

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Draft Report for Cabinet
Draft report for Finance & Audit Committee

Date: 11 November 2019 / 12 November 2019

Reporting officer: Assistant Director (Corporate Services)

Subject: General Fund Budget Monitoring Report 2019/20 – Quarter Two

Purpose and summary of report:

To provide Members with information on actual performance against the approved Revenue and Capital budgets for 2019/20, 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, 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 2019/20 financial year for the first quarter to 30 September 2019 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 Two there is projected underspend for the year of £568,330. 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. The council ended 2018/19 in a favourable position, enabling budgets totalling £184,670 to be approved for carry forward into 2019/20.
- 2.3. The level of Working Balances at year-end is projected to be £9.72m, constituted of the minimum working balances of £1.25m, the General Fund reserve of £4.00m and usable Working Balances of £4.47m.
- 2.4. Movements in the year are projected to result in a net decrease in reserves of £0.76m, with the level of reserves being £11.24m at start of year and projected to be £10.48m at year- end.
- 2.5. Significant risks to the General Fund's financial position continue to come from the lack of clarity regarding the long-term future of local government funding.
- 2.6. **General Fund - Capital**

- 2.7. The revised budget of the General Fund Capital Programme for the year is £23.93m, including £11.68m to support furtherance of the council's land and commercial property portfolio and £8.27m to fund the initial works to redevelop the St George's Shopping Centre. Actual spend to the end of Quarter Two was £1.02m.

3. GENERAL FUND - REVENUE

3.1. Budget 2019/20

- 3.1.1. The approved Original Budget Requirement for 2019/20 was £11,474,270, funded by retained Non-Domestic Rates, New Homes Bonus, Council Tax and use of £742,500 Usable Working Balances, in accordance with the Medium Term Financial Strategy.
- 3.1.2. Following some limited changes to the responsibilities of Directors and Assistant Directors from 2nd September, the former Environment & Operations and Housing & Regeneration directorates have been adjusted to Housing & Operations and Planning & Development respectively. This reflects the transfer of Housing Services from Housing & Regeneration to Housing & Operations. The table on the next page and subsequent commentary reflects the revised structure and sets out the current assessment of performance against the Original Budget by Directorate, based on known variances as at 30 September 2019.

Directorate / Budget Heading	Original Budget 2019/20 (£)	Forecast 2019/20 (£)	Variation 2019/20 (£)
Chief Executive	28,000	28,000	0
Communities	3,793,880	3,339,630	(454,250)
Corporate Services	3,682,040	3,682,040	0
Housing & Operations	2,608,450	2,578,450	(30,000)
Planning & Development	2,148,620	2,148,620	0
Items Carried Forward from 2018-19	0	184,670	184,670
Non-Directorate Specific	1,134,900	1,134,900	0
Interest and Investment Income	(843,720)	(918,720)	(75,000)
Government Grant Funding	(1,213,840)	(1,282,970)	(69,130)
Transfers to/ (from) reserves	(622,740)	(538,550)	84,190
Transfers to/ (from) balances	611,150	611,150	0
Transactions below the line	147,530	63,340	(84,190)
BUDGET REQUIREMENT	11,474,270	11,030,560	(443,710)
Business Rates Income	(3,085,050)	(3,209,670)	(124,620)
Council Tax Income	(6,892,290)	(6,892,290)	0
Parish Precepts	(339,740)	(339,740)	0
New Homes Bonus	(611,150)	(611,150)	0
Transfers to/(from) the Collection Fund	196,460	196,460	0
Use of Working Balances	(742,500)	(742,500)	0
BUDGET SHORTFALL/(UNDERSPEND)	0	(568,330)	(568,330)

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

3.2. CHIEF EXECUTIVE'S DIRECTORATE – NIL VARIANCE

3.2.1 There are no significant variances to report.

3.3. COMMUNITIES DIRECTORATE – £454k FAVOURABLE VARIANCE

3.3.1. **Acquisition of Units at Springhead Park: £235k favourable variance** – as part of the council's continuing Property Acquisition Programme, the purchase of several industrial units at Springhead Park was completed in February 2019. Due to the timing of this acquisition compared to budget-setting arrangements, this was not able to be reflected in the 2019/20 original budget and therefore there is now a current year favourable variance of £235k to report.

