

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet
Finance & Audit Committee

Date: 4 February 2019 / 18 February 2019

Reporting officer: Assistant Director (Corporate Services)

Subject: Budget Monitoring Report 2018/19 – Quarter Three

Purpose and summary of report:

To provide Members with information on actual performance against the approved Revenue and Capital budgets for 2018/19, including known variances agreed or identified through budgetary control activity.

To update Members on other key areas of financial performance that may impact on the Council's Medium Term Financial Strategy, Medium Term Financial Plan, HRA Business Plan or Financial Statements.

Recommendations:

1. This report is for information only.

1. INTRODUCTION

- 1.1. The Constitution of the council requires Members to receive reports in respect of the council's finances and financial performance. This report therefore provides an assessment of performance against approved budgets for the 2018/19 financial year for the third quarter to 31 December 2018 as well as updating Members on other key areas of financial performance.
- 1.2. The council continues to operate robust budgetary control actions to ensure good financial governance and respond to the pressures on the council's finances. In addition to the reporting of financial performance through regular budget monitoring reports, these actions include:
 - Requiring all financial decisions and major acquisitions to be brought to Management Team for discussion and approval;
 - Appropriate controls in approving purchase orders;
 - Requiring recruitment activity (relating to both permanent and temporary appointments, and including use of overtime) to be considered and approved by Management Team;
 - Monitoring the delivery of activity under the council's *Bridging the Gap* Strategy, as set out in the current Medium Term Financial Strategy (MTFS).

2. EXECUTIVE SUMMARY

General Fund (Revenue)

- 2.1. At the end of Quarter Three there is projected underspend for the year of £823,330. Movements affecting the forecast position against the original budget for the year in the main pertain to continued implementation of *Bridging the Gap* activity.
- 2.2. Because the council ended 2017/18 in a favourable position, budgets totalling £146,360 were approved for carry forward into 2018/19.
- 2.3. The level of Working Balances at year-end are projected to be £8.29m, constituted of the minimum working balances of £1.25m, the General Fund reserve of £4m and usable Working Balances of £3.04m.
- 2.4. Movements in the year are projected to result in a net increase in reserves of £0.97m, with the level of reserves being £7.50m at start of year and projected to be £8.47m at year- end.
- 2.5. Significant risks to the General Fund's financial position continue to come from the lack of clarity regarding the future of local government funding and legislative change, such as the introduction of the Homelessness Reduction Act.

General Fund (Capital)

- 2.6. The revised budget of the General Fund Capital Programme for the year is £17.72m, including £13.25m to support furtherance of the council's land and commercial property portfolio and £3.10m to fund the initial works to redevelop the St George's Shopping Centre. Actual spend to the end of Quarter Three was £9.39m.

HRA (Revenue)

- 2.7. At the end of Quarter Three income and expenditure for the year remains balanced, albeit the budgeted contribution from reserves to fund revenue expenditure planned for the year is no longer required and current information actually indicates a contribution to the General HRA Reserve at year-end. The main movements affecting the forecast position against the original budget for the year are a reduction in planned repairs and maintenance spend due to the delivery of efficiencies in processes as experienced towards the end of the last financial year, and savings against staffing budgets.
- 2.8. The level of Working Balances at year-end are projected to be £3.0m, at the minimum level of Working Balances for the HRA. Movements in the year are projected to result in a net decrease in the General HRA Reserves of £2.56m, with the level of reserves being £7.44m at start of year and projected to be £4.88m at year-end.
- 2.9. As with the GF, the significant risk to the HRA's financial position continues to be the lack of clarity regarding funding and regulatory reform.

Housing Capital

- 2.10. The revised budget for the Housing Capital Programme for the year is £14.76m, with spend to the end of Quarter Three of £11.12m.

3. GENERAL FUND (REVENUE)

3.1. Budget 2018/19

3.1.1. The approved Original Budget Requirement for 2018/19 was £12,622,790, funded by retained Non-Domestic Rates, New Homes Bonus, Council Tax and use of £1,329,640 Usable Working Balances, in accordance with the Medium Term Financial Strategy.

3.1.2. The table below sets out the current assessment of performance against the Original Budget by Directorate, based on known variances as at 31 December 2018.

Directorate / Budget Heading	Original Budget 2018/19 (£)	Forecast 2018/19 (£)	Variation 2018/19 (£)
All Directorate - Salaries	0	(507,800)	(507,800)
Chief Executive	44,870	44,870	0
Communities	4,199,860	4,005,780	(194,080)
Corporate Services	3,856,280	3,756,170	(100,110)
Environment & Operations	2,598,380	2,400,050	(198,330)
Housing & Regeneration	2,110,220	2,127,900	17,680
Items Carried Forward from 2017-18	0	146,360	146,360
Non-Directorate Specific	1,113,390	1,113,390	0
Interest and Investment Income	(627,320)	(876,550)	(249,230)
Government Grant Funding	(904,470)	(939,870)	(35,400)
Transfers to/ (from) reserves	609,770	932,800	323,030
Transfers to/ (from) balances	1,035,980	1,485,980	450,000
Transactions below the line	(1,414,170)	(1,285,600)	128,570
BUDGET REQUIREMENT	12,622,790	12,403,480	(219,310)
Business Rates Income	(3,679,110)	(4,283,130)	(604,020)
Council Tax Income	(6,705,200)	(6,705,200)	0
Parish Precepts	(323,120)	(323,120)	0
Passported Parish Grant	1,040	1,040	0
New Homes Bonus	(586,760)	(586,760)	0
Transfers to/(from) the Collection Fund	0	0	0
Use of Working Balances	(1,329,640)	(1,329,640)	0
BUDGET SHORTFALL/(UNDERSPEND)	0	(823,330)	(823,330)

Table 1: General Fund Revenue Outturn by Directorate / Budget heading

3.2. ALL DIRECTORATE – SALARIES

3.2.1. **Staffing: £508k favourable variance** - the General Fund staffing budget for 2018/19 incorporates a vacancy allowance of £350k for the year. It is anticipated that this will occur throughout the establishment as a whole from natural staff turnover within day-to-day business activities, as well as posts being held vacant pending the re-design of services. The current year-end projection is an underspend of £858k, therefore giving rise to the net favourable variance of £508k.

3.3. CHIEF EXECUTIVE'S DIRECTORATE – NIL VARIANCE

3.3.1. There are no significant variances to report.

3.4. COMMUNITIES DIRECTORATE – £194k FAVOURABLE VARIANCE

3.4.1. **Acquisition of site at Stuart Road, Gravesend: £377k favourable variance** – in June 2017 Full Council gave approval for a second tranche of £10m from investment balances to be made available for purchases under the council's existing Property Acquisition Strategy. In June 2018, the Council completed the acquisition of the site at Stuart Road, Gravesend, currently tenanted by Wickes, which is anticipated to provide a current year rental income stream of £377k. The projected full-year income from 2019/20 onwards is £511k.

3.4.2. **HR Shared Services: £23k favourable variance** – as part of *Bridging The Gap* activity identified within the MTFs, the council has explored various shared service opportunities in recent years. From 1st April 2018 a shared Human Resources service with Medway Council has been established, producing an initial positive effect to the council's Medium Term Financial Plan (MTFP) of £23k. Going forwards as processes are harmonised and developed further there may be scope for additional financial benefits, which will be reported on in due course. Additionally, the shared service provides greater resilience, for example enabling utilisation of the existing recruitment and training teams within Medway's structure.

3.4.3. **Borough Market: neutral variance** – although no overall variation is currently anticipated, it should be noted that the latest income projections for the market are for a £37k year-end deficit in 2018/19 as a result of unit vacancies. There are expected to be, however, underspends across staffing and running expense budgets e.g. on repairs and maintenance due to the building being relatively new. Savings on such areas are therefore currently projected to contribute to a neutral position overall.

3.4.4. **Safer Stronger Communities: neutral variance** – the council has successfully secured funding from the Police and Crime Commissioner (PCC) to support the activity of Gravesham's Community Safety Unit in 2018-19. It is intended that these funds are used to provide specialist intervention work for young people involved in gang activity, to meet some of the costs of seasonal and crime prevention activity and to contribute to the cost of new and mobile CCTV camera deployments, in part related to tackling serious and organised crime. The funding also includes a small tactical amount to address any unforeseen priorities that may occur during the year.

