 1 at a Directorate level, which is further broken down at Table 2 to a head of service level.
5. Management Team have received further details of the pressures arising in quarter 1 and have considered a number of action that can be adopted to support the pressure in year to minimise and drawdown on reserves in year and help inform the 2020/21 budget setting process. The bullet points below provide an overview of what actions are being considered:-
 1. Commercial Income – undertake a review of vacant properties to understand their status, barriers to letting, performance of letting agents, and to develop a site-specific action plan.
 2. Consultants – review the role of consultants across the organisation, especially where they are performing the ‘day job’ and resolve through appropriate recruitment.
 3. Staffing – all requests to fill vacant posts will be reviewed by Management Team to ensure that resourcing is necessary, and whether the option of increasing capacity through digital transformation has been considered. Some front line services are exempt from this requirement.
 4. Short-term accommodation – Consider temporary flexibility for allocations policy for flats and the potential acquisition of apartment blocks to help reduce costs.
 5. Property Works – a schedule of repairs and renewals will be produced to prioritise works and scale back where possible.
 6. Spending freeze – although not a total freeze, budget managers are asked to control service expenditure and reduce requests that are beyond the scope of normal operational duties.
 7. Car Parking – consider overall capacity across the town centre, both public and private car parks also consider future travel trends and new

carbon neutral agenda to inform direction of travel for further parking provision.

8. Monitoring centre – investment has been made in this area and options to use this new technology to promote commercial income should be considered.
9. Additional income streams – services are asked to consider options for raising additions income streams, staff at all levels should be encouraged to bring forward ideas for consideration.
10. Monthly Monitoring updates on the budget position will also be developed and presented to MT to identify further pertinent movements so that they can be responded to in a timely manner.

Table 1 – General Fund Budget Outturn Forecast as at 31 July 2019 – Directorate

*	Directorate	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance
		A £'000	B £'000	(B-A) £'000
a	Chief Executive	1,357	1,372	15
b	Director Of Finance & Economy	2,598	3,255	656
c	Director Of Law & Governance	1,112	1,497	385
d	Director Of Place & Space	10,658	10,672	13
	Net Service Expenditure	15,726	16,794	1,068
e	Non service specific items	(494)	(1,254)	(759)
	Budget Requirement	15,232	15,541	309
f	Financing:	(15,232)	(15,232)	0
	Total movement	0	309	309

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

*	Service	Current Budget (net)	Forecast Outturn (net) to 31/03/19	Variance
		A £'000	B £'000	(C-A) £'000
a	Chilmington Management Organisation	(0)	1	2
a	Corporate Policy, Economic Development & Communications	1,357	1,370	13
b	Corporate Property & Projects	(2,271)	(1,767)	503
b	Finance & ICT	3,917	3,789	(128)
b	Housing Services	952	1,233	281
c	Community Safety and Wellbeing	(316)	94	410
c	HR & Customer Services	75	79	3
c	Legal & Democratic Services	1,353	1,324	(29)
d	Culture	3,295	3,327	32
d	Environmental & Land Management	5,255	5,221	(33)
d	Planning	2,108	2,123	15
	Net Service Expenditure	15,725	16,794	1,068
e	Capital Charges and net interest	(2,492)	(3,002)	(509)
e	Levies, Grants and Precepts	259	259	0
e	Contribution (from)/to reserves	1,739	1,489	(250)
	Budget Requirement	15,231	15,540	309
	Financing:			
f	Retained Business Rates	(4,721)	(4,721)	0
f	Council Tax	(7,556)	(7,556)	0
f	New Homes Bonus	(2,954)	(2,954)	0
	Total movement	(0)	309	309

* Cross referencing of Directorate Table to Service table

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

Chief Executive

7. The budgets for the **CMO, Corporate Policy, Economic Development & Communications** are currently forecasting a slight pressure of £15,000 which is due to the regrading of current posts.