3.3.2. **Council-owned Garages: £160k favourable variance** – within the council's Balancing the Budget initiatives identified in November 2018, a review of council-owned garages and clarification of the legal position has resulted in a reallocation of income and expenditure between the Housing Revenue Account (HRA) and General Fund. It has been determined that where such garages or parking spaces are being used by non-council tenants, the associated income and expenditure should be appropriated to the General Fund, rather than the HRA as has traditionally been the case. The resultant effect is a projected net benefit to the General Fund of £160k in 2019/20 with £180k anticipated in future years.

- 3.3.3. **Acquisition of site at 35-36 New Road, Gravesend: £56k favourable variance** – as part of the same strategy described in paragraph 3.3.1., the council acquired in January 2019 the site at 35-36 New Road, Gravesend, currently tenanted by Bon Marche. This was also not completed in time to be reflected in the 2019/20 original budget and therefore there is now additional income of £56k to report.

Bon Marche went into administration during October 2019. At the time of writing this report, Bon Marche continues to trade whilst the business is being marketed, and it is the current view of the appointed Administrator that there will be interest to take on the business. The status of the business will be monitored to assess any impact on the council.

- 3.3.4. **Member Allowances: £13k favourable variance** – following the local elections in May 2019 a revised cabinet and committee structure has been established by the new administration. The result of this in terms of allowances payable is a reduction of £13k compared to the original budget.

- 3.3.5. **Safer Stronger Communities: Neutral variance** – the council has successfully secured grant funding of around £30k from the Police and Crime Commissioner to support Community Safety Unit (CSU) activity that will assist with intelligence and evidence gathering, particularly to help reduce organised crime, offending related to drug supply and environmental crime such as fly-tipping. Most of the funding awarded has been used to purchase three state-of-the-art rapid deployment CCTV cameras, which also have Automatic Number Plate Recognition (ANPR) capacity. These will be deployed across the Borough for short periods of time as an additional tool to support multi-agency/joint operations. A small amount of funding has also been set aside as a contingency amount to enable the CSU to respond to any emerging priorities that become known during the course of the year.

- 3.3.6. **CCTV – Riverside Leisure Area: neutral variance** – a review of CCTV arrangements across the borough identified the need for additional coverage at the Riverside Leisure Area. Resultantly, reserve funding of £16k from the Corporate Priorities Reserve has been made available to support the installation of new cameras.

- 3.3.7. **Borough Market: £10k adverse variance** – the latest income projections for the market show an anticipated year-end deficit of £17k, attributable to continuing unit vacancies in particular with the unexpected recent departures of stall-holders due to personal circumstances. Compensating underspends on staffing and running expense budgets of £7k have reduced the overall projected variance to £10k for the year.

3.4 **CORPORATE SERVICES DIRECTORATE – NEUTRAL VARIANCE**

- 3.4.1 **Making Tax Digital: neutral variance** – as the result of an HMRC directive requiring organisations to report VAT and Corporation Tax returns using automated internet submissions, £14k of reserve funding has been made available to support this workstream. This budget has financed the purchase and implementation of a new Civica module to facilitate digital transfers between the council and HMRC.

- 3.4.2 **Income Cash Management System: neutral variance** – the council's Income Cash Management system enables a range of critical functions to be delivered, such as the receipting of income payments across all departments, and facilitates the bank reconciliation process. In order to ensure the most recent version is used and remains supported by the provider, Capita, it is now necessary to upgrade to the current version of software. Reserve funding of £11k has been made available to finance this upgrade and the support necessary from Capita to enable this to take place.

3.4.3 **Corporate Debt Pilot System: neutral variance** – funding from the Corporate Priorities Reserve of £8k 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 account balance data from different council systems, carry out matching activity and guide officers in determining specific courses of action for individuals owing multiple amounts to the council.