3.4.5. **War Memorials: neutral variance** – reserve funding of £21k from previously unallocated grant balances has been made available to support World War One commemoration activity within the borough. This principally involves cleaning/conservation work of existing war memorials and supporting the national "There But Not There" campaign, which aims to educate all generations in understanding the fate of British and Commonwealth soldiers during World War One.

3.4.6. **Information Governance: £41k adverse variance** – prior to General Data Protection Regulation (GDPR) 2016/679 coming into implementation on 25th May 2018, the council considered resourcing options in terms of managing the potential impact of GDPR changes. The result is a further cost of £41k financing an additional post within the Legal & Information Governance shared service with Medway Council to support the council in responding to the enhanced challenges.

- 3.4.7. **St Georges' Shopping Centre rental income: £146k adverse variance** – the council holds the freehold interest of the St Georges Shopping Centre, though this had previously been subject to a 150-year lease to Queenridge Properties since 1982. Under the terms of the lease the council received a “basic rent” of £195k per annum and an “additional rent” of 10% of the rents that Queenridge Properties received from the occupying tenants in excess of £1.95m per annum. To date, no additional rent has ever been payable.
- 3.4.8. At Cabinet in April 2018, the council agreed to enter into an agreement with Reef Estates Group for redevelopment of the St George's Centre. Detailed financial modelling was undertaken, incorporating projected annual lease payments to Reef, returns made on the initial investment balance received by the council, and rental income receivable from the centre. The expectation is that the inflows to the council of rental and investment income will be equal, or more than equal, to the annual lease payments for the 50-year term of the lease.
- 3.4.9. As a result of this change, the arrangement whereby the council received a “basic rent” of £195k per annum (as referenced in paragraph 3.3.3) for the Shopping Centre has now ceased and been replaced by the new income and expenditure forecasts. Resultantly, there is part-year adverse variance in 2018/19's MTFP of £146k, with a full year effect of £195k from 2019/20 onwards. New arrangements for the running of the Heritage Quarter are covered within the financial modelling undertaken, and therefore it is projected that over the lifetime of the project, there will be both financial and non-financial benefits to the Council of redeveloping the St George's Centre.
- 3.4.10. **Other Minor Variances: £19k adverse variance** – a number of minor variances have been reported within the Communities Directorate; the net effect of these variances is £19k.

3.5. CORPORATE SERVICES DIRECTORATE – £100k FAVOURABLE VARIANCE

- 3.5.1. **Corporate Expenses: £77k favourable variance** – following activity to refine budgetary arrangements including analysis of historic items held on the balance sheet, £77k has been released into revenue, generating a positive effect to the Council's MTFP in 2018/19.
- 3.5.2. **Internal Audit & Counter Fraud Shared Service: £16k favourable variance** - an underspend in the service hosted at Medway Council has arisen, largely due to staff vacancies which have generated a favourable salary budget variation. Although part of this saving has been re-directed to upgrading the existing IT equipment to facilitate greater agile working and efficiencies, there is an overall projected underspend in Gravesham's contribution to Medway Council for 2018/19 of £16k.
- 3.5.3. **External Audit Fee: £9k favourable variance** – in April 2018 the council received notification of the planned audit fee relating to the annual Statement of Accounts for 2018/19. This is £41k, which represents a reduction from the 2017/18 fee and previously budgeted figure of £53k. This has resulted in a positive effect to the General Fund MTFP of £9k, with the remaining £3k reflected as a saving within HRA budgets.
- 3.5.4. **St George's Centre professional services: neutral variance** – as reported to Cabinet and Overview Scrutiny in May, the council engaged professional services in areas such as legal, property, treasury management and taxation to advise on the termination of the Development Agreement with Queenridge Properties and the agreement between the council and the Reef Estates Group for redevelopment of the St George's Centre. The

£217k costs of these services are being met from the Growth Fund Reserve, which holds monies generated as a result of the council being part of the Kent Business Rates Pool and is to be used to fund activity to promote economic growth.

3.5.5. **Corporate Debt Pilot System: neutral variance** – funding from the Corporate Priorities Reserve of £9k has been made available to support a pilot project for the central collation, analysis and management of debt across the council. The project involves utilising specialist software to draw data from different income streams, carry out matching activity and guide officers in determining specific courses of action for individual debtors of the council.

3.5.6. **Other Minor Variances: £2k adverse variance** – a number of minor variances have been reported within the Corporate Services Directorate; the net effect of these variances is £2k.

3.6. **ENVIRONMENT & OPERATIONS DIRECTORATE – £199k FAVOURABLE VARIANCE**

3.6.1. **Waste Recycling Support Payment: £153k favourable variance** – the 2017/18 payment received from KCC was £153k greater than estimated. This has created a favourable variance in 2018/19.

3.6.2. **Garden Waste Collection Service: £70k favourable variance** – the garden waste subscription service has continued to flourish in 2018/19 with over 750 new customers joining during the early months of the year. This additional volume, in conjunction with a review of the existing charging structure from 1st April 2018, has led to additional net income of £70k compared to the original budget.

3.6.3. **Refuse Collection – KCC contribution: £45k favourable variance** – KCC have reimbursed the council for the additional tipping-away costs (such as fuel and staffing) incurred due to the fire at the Pepperhill site. This income will offset staff overtime and additional fuel which was required for travelling further when the site was closed.

3.6.4. **Waste & Street Cleansing fuel costs: £20k adverse variance** – the cost of fuel continues to rise. The forecast as at quarter three is an overspend of £20k.

3.6.5. **Security costs: £24k adverse variance** – the council has been required to make use of additional security services during the year due to an increase in the number of security risks and unauthorised traveller encampments within parks and car parks in the borough.

3.6.6. **Waste Freighter Vehicle parts: £25k adverse variance** – there are on-going reliability issues with the refuse vehicles which has resulted in higher maintenance costs than provided for within the original budget. Rectification of defects with these vehicles requires the purchase of replacement parts and as this is expected to continue at the same rate for the remainder of the year, the current forecast is an adverse variance of £25k. In the longer term, the plan to diversify the fleet of refuse vehicles in terms of make and model of vehicles used will help to minimise the risk of higher than anticipated vehicle maintenance costs.

3.7. HOUSING & REGENERATION – £18k ADVERSE VARIANCE

- 3.7.1. **STG Building Control Partnership: £18k adverse variance** – as a result of an unexpected fall in income from building regulation applications in the third quarter of the current year, the Director of STG is now forecasting an overall income deficit across the partnership. A principal driver of this is the sustained challenging period for the construction industry with falling profitability in five months, and narrow avoidance of being declared officially in recession. This factor has been compounded by an increase in approved inspector activity, which has led to increased competitors for STG competing in a smaller market. Resultantly each member of the partnership is likely to be required to make an additional contribution in order to balance overall STG finances, and the impact for Gravesham in 2018/19 is therefore a projected overspend compared to the original budget of £18k.
- 3.7.2. **Digitisation of Planning records: neutral variance** – the Planning Department has 26 years of planning history stored on approximately 68,000 microfiche covering 1974 - 2000. This medium for storing information is out dated and time intensive when retrieving information from them. Funding of £22k was made available from the Corporate Priorities Reserve to undertake this work and, prior to 2018/19, £16k had been spent. The remaining £8k has been released into 2018/19.