Director of Finance & Economy

8. **Corporate Property & Projects** – This area is reporting an overall pressure of £528,000 in quarter 1 which is from a number of areas. Commercial properties, including Elwick, CQ38 and Carlton Road Depot are forecasting deficit pressure on rental income of £578,000, although this is slightly offset by a reduction in service charge of £100,000, and rental income for the Matalan acquisition which is generating income of £337,000 which was not part of the original budget.
9. The Council has been making progress securing tenants for the retail units at the Elwick Cinema with announcements having been made revealing the first set of operators Macknades and Dansaki. In addition the Council is in

the final stages of agreeing a lease for a Gym in unit 8 and the Elwick Due Diligence group is considering a further 2 offers for units and there is interest and early discussions in other units on the site. Furthermore progress has been made in letting some of the vacant space in International House, CQ38 and Carlton Road.

10. Whilst this is a positive picture, there are concerns about the risks to the wider economy and this may affect our commercial property portfolio. Elwick, Carlton Road and CQ38 are new long term strategic investments for the Council. New enterprises of this nature take time to mature and establish themselves before their full potential in terms of income generation and impact on the local economy can be fully realised. To provide for this the Council has the Economic Resilience Reserve, which has just under £3m to manage the commercial risks in the budget.
11. It is recognised that the Council needs to be responsive in these uncertain times and therefore it is proposed that Council approve a delegation to the Chief Executive, , in conjunction with the Leader, Relevant Portfolio Holders, S151 Officer and Monitoring Officer to agree to deploy up to £500,000 of the reserve to support our commercial lettings strategy. This delegation will allow for responsive action to be taken should it be needed but ensure that there is member oversight to the process.
12. Park Mall is reporting a pressure of £64,000 due to unexpected delays in moving tenants from rent free to market rents and additional cost of estate agency fees in rent negotiations, a £26,000 saving on business rates has been identified for the Mecca site.
13. An increase in repairs and maintenance requirements this year have added £343,000 to the budget which includes plant maintenance at the Stour Centre, repairs at the Julie Rose, Woodchurch Windmill and Ellingham Industrial Estate. Instead of making the annual transfer of £250,000 to the repairs and renewals reserve this will be used to fund in year expenditure.
14. An increase in consultant and professional fees for Elwick and Town Centre place making have added £90,000 pressure to the budget, in addition to £18,000 for EPC surveys and software. However, salary savings of £27,000 and reductions in bus shelters, footway maintenance and lift works of £78,000 support these pressures.
15. **Finance and ICT** – This area is currently showing a net saving of £128,000 against budget. This saving is as a result of from salary savings totalling £82,000 and additional benefits administration grant of £64,000.
16. **Housing Services** – Pressure of £281,000 is being forecast for the Housing General Fund and relates to pressures arising in temporary accommodation against budget. The pressure has arisen due to delays in identifying permanent housing solutions for residents who have been placed in temporary accommodation. Schemes such as Christchurch House 2 and the introduction of modular units will reduce the costs but have not come forward as quickly as anticipated.

Director of Law & Governance

17. **Community Safety and Wellbeing**– Overall this service is showing a pressure of £410,000 with a pressure of £330,000 coming from lower than expected levels of parking income.
18. Environmental health has staffing pressures of £14,000 from temporary staff members and consultant costs. The Monitoring Centre is forecasting a staffing pressures of £30,000 for covering long term sick and pressure on income of £17,000.
19. **Legal and Democratic Services** – A surplus of £28,000 is currently forecast in this areas with additional legal fee income being driver with an anticipated increase of £125,000. This has been reduced to reflect the pressure from the savings target, which has not deliverable and £12,000 for new projector and software costs in Democratic Services.

Director of Place & Space

20. **Culture** – This service area is forecasting a year end pressure of £32,000 with £30,000 coming from additional costs associated with the ongoing Leisure Procurement exercise.
21. **Environmental and Land Management** – A surplus of £37,000 is being anticipated in this area as the garden waste collection service continues to expand bringing in an additional income.
22. **Planning** is continuing to have challenges with recruitment and retention although a new structure is currently being rolled out with an aim to resolve these issues. Currently the service is anticipating a small pressure of £14,000 which it would hope to work down as the year unfolds.
23. The service is still anticipating consultancy costs of £320,000 to support the day job which are largely being offset by salary savings of £192,000. A further £125,000 is being funded from the service change management budget which was introduced last budget cycle to support the transition to the new structure.