3.5 **HOUSING & OPERATIONS DIRECTORATE – £30k FAVOURABLE VARIANCE**

3.5.1 **Controlled Parking Zone Review: £30k favourable variance** – the Service Review process identified a need to update some aspects of the existing Controlled Parking Zones. Implementation of the new arrangements went live in May 2019; as result of moving away from five-year permits to a system of annual permit renewal, a favourable variance has been realised in 2019/20 of £30k.

3.5.2 **Parking equipment: neutral variance** – funding of £33k has been transferred from the Service Review Reserve in order finance the purchase of new equipment and signage to enable the operation of new parking schemes within the town centre.

3.6 **PLANNING & DEVELOPMENT – NEUTRAL VARIANCE**

3.6.1 There are no significant variances to report.

3.7 ITEMS CARRIED FORWARD FROM 2018/19 – £185k

3.7.1 The following items from 2018/19 have been approved for carry forward to 2019/20 by the Section 151 Officer and the Council's Management Team:

Summary of General Fund Revenue 2018/19 year-end carry forward requests			
Directorate	Service	Amount	Reason for carry-forward request into 2019/20
Communities	Regeneration	£980	Maintenance works are required on the town pier access system, this budget is required to offset the cost of this work.
Communities	Younger Persons Fund	£1,810	Unspent budget to be rolled forward to pay for grant funded projects already identified in 2019/20.
Communities	Older Persons Fund	£2,050	To be rolled forward to pay for various projects which have already been identified. These include a TV for Portreeve Resident's Association and Defibrillator's at Meopham Parish Council, Istead Rise Memorial Hall and Vigo Village Hall.
Communities	Property Services	£5,000	The final 2018/19 service charge for St John's House has not yet been received. As the building was empty for a few months this charge may exceed the original estimate. As such this budget carry forward is being requested to cover that eventuality as a one off event.
Communities	Community Engagement	£7,610	Unspent MOD grant to be rolled forward. The MOD have agreed that this money can be carried forward and used against an appropriate project next year.
Communities	Woodville Halls	£10,000	Equipment for market café. Spotlites are interested in taking on a unit in the market to provide the café there. This approach will give the market a much needed offer and ensure there is the provision needed. Spotlites will be able to use staff & stock across both sites making this a cost-effective second business for them. To do this, there will be a need to purchase equipment including fridges, hot warmers, tea/coffee machine. In the very unlikely event the offer did not work, the equipment would be reused in the main Spotlites kitchen.
Communities	Community Engagement	£10,590	To support a range of initiatives for next year – community cohesion, tackling hate crime, building footfall in the town etc. This will be linked to ongoing work and the Altogether Stronger project that the council has just received approval for.
Communities	Woodville Halls	£22,000	The auditorium floor needs repairing, sanding and varnishing each year. However, as this has not been undertaken for a number of years, replacement of the floor is now required.
Communities	Woodville Halls	£23,000	This budget will pay for the introduction of a second till at Spotlites and a redesign of the counter to accommodate this. This will enable the team to better serve customers, particularly during busy times.
Communities	Woodville Halls	£70,000	The current dimmer rack responsible for the auditorium lighting needs to be replaced; however, a survey is required to ascertain whether this is the most appropriate route or whether a change to the overall lighting installation is more appropriate / cost effective. Ring-fencing the balance of savings (£70k) is expected to cover the majority of the cost of this work.
Corporate Services	Corporate Performance	£1,520	The Corporate Plan as a project operates over a rolling four year basis. In years 2 and 3 virtually no monies are committed. However, year 4 (2018/19) has a sizeable portion spent as we carry out preparatory work on the new plan and year 1 (2019/20) will likely see all monies spent. The bulk of the budget will be committed to the various communication and promotional aspects of the new Corporate Plan; imagery, printing etc.
Environment and Operations	Horticulture	£3,450	Some of the Playground budget was set aside to fund the cost of the replacement parts at Woodlands Park Play Area. The replacement head unit was not received by 31/03/19 due to a delay with the delivery. The budget now needs to be used to offset this cost in 2019/20.
Environment and Operations	Car Parking	£26,660	The underspend achieved in 2018/19 is needed to supply & install CPZ Parking Signs in 2019/20.
Total carry-forward requests		£184,670	