3.8. ITEMS CARRIED FORWARD FROM 2017/18 – £146k

3.8.1. The following items from 2017/18 have been approved for carry forward to 2018/19 by the Section 151 Officer and the Council's Management Team:

Summary of General Fund 2017/18 year-end carry forward requests				
Directorate	Service	Amount	Reason for underspend in 2017/18	Reason for carry-forward request into 2018/19
Communities	Town Centre Initiatives	£5,580	Budget for museum engagement, the funds were not spent in full as the project is still developing and staffing resources have been limited.	There is an on-going commitment to Museum development activity.
Communities	Central Services	£23,000	Underspend on the training budget due to less training taking place in 2017/18.	Increased expenditure is anticipated due to the Investors in People renewal taking place in 2018/19.
Communities	The Woodville	£55,000	An underspend has been achieved for Woodville in 2017/18. Part of this underspend has been allocated by the Governance Group for use in 2018/19.	£20,000 for the Woodville 50th and £35,000 for reinvestment into Woodville equipment - both contributions have been agreed and approved by the Governance Group.
Communities	The Woodville	£25,700	Part of the Woodville underspend has been set aside to fund future projects which are taking place in 2018/19.	This budget is required for carpet installation in 2018/19.
Communities	Community Engagement	£8,380	A final decision on the community engagement spend had not been agreed by the end of the year.	To pay Age UK for garden tools; DIY tools; café tables and chairs; reception desk and catering equipment. This carry forward will also fund activity equipment for various Scout & Brownie groups.
Communities	Communications	£10,000	There were savings on promotional expenditure across the year for The Woodville and there has been considerable focus on planning and organising the promotional events to celebrate the Woodville's 50th anniversary which predominantly falls in 2018/19. Therefore the number of events and promotions planned for 2018/19 related to the Woodville will naturally be higher than in previous years.	The additional events taking place will require additional promotion. The Woodville will also be the main stage sponsor with the Riverside festival which will require additional marketing activity.
Communities	Community Events	£2,500	The expenditure for some events has come in under budget in 2017/18.	Contribution towards Spitfire flyby event as part of the RAF100 anniversary celebrations
Communities	Public Conveniences	£1,500	Savings were achieved in 2017/18 as a result of the closure of a number of public conveniences. The budgets in 2018/19 have been adjusted to reflect the reduced cost.	A one-off Deed of Surrender payment is required to be made to Meopham Parish Council for ending the lease for the public conveniences earlier than contracted.
Corporate Services	Audit & Performance	£700	The corporate change training budget has been earmarked for expenditure which is likely to take place in 2018/19.	It is anticipated that during the 2018/19 financial year, additional training will be undertaken by the team and therefore this budget will assist in covering these costs moving forward.
Environment & Operations	Parking Services	£2,920	This budget has been earmarked for expenditure which does not take place until 2018/19.	The Controlled Parking Zone review is likely to mean that the signs and lines on the majority of roads within the Town Centre controlled parking zone will need changing in 2018/19.
Environment & Operations	Horticulture Parks, Open Spaces	£3,990	An order has been placed for the felling of a mature oak tree that is in a dangerous condition in Gordon Gardens.	This needs to be carried forward as the amount equates to nearly 30% of the 2018/19 budget for tree works.
Environment & Operations	Cemeteries & Burial Admin	£6,290	Supply of 22 waste bins for Northfleet and Gravesend Cemeteries. The supplier was unable to get them all delivered before the end of March.	This needs to be carried forward as the amount equates to a large percentage of the 2018/19 budget.
Housing & Regeneration	Private Housing	£620	A order was placed for promotional products before the end of the financial year but the goods and invoice are yet to be received.	Insufficient budget available in 2018/19 to meet these additional costs.
Housing & Regeneration	Private Housing	£180	Underspend from 2017/18 activities to be used to finance 2018/19 initiatives.	Members contributions made to fund Black History Month displays - carried forward to fund 2019 display.
Total carry forward requests		£146,360		

Table 2: Items Carried Forward from 2017/18

3.9. INTEREST AND INVESTMENT INCOME – £249k FAVOURABLE VARIANCE

- 3.9.1. **Interest & Investment Income: £249k favourable variance** – the budgeted return for interest and investment income for 2018/19 is £627k. The Council continues to hold £10m invested in three Externally Managed Property Funds and a further £10m invested in three Multi-Asset Funds. Dividends received in relation to the third quarter of 2018/19 indicate the return on these investments is projected to exceed budgetary expectations. The balance of the Council's investments is held in fixed term deposits, certificates of deposit and money market funds; again, the returns on these investments are projected to be above budget.
- 3.9.2. On 2 August 2018 the Bank of England announced an increase in the base rate from 0.50% to 0.75%, the highest level since March 2009. The net impact of this increase combined with the projected returns for Property Funds, Multi-Asset Funds and traditional investments described above, is projected additional income of £189k for 2018/19.
- 3.9.3. As part of the agreement for redevelopment of the St George's Centre (as set out within the Communities Directorate), a sum of £14.2m was received by the Council to finance the capital works required. Under the terms of the agreement, the Council is able to invest and earn interest on this sum until it is fully expended, and the project completed. Investments have therefore been made in money market funds and certificates of deposit, with a projected benefit to the MTFP of £60k income for 2018/19.

3.10. FUNDING STREAMS – £263k ADVERSE VARIANCE

3.10.1. **Government Grant Funding – Section 31 grants** – see Business Rates Income section below.

3.10.2. **Transfers to/(from) reserves: £323k adverse variance** – in addition to a favourable variance of a net £218k relating to reserve drawdowns funding specific service expenditure (described below under "Transactions below the line"), there are further projected movements now being reflected as at Quarter Three:

- NNDR Growth Fund Reserve – following the latest projections arising from the Council's participation in the Kent Business Rates Pool, there is a small reduction of £9k compared to the original budgeted contribution to this reserve.
- NNDR Equalisation Reserve – in lieu of the Council's anticipated payment to the Collection Fund required in 2019/20 (funded from this reserve), the opportunity is being taken in 2018/19 to top-up this reserve in advance by a further £136k compared to the original budget, thus ensuring that from 2019/20 onwards a level of £500k is maintained.
- Commercial Income Protection Reserve – as the Council now has greater exposure to rental income streams, particularly since the commencement of the Property Acquisition Strategy designed at purchasing sites to generate a net income stream, it is felt prudent to set money aside to negate lost rental from, void periods and provide for repair works required, service charges etc. Consequently a contribution of £414k has been made to the reserve in 2018/19, with the reserve level for all years now reflecting 15% of the overall rental income projected for each year.

- 3.10.3. The total variation for “Transfers to/(from) reserves” is therefore a combination of the net £218k relating to reserve drawdowns funding specific service expenditure, and the further net movement of £541k relating to additional reserve contributions made – an overall adverse variance of £323k.
- 3.10.4. **Transactions below the line: £129k adverse variance** – under accounting arrangements the corresponding entries relating to reserve-funded expenditure within services (the drawdown from the reserve and the transfer into the specific service) are shown here. To this effect, a movement of £218k is projected relating to the reserve funded items as described within the Communities, Corporate Services, and Housing & Regeneration Directorate sections, and also within the Specific Reserves section starting at paragraph 3.11.
- 3.10.5. The council is required to pay off an element of the accumulated General Fund capital expenditure each year through a revenue charge known as Minimum Revenue Provision (MRP). The budget for the 2018-19 MRP charge was set based on the assumption that internal cash balances of £5m would be utilised for Commercial Property Acquisition in 2017-18. However, in 2017-18 capital expenditure, which required funding by utilising cash balances, totalled £2.1m, therefore this has reduced the MRP charge in 2018-19 by £89k.
- 3.10.6. The total variation within “Transactions below the line” is therefore a combination of the £218k relating to accounting arrangements corresponding to reserve movements, and the projected underspend of £89k on the Minimum Revenue Provision – an overall net adverse variance of £129k.
- 3.10.7. **Transfers to/(from) balances & Business Rates Income: £189k favourable variance** – the council entered into the Kent Business Rates Pilot scheme for 2018/19 from 1st April whereby the 50% of any business rate growth previously paid over to Central Government would instead be retained within Kent. In setting the budget for 2018/19, the council anticipated receiving £250k from the Financial Sustainability Fund established through the pilot, with this amount being transferred straight to working balances as a means of providing sustainability of the council’s financial position. Following the latest business rates monitoring across Kent, a healthy position is projected and therefore a further £450k benefit to the council from the Financial Sustainability Fund is being recognised at this stage. This is also being applied directly to working balances (and therefore has a neutral effect on the MTFP “bottom-line”), the effect of which can be found in the table in section 3.12.
- 3.10.8. In addition to the Pilot scheme described above, the Council also continues to be a member of the Kent Business Rates Pool. Latest monitoring indicates a healthy position with additional funds of £15k now projected for 2018/19. Furthermore, adjustments to the tariff baseline mechanism of £94k have now been realised, resulting in an overall net MTFP surplus for Business Rates of £109k.
- 3.10.9. The projection for Section 31 grants received to compensate the Council for various business rate reliefs granted (within the Government Grant Funding section) has also been updated, giving a net benefit to the MTFP of £35k.
- 3.10.10. As part of the provisional finance settlement, the Government announced a one-off distribution from the NNDR levy account surplus. The allocation for Gravesham is £45k.
- 3.10.11. Therefore the total variation for this section is a combination of the £109k net Business Rates surplus, the projected additional Section 31 Grant income of £35k, and the levy account distribution of £45k – an overall favourable variance to the MTFP of £145k.