Housing Revenue Account (HRA)

24. The Housing Revenue Account is showing a projected annual overspend of £9,000 based on information available to the end of July 2019, the breakdown of this underspend is shown in the table below with further commentary below that.

Table 3 – 2019/20 Housing Revenue Account Outturn Position

Budget Page	Current Budget	Q1 Forecast Outturn to 31/03/19	Q1 Variance
	A £'000	B £'000	(B-A) £'000
Income	(24,843)	(24,843)	0
Supervision and Management	5,770	5,850	80
Repairs and Maintenance	3,478	3,849	371
Other	16,030	15,956	(75)
Net Revenue Expenditure	435	811	376
Capital Works - Decent Homes	4,600	4,233	(367)
Net Capital Expenditure	4,600	4,233	(367)
Total Net Expenditure	5,035	5,045	9

Commentary on HRA Variances

25. **Supervision and Management** - There is a £80,000 pressure in this area with £60,000 attributable to the Electrical Services Division for the fit out costs and first year rent and business rates of its Carlton Road unit, and £20,000 pressure is from lift maintenance.
26. **Repairs and Maintenance** – This area is currently showing an overspend of £371,000 following re-profiling of in-year plans. Extra projects have also been identified to utilise the capital works underspend and include door entry system upgrades and area planning improvements.
27. **Other** – Saving of £75,000 resulting from the difference between the estimated and actual indexation increase on the PFI contract.
28. **Capital Works** – The works under this heading are for the planned maintenance programme. The programme uses industry guidance to determine when works would be expected to be required for items such as kitchens, bathrooms and roofs. However, as the plan unfolds some of the planned works may be deemed unnecessary, resulting in a saving in the programme.

Capital Monitoring

Property Purchases

29. The Matalan site on Brookfield Road was purchased in April 2019 at a cost of £5,028,000 including stamp duty and professional fees. The current occupier has a remaining 6 years on the current lease.
30. This will generate income of £365,000 per annum to the General Fund, £337,000 in 2019/20 as acquired in year and has been included in the forecast.

Coachworks

31. Work is progressing at a rapid pace, with a completion date for the site of 21 October and a Halloween opening night of 31 October. A budget increase from £850,000 to £950,000, was approved at Cabinet 13 June 2019 and it is anticipated that the project will be delivered within budget.

Vicarage Lane redevelopment

32. In February 2019 Cabinet approved a budget of £1.3m for demolition of the former Mecca building on site. A report was presented to Cabinet in March 2019 and approved at Council on the 25 April 2019 for the redevelopment of the Mecca building and the Vicarage Lane car park, the overall budget for the project is now forecast at £21.5m. Due diligence work is currently underway and has incurred various site surveys. An application has been received by Historic England to list the building and this is being considered. If successful the strategy for the planning application will be adjusted accordingly.

Power Supply Separation

33. The original plan to physically separate the power supply between the Civic Centre and Stour Leisure Centre at a cost of £100,000 has been revised and it is now been decided that it will be sufficient to sub meter the two supplies to achieve the required outcome. The works have been completed at a cost of £5,000.

Victoria Park

34. The grant has now been secured with Heritage Lottery for £3m. Work is now progressing for the appointment of a Project Manager and other members of the delivery team. Community engagement is ongoing particularly with stakeholders such as Friends of Victoria park group. Additional funding of £1.4m is being provided from other sources.

Conningbrook Lakes Country Park Development

35. During the first quarter of the year work has been underway to obtain quotes for the infrastructure of the project including design and survey fees.

HRA Projects

1. The HRA Business Plan is currently being re-based (the report will be presented to Cabinet in October 2019) incorporating a number of new projects. One of which is the expansion of the street purchases scheme. There is no budget included in the current year for this, however Housing are looking at purchasing up to 25 properties in 2019/20 (at a cost of around £5m). It is hoped that continued investment in this area will, over time, reduce the numbers of families on the housing waiting list as well as play a

part in relieving the pressure on temporary accommodation and homelessness.