Table 2: Items Carried Forward from 2018/19

3.8 INTEREST AND INVESTMENT INCOME – £75k FAVOURABLE VARIANCE

- 3.8.1 **Interest & Investment Income: £75k favourable variance** – when setting the investment income budget for the Multi Asset Funds, a prudent view of a 3% return was assumed given that at that time, the investment had only been held for approximately nine months. However, there are currently dividend returns of around 4% being experienced from the Multi Asset Funds.
- 3.8.2 When setting the investment income budget for Property Funds, whilst the investments had been held since 2016, a prudent view was taken that returns would be around 3% given the uncertain economic conditions surrounding Brexit. Whilst officers have seen a small decrease in the Net Asset Value of the council's investment as a result of these uncertainties, dividend returns are holding at around 4%.
- 3.8.3 The combined effect of the above are favourable variances of £45k and £30k respectively, thus giving an overall projected benefit of £75k for 2019/20.

3.9 FUNDING STREAMS – £194k FAVOURABLE VARIANCE

- 3.9.1 **Government Grant Funding – Section 31 grants** – see Business Rates income section below.
- 3.9.2 **Transfers to/(from) reserves & Transactions below the line: net neutral 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. The total of £124k relates to projected reserve funded items as described within the Communities, Corporate Services, and Housing and Operations Directorate sections.
- 3.9.3 **Business Rates Income: £194k favourable variance** – the latest forecast for 2019/20 business rates income takes into account the projected benefits resulting from membership of the Kent Business Rates Pool of £18k. Additionally, 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 further MTFP benefit of £69k.
- 3.9.4 Following the Council's membership of the Kent Business Rates Pilot scheme in 2018/19, subsequent year-end reconciliations of data across the region have been undertaken to finalise the overall position.. The resultant effect is a net further benefit to the Council of £107k relating to the Financial Sustainability and Housing Growth Funds.
- 3.9.5 Therefore the total variation for this section is a combination of the £18k Kent Pool benefit, £69k additional S31 Grant Funding and £107k additional Kent Pilot 2018/19 monies – an overall favourable variance to the MTFP of £194k in 2019/20.

3.10 Other Variances and Risks not reflected in the Current Budget

3.10.1 **Staffing Budgets** – the General Fund staffing budget for 2019/20 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. For the first half of the financial year, actual staffing spend was £96k lower than budgeted.

3.10.2 **Fees and Charges (General)** – Income received from fees and charges supports the annual budget. Monitoring to the end of September 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.

3.10.3 **Homelessness** – monitoring to the end of September indicates that the service is currently operating within the budget for the year, after all government funding received by the council for this purpose has been applied. Whilst demand for the service has seen an increase in the second quarter of the year, the number of households living in temporary accommodation continued to decrease during the quarter, down to 80 at the end of September 2019.

3.10.4 During the first six months of 2019/20 there has been total actual and committed expenditure of £268k on temporary accommodation placements in the private sector, an average of £44.6k per calendar month. However, once compensating Housing Benefit receipts are taken into consideration, the net expenditure for this period is around £174k. Targeted action is being taken by the Housing Options Team to reduce temporary accommodation costs through reducing reliance on private nightly paid temporary accommodation.

3.11 Working Balances and Reserves

3.11.1 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 2018/19	9,287,850
New Homes Bonus (Straight to working balances)	611,150
Budgeted use of Working Balances to support the General Fund	(742,500)
Variances per budget report (Incl.items Bfwd from 2018/19)	568,330
Forecast Working Balances C/Fwd (as at 30 September 2019) including Minimum GF Working Balance	9,724,830
Less: Minimum GF balance	(1,250,000)
Less: Additional General Fund Reserve	(4,000,000)
Forecast Usable Working Balances C/Fwd (as at 30 September 2019)	4,474,830