3.11. Other Variances and Risks not reflected in the Current Budget

- 3.11.1. **Fees and Charges (General)** – Income received from fees and charges supports the annual budget. Monitoring to the end of December indicates that income streams are generally performing well against budget; monitoring will continue during the year with any known variances reported through budget monitoring reports.
- 3.11.2. **Homelessness** – The introduction of the new homelessness legislation at the start of the financial year continues to have an upward effect on the number of households the council has a duty to assist. In Quarter Three of 2018/19 the council was approached by 379 households requiring assistance to resolve their housing issues. This has resulted in 92 households being housed in temporary accommodation (including legacy cases), a slight increase on the 91 households requiring such assistance at the end of Quarter Two.
- 3.11.3. Furthermore, in discharging the council's duties to prevent and relieve homelessness, 50 cases were prevented from becoming homeless in Quarter Three at the prevention stage, by either being able to remain in their current accommodation or by securing alternative accommodation. Similarly, 13 cases were resolved at the relief stage, with these households moving into settled housing.
- 3.11.4. At the end of the quarter there were 152 open cases, of which 14 were at triage stage, 31 at the prevention stage and a further 34 at the relief stage. The increased demand for homelessness assistance has resulted in greater use of temporary accommodation than originally anticipated, with some £290k spent on providing temporary housing to households seeking assistance in the first nine months of the year. This additional expenditure can currently be offset through Housing Benefit and use of grant funding provided by central government to meet the anticipated new burdens the change in legislation would create, thus resulting in a neutral variance against the budget for the year. Officers are, however, assessing the situation to ascertain what further action is required to manage spend.

3.12. Working Balances and Reserves

- 3.12.1. The variances and Carried Forward items outlined in this report have the following effect upon the General Fund working balances:

Working Balances	£
Balance Brought Forward from 2017/18	7,305,450
New Homes Bonus (Straight to working balances)	586,760
NNDR Income - Kent Pilot & Pool (Straight to working balances)	449,220
NNDR Income - Additional growth in Kent Pilot released to Q3	450,000
Budgeted use of Working Balances to support the General Fund	(1,329,640)
Variances per budget report (Incl.items Bfwd from 2017/18)	823,330
Forecast Working Balances C/Fwd (as at 31 December 2018) including Minimum GF Working Balance	8,285,120
Less: Minimum GF balance	(1,250,000)
Less: Additional General Fund Reserve	(4,000,000)
Forecast Usable Working Balances C/Fwd (as at 31 December 2018)	3,035,120

Table 3: Effect on General Fund Balances

3.12.2. The general working balance is supplemented by specific reserves, established to assist with future funding obligations or initiatives. The table below provides a summary of the forecast movements on these specific reserves during the year.

General Fund Earmarked Reserves	Opening Balance 01/04/2018 £'000	Forecast Use of Reserve (Expenditure) £'000	Forecast Contributions (Income) £'000	Forecast Balance 31/03/2019 £'000
Planning Policy Reserve	393	(90)	50	353
Asset Enhancement Reserve	904	(176)	100	828
Spend to Save Reserve (Inc.Digital Team)	148		9	157
Leisure Centres Reserve	1,007	(135)	375	1,247
Corporate Priorities Reserve	140	(60)		80
Town Pier Pontoon Reserve	91	(5)	13	99
Local Authority Mortgage Scheme (LAMS) Reserve	100	(50)		50
Elections Reserve	149		23	172
NNDR Collection Fund Equalisation Reserve	500		166	666
IT Infrastructure Reserve	85	(60)	75	100
DSO Vehicle Capital Reserve	31	(105)	435	361
Freighter Replacement Reserve	559		221	780
NNDR Growth Fund Reserve	447	(240)	220	427
Lower Thames Crossing Reserve	150			150
Woodville Repairs Reserve	57		57	114
Investment Interest Equalisation Reserve	500			500
Commerical Income Protection Reserve	100	(16)	414	498
Service Review Reserve	258	(11)		247
Playgrounds Reserve	100			100
Decriminalisation Reserve	42			42
Sub-total - Specific Earmarked Reserves	5,761	(948)	2,158	6,971
Revenue Grants not yet applied	1,737	(257)	16	1,496
Total - All Earmarked Reserves	7,498	(1,205)	2,174	8,467

Table 4: Analysis of Specific Reserves

3.12.3. Significant or new approved use of reserves include:

3.12.4. **Planning Policy Reserve** – £90k has been released from the Planning Policy reserve to cover expenditure incurred to date in 2018/19 associated with the Local Plan.

3.12.5. **Corporate Priorities Reserve** – £9k Corporate Debt Pilot Systems (Corporate Services), £8k Microfilming work (Housing & Regeneration), £25k Feasibility Studies re land adjacent to Dering Way and at Milton Place.

3.12.6. **NNDR Equalisation Reserve** – see section 3.10.

3.12.7. **DSO Vehicle Capital Reserve** – a contribution of £330k is being made to the reserve in 2018/19 funded from the repairs & maintenance underspend within HRA budgets. This will finance additional vehicles required as part of the expansion of the Council's Housing Repairs service.

3.12.8. **NNDR Growth Fund Reserve** – £217k has been released to fund the provision of specialist professional services associated with the redevelopment of the St George's Centre (Corporate Services).

3.12.9. **Commercial Income Protection Reserve** – see section 3.10.

3.12.10. **Revenue Grants not yet applied** – £91k Flexible Homelessness Grant received in 2017/18 now released to fund temporary accommodation costs, £21k released to War Memorials project (as described within the Communities Directorate section), £28k released from Healthy Living Centre reserve to fund various GRAND activities in 2018/19, £20k released from the Waste Grant to fund Depot improvement works, £38k Revenues & Benefits grants released to fund temporary staffing and system upgrade costs.

3.13. Medium Term Financial Planning

- 3.13.1. The Medium Term Financial Plan (MTFP) is reviewed on an ongoing basis in order to take into account longer-term assumptions around inflation rates, central government grants and energy prices, together with building in all known variances to the Council's budget as a result of Management Team and Cabinet decisions. The latest version of the Medium Term Financial Plan is attached to this report at Appendix Two.
- 3.13.2. The Government has decided to introduce a statutory override to accounting changes to pooled investments proposed by the introduction of International Financial Reporting Standard 9 (IFRS9). The standard, implemented from 1 April 2018, initially required local authorities who hold certain types of financial instruments to account for any growth or reduction in the capital value of those investments in their annual accounts. The statutory override, which is for five years, is intended to enable authorities to effectively consider whether they wish to continue to invest, extract themselves from such investments or build up their reserves to cover any movements. During the period of the statutory override, local authorities will be required to disclose profits and losses from pooled investments to as a separate line item in reserves.
- 3.13.3. On 29 October 2018 the Chancellor delivered his second Autumn Budget, which fired the starting gun for the 2019 Spending Review. The Chancellor announced that there would be average real term increases in Resource Departmental Expenditure Limits (RDEL) over the next five years of 1.2% per annum, albeit the funding already announced for the NHS exceed this level of increase, implying that some departments may see funding actually at existing levels or reduced. The Chancellor also announced continued adjustments to the Business Rates Scheme, with bills to be cut by one-third for retailers including shops, cafes and restaurants in England with a rateable value below £51,000, for 2 years from April 2019 (subject to state aid limits).
- 3.13.4. On 13 December 2018 the Provisional Local Government Finance Settlement was announced. The provisional settlement is the final year of the multi-year finance settlement announced in 2016-17 and completes the Government's intended reduction in the total level of funding for local government over the period to 2019/20. The settlement provided a slightly improved position than that expected due to the decision of Government to provide an additional £153m of funding to those authorities that were due to pay negative RSG for 2019/20. At the same time, however, it was announced that Kent & Medway had been unsuccessful in retaining Pilot Status for Business Rates in 2019/20.
- 3.13.5. As part of the activity to prepare the draft budget for 2019/20, a review of the council's reserves and working balances has been conducted. Having considered the risks to the council's financial stability, professional advice and reserve practice of other comparator authorities it is the opinion of the Director (Corporate Services), that the minimum of £3,250,000 in General Fund working balances should be increased to £5,250,000 during 2019/20, constituted:
- a minimum working balance of £1.25m to assist cash flow
 - £4m General Revenue Reserve to enable the Council to meet unforeseen challenges or pressures on its financial position (previously £2m).