2. The re-development of East Stour Court is on target to deliver 29 units in 2021/22. The original estimate for this project was £6.4m, however due to a number of factors such as remediation works, alterations to the existing plans regarding drainage, removal of contamination from the site, as well as an additional lift, the total cost of this project is expected to be around £7.5m
3. Halstow Way, another development of sheltered housing, is expected to start later this year, it is expected to deliver 17 units in 2021/22, this project is currently in line with budget expectations.
4. We have acquired Piper Joinery at a cost of £1.4m, with an additional £500,000 expected to be needed in 2019/20. Our in-house architect is scoping out designs and cabinet approval to progress the site will be sought in the Cabinet report in October. A planning application will be submitted later in the year. It is anticipated that an additional 23 units will be provided in 2021/22.
5. The development at the Poplars is still in the early stages, we have not been able to progress this project as quickly as anticipated, the 2019/20 expenditure expected to now be around £500,000 (an underspend, compared to budget of £1.4m. However, this underspend will be re-profiled and allocated to future years, with completion due in 2021/22.
6. The affordable housing programme (phase 5) is nearing completion and continues in line with the HRA business plan, with 6 new units expected to be delivered in 2019/20, over two sites, however there are a number of projects in the planning stages that will enable additional units in the future.

Treasury Management

7. Capital Charges and Net Interest is showing a surplus in year of £509,000 which relates to borrowing costs.
8. For 2019/20 the strategy made provision for a proportion of long term borrowing to provide certainty over repayments going forward. However, given the current economic climate, interest rate forecasts and the corporate deficit it is unlikely that any long term loans will now be taken in 2019/20. This decision and a reduction in the overall borrowing requirement will generate a reduction in debt payments of £845,000 in year.
9. The reduction in the overall borrowing requirement is partly due to lower than expected loans to the Council's subsidiary. The reduction in making these loans has a negative effect on investment income of £205,000. It is also anticipated that equity fund interest will be £150,000 below budget as new investments have taken longer to place than anticipated.
10. A full list of the Council's investment and borrowing portfolio is shown at Appendix A

Delegated Authority

11. Environmental services have made contributions to the repairs and renewals reserve in recent years for the Bin Replacement Programmes, and going forward income from commercial activity.
12. The purpose of this contribution is to replace Aspire Operational equipment as it meets the end of its economic life.
13. Cabinet are asked to recommend to Council that delegated authority be given to the Head of Environmental Services to allocate funds from the earmarked section of the Repairs and Renewals reserve to acquire operation equipment for Aspire, which may include the use of revenue for capital purposes.

Funding for Woodchurch Wagon

14. The Council is supporting a community group with the acquisition of a wellbeing wagon known as the Woodchurch Wagon.
15. The costs of running the vehicle are anticipated to be £13,330, with an anticipated income of £10,469 from usage.
16. The Head of Community Safety and Wellbeing has approved to support the scheme by making up the shortfall of £2,861 under her delegated authority.

Fees and Charges

17. Following the budget setting meeting in February 2019, it has been identified that the charge for stray dogs was increased to £28. This was an error in the publishing of fees and charges as the 'Environmental Protection (stray dogs) regulations 1992' stipulates that the sum is £25. For confirmation the Council has not levied more than £25 and therefore no one has been overcharged.
18. Cabinet is asked to recommend to Council that the fee for Stray Dogs be amended from £28 to £25 in accordance with statutory requirements.