Table 3: Effect on General Fund Balances

3.11.2 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 01/04/2019 £'000	Forecast Use of Reserve (Expenditure) £'000	Forecast Contributions (Income) £'000	Forecast Balance 31/03/2020 £'000
Planning Policy Reserve	420		50	470
Asset Enhancement Reserve	1,377	(608)	300	1,069
Spend to Save Reserve	157		3	160
Leisure Centres Reserve	1,326	(75)	356	1,607
Corporate Priorities Reserve	310	(30)		280
Town Pier Pontoon Reserve	99		12	111
Local Authority Mortgage Scheme (LAMS)	50	(25)		25
Elections Reserve	172	(120)		52
NNDR Collection Fund Equalisation Reserve	666	(166)		500
IT Infrastructure Reserve	305		75	380
DSO Vehicle Capital Reserve	414	(435)	105	84
Freighter Replacement Reserve	780		232	1,012
NNDR Growth Fund Reserve	478	(235)	220	463
Lower Thames Crossing Reserve	150			150
Woodville Repairs Reserve	170		57	227
Investment Interest Equalisation Reserve	500			500
Housing & Commercial Growth Fund	700			700
St George's Income Protection Reserve	422			422
Commercial Income Protection Reserve	424		59	483
Service Review Reserve	247	(83)		164
Playgrounds Reserve	167	(100)		67
Decriminalisation Reserve	85	(100)	100	85
Sub-total - Specific Earmarked Reserves	9,419	(1,977)	1,569	9,011
Revenue Grants not yet applied	1,819	(348)		1,471
Total - All Earmarked Reserves	11,238	(2,325)	1,569	10,482

Table 4: Analysis of Specific Reserves

3.11.3 Significant or new approved use of reserves include:

3.11.4 **Corporate Priorities Reserve** – £16k CCTV (Communities), £8k Corporate Debt Pilot System (Corporate Services), £2k Safer Place Officers' equipment (Communities).

3.11.5 **Service Review Reserve** – £33k Parking equipment (Environment & Operations).

3.11.6 **Revenue Grants not yet applied** – £14k Making Tax Digital, £11k Income Cash Management System (both Corporate Services).

3.12 **Medium Term Financial Planning**

- 3.13 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.

Local Government Finance

- 3.14 There continues to be little clarity on the long-term future of local government funding post 2020/21. On 4 September 2019, the 2019 Spending Round was announced providing an outline of the Government's plans for allocating resources to local authorities for 2020/21. This comprised of a single-year arrangement, pending the outcomes of the Fair Funding Review which is now scheduled to take place during 2020/21. This will be conducted alongside a full Spending Review which is intended to enable a multi-year settlement to be provided to local government.
- 3.15 Linked to this, a technical consultation has been published on the Local Government Finance Settlement for 2020/21. The consultation document sets out government's intentions for the 2020/21 finance settlement to include:
- The removal of negative RSG (currently budgeted at £243,710 within the MTFP);
 - That New Homes Bonus will be paid for in 2020/21 under the current scheme arrangements, subject to government retaining the right to adjust the baseline threshold (currently 0.4%);
 - That the existing mechanism for Business Rates will continue into 2020/21;
 - A proposed Core Council Tax referendum principle for 2020/21 of 2% (with an additional 2% adult social care precept applicable to authorities with social care responsibilities).
- 3.16 It is expected that government will publish the Provisional Local Government Finance Settlement in December 2019.

Borrowing – Public Works Loan Board

- 3.17 On 9 October 2019, HM Treasury announced that it would increase the interest rates on all new loans from the Public Works Loan Board (PWLB) by 100 basis points (one percentage point) on top of usual lending terms. This appears to be in response to a substantial increase in the use of PWLB by local authorities over recent months, given the cost of borrowing had fallen to record lows. This action is likely to make the PWLB the lender of last resort and require the Council to identify alternative sources.
- 3.18 Shorter term funding, up to five years, is likely to be available from some local authorities and banks but securing longer term funding could prove difficult. Borrowing from the market longer term requires additional time both for planning and administration, and even then it might not be possible to find a lender that matches the specific requirements, forcing the Council to take on more expensive debt.
- 3.19 As a result, the cost of borrowing for capital purposes will significantly rise, payback periods will lengthen and in some cases scheme affordability could be jeopardised. It will be a case of waiting to see how the market reacts to this sudden announcement and what levels are achievable going forward.