4. GENERAL FUND CAPITAL PROGRAMME

4.1 The following table details the General Fund Capital Programme as at Quarter 3, this includes the revised original budget for 2018/19, taking into consideration adjustments for carried forward items, as approved by the Section 151 Officer and Management team.

Scheme	2018/19 Original Budget inc C/Fwd £	2018/19 Approved Adjustments £	2018/19 Working Budget £	2018/19 Actual Expenditure Qtr 3 £	Outstanding Balance £
Older Persons Champion	6,410	0	6,410	1,028	(5,382)
Essential Repairs to Buildings	99,000	0	99,000	23,503	(75,497)
Gravesend Cemetery Improvements	21,580	0	21,580	0	(21,580)
Local Enterprise Partnership Projects	56,920	0	56,920	4,101	(52,819)
Town Pier Pontoon	84,000	0	84,000	52,743	(31,257)
Parrock St Car Park - Toilet Block (Provision)	34,220	(34,220)	0	0	0
Purchase of Vehicles (DSO Fleet)	205,000	0	205,000	153,892	(51,108)
Gatekeeper Replacement	50,000	(50,000)	0	0	0
New Wheeled Bins for Flat Recycling	100,000	0	100,000	0	(100,000)
Waste & Horticulture back office system	200,000	0	200,000	0	(200,000)
Replacement Playground Programme	220,000	(102,300)	117,700	117,695	(5)
Queen Elizabeth II Statue	38,650	0	38,650	9,098	(29,552)
IT Equipment Review	50,540	0	50,540	24,753	(25,787)
Virtual Desktop Infrastructure Software	8,800	0	8,800	8,869	69
Information at Work - Retention Module Software	13,970	0	13,970	13,965	(5)
Civica Financial System upgrade	22,070	0	22,070	13,795	(8,275)
Brookvale Office Accommodation	1,500,000	(1,400,000)	100,000	20,965	(79,035)
St John's House - Refurbishment	70,000	0	70,000	67,526	(2,474)
Property Acquisition Programme	9,141,200	3,871,400	13,012,600	8,480,369	(4,532,231)
Land Acquisition Programme	0	239,620	239,620	239,623	3
Heritage Quarter - St George's Centre	0	3,104,080	3,104,080	113,045	(2,991,035)
Cascades Replacement Flumes	0	100,000	100,000	0	(100,000)
AV Equipment, Council Chamber	0	39,910	39,910	17,459	(22,452)
Roller Brake Testing	0	30,000	30,000	27,495	(2,505)
	11,922,360	5,798,490	17,720,850	9,389,924	(8,330,926)

Table 5: General Fund Capital Programme 2018/19

- **Older Persons Champion** – the budget for a number of projects was carried forward from 2017/18. Two new benches have now been installed at Portreeve Court. The match funding for Age UK North West Kent bathroom refurbishment is still available.
- **Essential Repairs to Buildings** – an order has been placed for installing LED lights in Civic Centre car park and Committee Section area (the later in order to take account of revised layout). The concrete repair matter has been referred to Legal as the Consultant appointed to assist the council had not been responding to requests for information. Legal are now in contact with the Consultant and the Contractor who carried out the works.
- **Gravesend Cemetery Improvements** - the new cemetery software is currently being implemented.
- **Local Enterprise Partnership Projects (LEP Funded)** – Town Centre Way Finding signage is now complete with no further changes anticipated until the Barrack Row bus interchange is built in 2019.
- **Town Pier remedial works** – works have now been completed. The tenant was invoiced for the works in December 2018.
- **Purchase of Vehicles (DSO Fleet)** – the workshop are currently awaiting delivery of a new ride on mower and panel van.

- **Gatekeeper Replacement** – a report has been submitted to Management Team for the next stage of this scheme. The case for ANPR enforcement of a Bus Gate at King Street will be made in writing to the Kent Parking and Enforcement Manager at KCC.
- **New Wheeled Bins for Flat Recycling** - a review is taking place looking at blocks of flats to determine the number of bins required.
- **Waste & Horticulture Back Office System** – the preferred supplier for the Waste Management Software has been selected and implementation has started.
- **Replacement Artificial Sports Pitches** - the council has agreed in principle to providing £50,000 towards the replacement of the artificial pitch surface as operated by the Gravesham Sports Trust, located at the Gravesend Rugby Football Club site. This facility was highlighted within the Gravesham 2016 Playing Pitch Strategy as strategically important to the local area but in need of refurbishment. The trust are currently sourcing some additional funds to cover the total cost of replacement (approximately £250k) including the Gravesend Grammar School, Hockey Foundation etc. This scheme has now been moved into the 2019/20 budget.
- **Replacement Playground Programme** – agreement has been given to update a number of sites including Central Avenue, Durndale Lane, Waterton Avenue and Wombwell Park. The procurement for these sites will be undertaken during quarter four.
- **Queen Elizabeth II Statue** – expenditure on the Queen’s statue has been wholly funded from third-party contributions. The Right Reverend James Langstaff, Bishop of Rochester and Bishop to H.M. Prisons unveiled the statue jointly with the Leader of the Council on 26th July 2018.
- **IT Equipment review** - work on this project is nearing completion with only a few departments awaiting their new equipment to be installed.
- **Virtual Desktop Infrastructure software** – the work on the “Workspace Suite” phase for mobile devices has now been completed.
- **Information at Work - Retention Module Software** – the module has now been installed.
- **Civica Financials System Upgrade** – the works required to upgrade the server hosting the council’s financial systems and the reporting and operations element of the system itself have commenced and are due to be completed in February 2019.
- **Brookvale Office Accommodation** - works have commenced at the Brookvale Depot to prepare the site for development, which is now planned to take place in 2019/20.
- **St John’s House Refurbishment** - refurbishment works were completed in early November and the premises has been let on a 10-year fully repairing and insuring lease with effect from 21st December 2018.
- **Property Acquisition Programme** – in December 2018 Full Council agreed to extend the total funding available for the programme to £26.2m. The council is currently seeking to finalise two acquisitions in the final quarter of this financial year, the remaining budget has been added to the 2019/20 capital programme.
- **Land Acquisition Programme** - there has been no further activity under this programme in quarter three.

- **Heritage Quarter (St George's Centre)** - the planning application for the first phase of the refurbishment of the St Georges Shopping Centre was approved in December. Work is due to commence on the re-enlivenment of the mall areas of the centre in early 2019.
- **Cascades Replacement Flumes** - a structural steel survey and flume survey have been completed in partnership with GCLL. A specification document is to be developed soon in order to tender for the works.
- **AV Equipment Council Chamber** – the work to replace the projector and enlarge the screen within the council chamber commenced before the Christmas period. The remaining work to replace the televisions in committee suite 1 and 4 and renew the induction (hearing) loops within all the committee suites is scheduled to take place in early 2019. All work is due to completed fully by the end of March and within the existing budget.
- **Roller Brake Testing** – an order for the brake roller testing equipment has been placed and it is expected the equipment will be installed by the end of January 2019.