Portfolio Holder's Views

19. To be given at the meeting

Contact and Email

20. Lee Foreman - Lee.Foreman@ashford.gov.uk
21. Maria Hadfield – maria.hadfield@ashford.gov.uk
22. Jo Stocks - jo.stocks@ashford.gov.uk

Treasury Management Positions as at 31/07/2019

Counter Party	Deal Date	Rate %	Amount £	Fair Value £	Comment
Investment Accounts					
Goldman Sachs	Various	0.53%	50,000	51,295	**
ICD Portal - Invesco	Various	0.78%	4,887,000	4,887,000	*
Payden Global MMF	Various	0.91%	3,000,000	2,998,668	**
Total Investment Accounts			7,937,000	7,936,963	
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	4.20%	11,000,000	12,296,313	
A Better Choice of Property Ltd.***	Various	N/a	275,001	272,765	Value as at 31/03/2019
Equity Funds**					
UBS Multi Asset Income Fund	26/08/2015	2.01%	2,993,552	2,974,165	**
Kames Diversified Monthly Income Fund	16/05/2019	TBC	5,500,000	5,584,576	**
Schroder Income Maximiser	03/11/2015	7.90%	3,492,152	3,453,007	**
CCLA Diversified Income Fund	Various	3.23%	3,000,000	3,085,713	**
Investec Diversified Income Fund	28/03/2019	4.40%	2,500,000	2,487,426	**
Total Long Term Investments			31,760,705	33,153,965	
Total Investment Portfolio			39,697,705	41,090,928	

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

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

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

Debt Portfolio as at 31 July 2019

Counter Party	Deal Date	Rate %	Amount £	Fair Value	Comment
Temporary Borrowing					
PCC of West Midlands	26/02/2019	1.00%	5,000,000		Maturity - 27/08/2019
Greater London Authority	21/05/2019	0.82%	15,000,000		Maturity - 20/08/2019
North Yorkshire County Council	21/05/2019	0.80%	5,000,000		Maturity - 21/08/2019
PCC of Gloucestershire	05/07/2019	0.78%	5,000,000		Maturity - 07/10/2019
Hampshire County Council	05/07/2019	0.78%	10,000,000		Maturity - 07/10/2019
West Midlands Combined Authority	05/07/2019	0.78%	5,000,000		Maturity - 07/10/2019
PCC of Hertfordshire	05/07/2019	0.77%	3,000,000		Maturity - 07/10/2019
PCC of West Yorkshire	08/07/2019	0.79%	10,000,000		Maturity - 08/10/2019
Total Temporary Borrowing			58,000,000		
Long Term Borrowing					
Public Works Loan Board***	various	various	113,664,150		Maturity Date - various
Total Long Term Borrowing			113,664,150		
Grand Total Borrowing			171,664,150		

*** HRA borrowing

Detail of PWLB Loans outstanding

All these loans are as a result of the HRA Buyout. This is a breakdown of the £113.4m referenced above.

Date of Advance	Loan Ref Number	Date of Repayment	Amount Outstanding	Rate
28/03/2012	499502	28/03/2020	5,000,000	1.99%
28/03/2012	499501	28/03/2021	2,000,000	2.21%
28/03/2012	499500	28/03/2022	7,000,000	0.86%*
28/03/2012	499516	28/03/2022	2,000,000	2.40%
28/03/2012	499514	28/03/2023	2,000,000	2.56%
28/03/2012	499507	28/03/2024	3,000,000	2.70%
28/03/2012	499503	28/03/2025	3,000,000	2.82%
28/03/2012	499505	28/03/2026	1,000,000	2.92%
28/03/2012	499496	28/03/2027	1,000,000	3.01%
28/03/2012	499509	28/03/2028	2,000,000	3.08%
28/03/2012	499497	28/03/2029	2,000,000	3.15%
28/03/2012	499510	28/03/2030	2,000,000	3.21%
28/03/2012	499498	28/03/2031	8,000,000	3.26%
28/03/2012	499511	28/03/2032	9,000,000	3.30%
28/03/2012	499499	28/03/2033	10,000,000	3.34%
28/03/2012	499512	28/03/2034	11,000,000	3.37%
28/03/2012	499506	28/03/2035	12,000,000	3.40%
28/03/2012	499513	28/03/2036	9,000,000	3.42%
28/03/2012	499515	28/02/2037	16,713,000	3.44%
29/03/2011	498502	29/03/2061	5,951,150	5.26%
		Total	113,664,150	

* Variable Rate Loan, the others are fixed rate