4.2 Capital Resources

4.2.1 The table below shows the General Fund resources available to fund capital projects in the future:

General Fund Capital Resources	Opening Balance 01/04/2018 £	Actual Income 2018/19 £	Proposed Use of Funding 2018/19 £	Projected Balance 31/03/2019 £
Capital Receipts	(1,145,475)	(6,670)	226,990	(925,155)
S106 Capital Contributions	(274,494)	(259,462)	52,900	(481,056)
Capital Grants unapplied	(588,280)	0	421,640	(166,640)
Total Capital Resources	(2,008,249)	(266,132)	701,530	(1,572,851)

Table 6: General Fund Capital Resources 2018/19

Capital Grants Unapplied	Opening Balance 01/04/2018 £	Actual Income 2018/19 £	Proposed Use of Funding 2018/19 £	Projected Balance 31/03/2019 £
Public Realm Improvement & Maint Funds	(213,540)	0	213,540	0
Transport Quarter Stage 3	(223,610)	0	208,100	(15,510)
Localised Council Tax Support	(89,220)	0	0	(89,220)
Local Enterprise Partnership Funding	(6,910)	0	0	(6,910)
Land at South of Hever Court Road	(55,000)	0	0	(55,000)
Total Capital Grants Unapplied	(588,280)	0	421,640	(166,640)

Table 7: Capital Grants Unapplied 2018/19

4.2.2 The table below lists the S106 developer contributions currently held by the council. These contributions are treated as specific grants as they have conditions attached to their use.

S106 Developer Contributions	General Fund £	HRA £	Third Party Contributions £	Total S106 Income 2018/19 £	Purpose of S106
Leith Park Road Development	0	(5,680)	0	(5,680)	Originally paid by developer in lieu of providing affordable housing units at Leith Park Road. Originally received £310,000. This balance will be used to fund part of the Housing capital programme in 2018/19.
Infrastructure Maintenance Depot (IMD) Compensation fund	(2,594)	0	0	(2,594)	This grant fund was established by money secured from Union Rail the developers of the Channel Tunnel Rail Link. The original contribution was £242,000. Its aim is to support the delivery of landscape access, wildlife and recreation schemes in the Wards and Parishes affected by the development.
Land at the South of Hever Court Road	0	0	(80,000)	(80,000)	Highways contribution.
Springhead Quarter	0	(250,000)	0	(250,000)	Provision or major upgrade of affordable housing.
Whitehill Open Space	(52,000)	0	0	(52,000)	Towards qualitative improvements to the wider Whitehill amenity space. These funds might be put towards a number of potential opportunities including, for example, new seating, footpath improvements, new planting and/or the levelling of the retained amenity space to the north of the proposed development.
Land South of Dalefield Way, Dering Way	(67,000)	0	0	(67,000)	Flood Risk Management - £12,000, Bus Shelter - £5,000, £50,000 Cascades
Whitehill Road	0	0	(1,000)	(1,000)	Leisure Contribution.
Springhead Leisure Contribution	(150,000)	0	0	(150,000)	Highways contribution
Bluewater - Gravesend Town Centre Improvements	(259,462)			(259,462)	To provide additional and/or improved play facilities at the Recreational ground and if not expended in 7 years after payment any unspent sum should be repaid
Total S106 Contributions	(531,056)	(255,680)	(81,000)	(867,736)	A scheme to improve or enhance the environmental setting, visitor and shopper experience, and / or attractiveness of Gravesend Town Centre.

Table 8: S106 Contributions 2018/19

5 HOUSING REVENUE ACCOUNT

5.1 Budget 2018/19

5.1.1 The table below sets out the current forecast spend against the original budget for the Housing Revenue Account (HRA), based on variances to 31 December 2018.

5.1.2 As at 31 December 2018 the forecast reflects a saving of £1.05m due to variances within Supervision and Management, Repairs and Maintenance and Capital Finance against the Original Budget.

Description	Original Budget 2018/19 (£)	Forecast 2018/19 (£)	Variation (£)
Supervision and Management	6,014,770	5,444,770	(570,000)
Repairs and Maintenance	7,766,870	7,351,870	(415,000)
Depreciation	6,813,840	6,813,840	0
Supporting People Fund - Expenditure	667,200	667,200	0
Capital Finance	6,539,560	6,519,560	(20,000)
Sub Total Expenditure	27,802,240	26,797,240	(1,005,000)
Rents of Dwellings	(25,298,700)	(25,156,640)	142,060
Other Rental Income	(33,370)	(33,370)	0
Service Charges	(1,380,300)	(1,380,300)	0
Non Dwelling Income	(327,130)	(327,130)	0
Supporting People Fund -Service Charge Income	(103,480)	(103,480)	0
Supporting People Fund - Grant	(418,160)	(418,160)	0
Other Income	(112,260)	(112,260)	0
Sub Total Income	(27,673,400)	(27,531,340)	142,060
Contributions to/(from) reserves	(128,840)	734,100	862,940
Net Surplus/Deficit	0	0	0

Table 9: Housing Revenue Account 2018/19

5.2 SUPERVISION & MANAGEMENT – £570k FAVOURABLE VARIANCE

5.2.1 **Vacancy Management: £550k favourable variance** – the HRA staffing budget for 2018/19 incorporates a vacancy allowance of £100k for the year. It is anticipated that this will occur throughout the establishment as a whole from natural staff turnover within day-to-day business activities, as well as posts held vacant pending the re-design of services. The current year-end projection is an underspend of £650k, therefore giving rise to the net favourable variance of £550k.

5.2.2 **Stock Condition Survey: £20k adverse variance** – It has been agreed to increase the number of properties included in the 2018/19 stock condition survey from 1,000 to 2,000 properties. This brings forward work proposed for 2019/20 and will produce enhanced financial information which will improve the quality of future financial projections on repairs and maintenance spend to inform both the revenue and capital programme for 2019/20 and beyond. The cost of the additional properties to be surveyed will result in an additional cost of £20,000.

REPAIRS & MAINTENANCE – £415k FAVOURABLE VARIANCE

5.2.3 **Repairs & Maintenance: £420k – favourable variance** – As reported in the 2017/18 outturn report, significant changes within the Responsive Repairs Team continue to deliver efficiencies and savings whilst providing an equitable service that meets the council's objectives as a landlord as well as managing tenant's expectations. The IT system that was introduced continues to support the evolution of the service. It creates further opportunities to work in smarter ways to deliver efficiencies and savings, underpinned and reinforced by the introduction of the new and updated policies to ensure that only necessary work is carried out and that any works above and beyond the responsibility of the council are paid for by the tenant. These changes align to recommendations of the Overview Scrutiny Committee; Housing repairs Topic Review (Part 2). The position is reduced from that reported in Quarter One following the decision by Cabinet to expand the in-house Building Management Team; the report to Cabinet set out the need to make a contribution to the Vehicle Replacement Reserve to offset the capital cost of new vehicles required for the additional staff. Whilst the current projected underspend at the end of the current financial year is likely, it is also important to remember that this budget funds a reactive service where demand naturally fluctuates in response to factors outside of the council's control.

5.2.4 **Other Minor Variances: £5k adverse variance** – a number of minor variances have been reported within Repairs & Maintenance, the net effect of these variances is £5k.

5.3 CAPITAL FINANCE – £20k FAVOURABLE VARIANCE

5.3.1 **Interest Payable: £20k – favourable variance** – the HRA's share of interest costs on external borrowing is lower than originally budgeted as no additional debt was taken in 2017/18.

5.4 RENTS ON DWELLINGS – £147k ADVERSE VARIANCE

5.4.1 **Provision for Bad Debt: £147k – adverse variance** – due to the roll out of Universal Credits, the provision for bad debt has been adjusted to reflect the potential impact of increased rent arrears due to benefits being paid directly to tenants.

5.5 Working Balances and Reserves

5.5.1 The variances and Carried Forward items outlined in this report have the following effect upon the General Fund working balances:

Working Balances	£
Balance Brought Forward from 2017/18	3,000,000
Variances per budget report	734,100
Forecast working balances C/Fwd (as at 31 December 2018) including minimum HRA Working Balance	3,734,100
Less: Transfer to HRA General Reserve (Revenue)	(734,100)
Forecast Usable Working Balances C/fwd (as at 31 December 2018)	3,000,000

Table 10: Effect on Housing Revenue Account Working Balances

- 5.5.2 The working balances are supplemented by specific reserves established to assist with future funding obligations or initiatives. The table below provides a summary of the forecast movements on these specific reserves during the year.

HRA Specific Reserves	Opening Balance 01/04/2018 £'000	Forecast Use of Reserve (Expenditure) £'000	Forecast Contributions (Income) £'000	Forecast Balance 31/03/2019 £'000
HRA General Reserve (Revenue)	(7,441)	3,298	(734)	(4,877)
Total	(7,441)	3,298	(734)	(4,877)

Table 11: Analysis of Specific Reserves – HRA

5.6 HRA Business Planning

- 5.6.1 The HRA Business Plan is reviewed on an ongoing basis in order to take into account longer-term assumptions around inflation rates, central government grants and energy prices, together with building in all known variances to the budget resulting from Management Team and Cabinet decisions.
- 5.6.2 The HRA Business Plan reflects the current and future financial spend profiles identified in the recent Stock Condition Survey produced by Penningtons in July 2018. It also reflects future forecasts of the New Build Programme beyond the existing three year scheme based on the current assumption of the sale of 30 Council Houses per annum.
- 5.6.3 The latest version of the HRA Business Plan is attached to this report at Appendix Three.
- 5.6.4 On 14 August 2018 Government launched the Social Housing Green Paper, which was closely followed by consultation papers being released on right to buy sales and social housing rents from April 2020 onwards. The council responded to these consultations, though no response from Government on its intentions has been released as yet.
- 5.6.5 Following on from the Prime Minister's announcement at the Conservative Party Conference, the Chancellor's Autumn Budget 2018 confirmed that the removal of the Housing Revenue Account borrowing cap from 29 October 2018.

6 HOUSING CAPITAL PROGRAMME

- 6.1 The Housing Capital programme for 2018/19 is £14,760,140 of which £13,383,240 relates to HRA capital schemes and £1,376,900 relates to non-HRA capital schemes. These budgets included £231,230 and £544,140, respectively that are carried forward from 2017/18.
- 6.2 The HRA capital schemes continued to focus on the minimum decent homes standard for the Council's stock in 2018/19, with £7,356,680 earmarked for this purpose within the Replacement, Improvement and Health & Safety Programmes. The council also continued its commitment to build new homes with £5,326,780 allocated for this purpose.

HOUSING CAPITAL PROGRAMME				
Ref No:	Project	Original Budget 2018-19 inc CFwd (£)	Expenditure Including Commitments (£)	Balance Outstanding (£)
A	Replacement Programmes	4,017,940	2,494,880	(1,523,060)
B	Improvement Programmes	2,228,320	2,488,730	260,410
C	Health & Safety Works	1,110,420	500,680	(609,740)
D	New Build & Acquisitions	5,326,780	4,853,560	(473,220)
E	Housing Computer Systems	600,000	0	(600,000)
F	Virtual Desktop Infrastructure	2,930	3,130	200
G	Replacement Play Equipment	80,000	0	(80,000)
H	IT Equipment Review	16,850	8,250	(8,600)
	Sub Total (HRA Capital Programme)	13,383,240	10,349,230	(3,034,010)
I	Disabled Facilities Grant	1,514,590	770,410	(744,180)
	Total (HRA & GF Capital Programme)	14,897,830	11,119,640	(3,778,190)

Table 12: Housing Capital Programme 2018/19

6.3 The works undertaken/completed in Quarter Three are detailed below:

6.3.1 **Replacement Programmes (Ref A)** - the following works have been completed YTD, Quarter 3:

- 126 kitchen replacements;
- 83 bathroom replacements;
- 95 properties had new window and door replacements;
- 751 properties had electrical tests and/or remedial works including rewiring, minor works and upgrades to consumer units;
- 65 blocks have had communal electrical tests and/or remedial works completed;
- 8 residential blocks had the roofing completely replaced;
- 12 domestic properties have had roof renewals

6.3.2 Across the Replacement Programmes, savings of £700k is expected to be achieved at the end of the Financial Year. Schemes within the programme that are contributing to this saving are £495k on Kitchen Programme Voids, £127k on Communal Area Upgrades and £78k on Roofing Programme.

6.3.3 **Improvement Programmes (Ref B)** - the following works have been completed YTD, Quarter Three:

- 311 properties had new central heating systems installed;
- 13 properties had new storage heating installed;
- 44 properties had level access showers/wet rooms installed;
- 23 properties had over-bath installations;
- 22 stairs lifts were installed in properties;

- 5 properties had various adaptations completed including accessible kitchens, bathrooms and ramps;
- 16 properties received renewed soakaways;
- 3 properties had major renovations works completed;
- 2 properties were converted from a 1 to 2 bedroom unit;
- 1 block had major works carried out on the mains water supply.

6.3.4 Health & Safety Works (Ref C) - the following works have been completed YTD, Quarter Three:

- Compartmentalisation works have been carried out in the basement of The Hive. The works were agreed as a preventative measure to help contain the spread of flames in the event of a fire. In addition to this, works have been carried out to protect the gas and electrical meters situated in the basement;
- 4 passenger lifts had modernisation works carried out to the lighting and alarm panels;
- 336 properties had smoke alarm installations completed;
- 16 blocks have had upgrades to the warden call/door entry systems

6.4 New Build (Ref D)

6.4.1 The authority signed an agreement with the DCLG to retain part of the Right To Buy (RTB) receipts and use them as part-funding of new build and/or acquisition of additional social housing. The following is the reported position at the end of Quarter Two:

- The 10 unit scheme at Packham Road (now known as Alders Court) is in the final phase of works with 6 x 2 bed properties, having been completed in October and are now occupied. The remaining units comprising of 3 x 1 bed bungalows and 1 x 2 bed wheelchair compliant bungalow will be completed in early January 2019 and have already been allocated;
- The council continues to consider the purchase of RTB properties and flats in blocks where GBC are the freeholder. A total of 8 properties have been purchased during 2018/19, bringing the cumulative purchases to date to 38 properties;
- The conversion of the Kings Farm Estate Office to a 4 bed wheelchair home was completed and the property occupied in 2018/19;
- Westridge Construction Limited has commenced work at St Hilda's Way and the demolition of the former depot and garages is underway. The scheme is set to deliver 10 x 1 and 2 bed flats, 4 x 2 bed maisonettes and 32 x 2 bed houses. The project is expected to complete in Winter 2019;

- Tenders for the approved Whitehill/Nansen Road scheme have been received. GBC's appointed Agent will now compare the tenders and provide a full report, upon which, a decision will be taken to appoint a contractor;
- Pre-application meetings to discuss the proposal for the new build scheme at Valley Drive have taken place with the Planning Team and a planning application is expected to be submitted in late January 2019;
- Three further schemes are at the pre-application stage for sites at Rembrandt Drive/Constable Road, St Patrick's Gardens and St Dunstan's Drive, which if successful, will increase our housing stock by an additional 35 homes;
- Continued consideration is given to other sites across the Borough to enable the delivery of new council homes.

6.4.2 The council is permitted to retain part of the RTB receipts to repay the debt incurred in 2012 as part of HRA self-financing. As at 1 April 2018, the balance on the RTB Allowable Debt reserve fund stood at £425,980. The proposal is to use the RTB Allowable Debt reserve to help fund the New Build projects as this can either be used to repay debt or finance the capital programme. This will ensure that the revenue surplus being generated can be moved to a general HRA reserve available for future use against either revenue or capital and that monies are only borrowed once all available resources have been utilised.

6.4.3 Table 13 summarises the one for one receipts retained from the sale of Right To Buy properties, since 2012, along with the level of GBC's contributions required to deliver the New Build programme and a summary of when expenditure needs to be delivered to avoid having to return funds to Central Government.

	One for one receipts retained	GBC 70% contribution to new build	Value of new build expenditure expected	Cumulative value of new build expenditure expected	Date of new build expected by
	£	£	£	£	
2012-14 c/f	1,518,530	3,543,220	5,061,750	19,194,350	31-Mar-17
2014-15					
Q1	174,940	408,210	583,150	5,644,910	30-Jun-17
Q2	443,310	1,034,390	1,477,700	7,122,600	30-Sep-17
Q3	327,760	764,760	1,092,520	8,215,120	31-Dec-17
Q4	865,790	2,020,160	2,885,950	11,101,070	31-Mar-18
2015-16					
Q1	124,270	289,960	414,230	11,515,300	30-Jun-18
Q2	233,510	544,870	778,380	12,293,680	30-Sep-18
Q3	589,670	1,375,910	1,965,580	14,259,260	31-Dec-18
Q4	650,580	1,518,010	2,168,590	16,427,860	31-Mar-19
2016-17					
Q1	697,650	1,627,850	2,325,500	18,753,360	30-Jun-19
Q2	205,200	478,790	683,990	19,437,350	30-Sep-19
Q3	541,710	1,263,990	1,805,700	21,243,060	31-Dec-19
Q4	532,670	1,242,890	1,775,560	23,018,620	31-Mar-20
2017-18					
Q1	351,150	819,350	1,170,500	24,189,120	30-Jun-20
Q2	296,150	691,020	987,170	25,176,290	30-Sep-20
Q3	730,460	1,704,420	2,434,880	27,611,170	31-Dec-20
Q4	433,800	1,012,210	1,446,010	29,057,180	01-Jan-21
2018-19					
Q1	694,160	1,619,710	2,313,870	31,371,040	30-Jun-21
Q2	484,630	1,130,800	1,615,430	32,986,460	30-Sep-21
Q3	379,770	884,130	1,265,900	34,252,360	31-Dec-21
	10,250,310	23,917,390	34,167,700		

Table 13: New Build

6.5 Housing Computer System (Ref E)

- 6.5.1 Discussions continue with Medway Council for the joint procurement of a new system and headway has been achieved in finalising the specification for the future needs of the business.
- 6.5.2 Our current system provider, Capita, has advised it is likely that formal notification of a sunset date is to be given during Quarter Four in the current year. Therefore a new system will need to be implemented, and officers proficient on the system by July 2021.
- 6.5.3 As previously advised in Quarter One, it is unlikely that there will be any significant spend during the current year, with the majority of the capital expenditure being incurred in 2019/20.

6.6 Replacement Playground Equipment (Ref G)

6.6.1 A review of the housing play sites was completed and an action plan is currently being drawn up to establish the current needs for each site. Once completed, the capital funding will be allocated against the priority areas.

6.7 Disabled Facility Grants (DFGs) (Ref I)

6.7.1 The Private Sector Housing Assistance Policy has been revised and changes were implemented in April 2018. The changes in policy has enabled people to gain access to funding which otherwise would not have been available. An additional 12 people have been assisted in Quarter 3 to have better managed hospital discharges. A further 12 people have benefitted from measures which ensured they were discharged from hospital into a safer home environment, making a total number of beneficiaries to date 24 and 41 respectively.

6.7.2 The DFG administration process continues to work well. 74 cases have been processed in the third quarter. Of the 74 cases processed, the breakdown is as follows:

- 23 grant cases were approved;
- 10 households had works completed;
- 11 applications were cancelled due to changes in the client's circumstances;
- 30 grant cases are awaiting approval.

6.7.3 In June 2018, notification was received MHCLG confirming the level of funding to be allocated to GBC in 2018/19. The grant awarded this year was £832,800. However, MHCLG advised that further funding was available and that we were eligible to receive a further £137,690. The total budget, including the rolled forward budget (committed and underspend) from 2017/18 of £544,140, brings the total funding available to £1,514,630.

6.8 Capital Resources

The table below shows the resources available to fund capital projects in future.

Housing Capital Resources	Opening Balance 01/04/2018 (£)	Income 2018/19 (£)	Use of Funding 2018/19 (£)	Projected Balance 31/03/2019 (£)
Capital Receipts - HRA	(1,085,850)	(255,140)	680,000	(660,990)
Capital Receipts - GF Housing	(27,770)	0	0	(27,770)
Capital Receipts - PV Panels	(3,573,000)	0	0	(3,573,000)
Major Repairs Reserve - Dwellings	(525,330)	(6,813,840)	7,145,220	(193,950)
Major Repairs Reserve - Non Dwellings	(451,220)	0	0	(451,220)
New Build Reserve: 1-4-1 Receipts	(5,248,330)	(2,763,280)	1,598,030	(6,413,580)
Right to Buy Allowable Debt Reserve	(425,980)	(838,520)	155,750	(1,108,750)
Disabled Facility Grants	(544,140)	(970,490)	675,060	(839,570)
Christianfields Overage	(766,000)	0	0	(766,000)
Total	(12,647,620)	(11,641,270)	10,254,060	(14,034,830)

Table 14: HRA and General Fund Housing Capital Resources 2018/19

6.8.1 Projected Capital Expenditure and funding requirements for the HRA can be found at Appendix Four to this report.

7 TREASURY MANAGEMENT

7.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which sets out the principles and guidelines to be followed in borrowing and investment operations undertaken by Local Authorities. On 6 March Full Council approved the Treasury Management Strategy Statement for 2018-19, based on the Code. The authority's Annual Investment Strategy is incorporated in the TMSS and outlines the authority's investment priorities as being:

- Security of Capital
- Liquidity
- Yield

7.2 An update on Treasury Management performance is provided to Members through budget monitoring reports, with more detailed reporting of treasury management activity to the Finance & Audit Committee every six months. A full list of internally managed investments held by the Council at 31 December 2018 can be found at Appendix Five of this report.

7.3 The Council currently pursues a variety of investment opportunities within its Treasury Management strategy:

- a) Around £10m is invested in Externally Managed Property Funds generating returns in the region of 3-5%.
- b) A further £10m is invested in three Multi-Asset funds generating returns of around 3-4%.
- c) Remaining cash balances are generally invested in short-term deposits and overnight money market funds currently generating returns of around 0.62%.
- d) A total of £19.3m has been expended purchasing Investment Properties (including acquisitions and external professional support) from which initial yields have typically been upwards of 6%.

7.4 The following summary of Key economic developments within this reporting period has been provided by Link Asset Services (formerly Capita Asset Services), the authority's Treasury Management.

7.5 UK - After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter 4. After the Monetary Policy Committee(MPC) raised Bank Rate from 0.5% to 0.75% in August, no further increases have been made. Further rate changes from the MPC are unlikely until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down to support growth. The MPC has concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

- 7.6 CPI inflation has been falling reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures.
- 7.7 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.
- 7.8 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.
- 7.9 USA - President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018. The strong growth in employment numbers has fed through to an upturn in wage inflation. However, CPI inflation fell in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fifth increase in 2018. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the rate and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world plunging under the weight of fears around the Fed's actions, the trade war between the US and China, an expectation that world growth will slow and Brexit.
- 7.10 EUROZONE - Growth fell in quarter 3 but this is likely to be a one off caused primarily by a one off fall in car production. The ECB forecast growth in 2018 to be 1.9% falling to 1.7% in 2020. The ECB ended its programme of quantitative easing purchases of debt in December, which now means that the central banks in the US, UK and EU have all now ended the phase of post financial crisis expansion of liquidity supporting world financial markets

The background papers to this report are held within the Accountancy Section

IMPLICATIONS		APPENDIX I
Legal	There are no specific legal matters arising from this report.	
Finance and Value for Money	The financial implications are contained within the body of this report.	
Risk Assessment	The purpose of this report is to demonstrate financial performance as at 31 December against the original budget set for the 2018/19 financial year, and illustrate how this affects the Working Balances and Earmarked Reserves held by the Council.	
Equality Impact Assessment	Screening for Equality Impacts	
	Question	
	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. No	
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. No	
	<i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i>	
Corporate Plan	Corporate Plan Objective Four: Sound and self-sufficient council	
Crime and Disorder	No direct implications	
Digital and website implications	No direct implications	
Safeguarding children and vulnerable adults	No direct implications	