Brexit

- 3.20 As the time of preparing this report, the council has received around £340k of funding from Central Government in order to assist with Brexit preparations. One of the biggest risks identified in the council's Brexit contingency plans is the impact of potential traffic congestion in Kent on the delivery of services.
- 3.21 IT Services have been working with managers to review service provision arrangements in the event of significant disruption looking at where additional investment can improve resilience. This includes greater use of laptops and docking stations, enhancement of communications equipment for meeting and conferencing facilities and greater server and storage resilience.
- 3.22 The total estimated cost of these measures, combined with the existing roll-out of Surface Pro devices purchased in preparation for the original Brexit date in March, is anticipated to be around £182k and will be met from the funding from the Central Government. The balance of funding is being retained to enable the council to respond to service delivery pressures that may arise after the point at which the United Kingdom exits the European Union.

4. GENERAL FUND CAPITAL PROGRAMME

4.1 The following table details the position of General Fund Capital Programme as at the end of Quarter Two. This includes the revised original budget for 2019/20, taking into consideration adjustments for carried forward items as approved by the Section 151 Officer and the Council's Management Team.

Scheme	2019/20 Original Budget inc C/Fwd £	2019/20 Approved Adjustments £	2019/20 Working Budget £	2019/20 Actual Expenditure Qtr 2 £	Outstanding Balance £
Essential Repairs to Buildings	465,400	0	465,400	1,680	(463,720)
Gravesend Cemetery Improvements	21,580	0	21,580	6,750	(14,830)
Parrock St Car Park - resurfacing	0	150,000	150,000	0	(150,000)
Purchase of Vehicles (DSO Fleet)	535,000	52,870	587,870	252,550	(335,320)
Gatekeeper Replacement	50,000	0	50,000	0	(50,000)
New Wheeled Bins for Flat Recycling	100,000	0	100,000	0	(100,000)
Waste & Horticulture back office system	192,950	0	192,950	80,460	(112,490)
Replacement Playground Programme	185,300	0	185,300	2,770	(182,530)
IT Equipment Air Conditioning Unit	40,000	0	40,000	0	(40,000)
Brookvale Office Accommodation	1,400,000	(37,100)	1,362,900	5,160	(1,357,740)
Property Acquisition Programme	2,328,600	958,380	3,286,980	1,730	(3,285,250)
Land Acquisiton Programme	3,658,810	0	3,658,810	0	(3,658,810)
Land at Dering Way	4,735,000	0	4,735,000	3,360	(4,731,640)
Heritage Quarter - St George's Centre	5,461,640	2,810,370	8,272,010	607,860	(7,664,150)
Cascades Replacement Flumes	0	100,000	100,000	0	(100,000)
Replacement Artificial Sports Pitches	50,000	0	50,000	50,000	0
Heritage Assets	328,500	0	328,500	8,830	(319,670)
Back up Generator	75,000	0	75,000	0	(75,000)
Envelope Filling Equipment	20,000	0	20,000	0	(20,000)
Parking Machines	251,200	0	251,200	0	(251,200)
	19,898,980	4,034,520	23,933,500	1,021,150	(22,912,350)

Table 5: General Fund Capital Programme 2019/20

- **Essential Repairs to Buildings** – there are various work streams currently underway, including:
 - Resurfacing of the accessway to Brookvale Depot;
 - The replacement of water heating plant to Kings Farm changing rooms, including cost and energy saving measures;
 - Annual window servicing and follow-up repairs to windows at the Civic Centre;
 - Rebuilding of boundary wall at St Peter & St Paul's Church which is scheduled to take place later in the financial year.
- **Gravesend Cemetery Improvements** – the new cemetery management software is currently being implemented.
- **Parrock Street Carpark resurfacing** – following a meeting with representatives from Kent County Council Highways, officers are currently awaiting a quotation for the works from a Kent County Council contractor.
- **Purchase of Vehicles (DSO Fleet)** – fourteen new vans relating to the Housing Repairs service were delivered during the summer of 2019, with a further six vans due at the end of October 2019. Officers are continually reviewing the fleet replacement plan to assess the timescales for further purchases, and an order has recently placed for two vans relating to the Cemeteries and Street Cleansing services, with anticipated delivery during November 2019.

- **Gatekeeper Replacement** – a number of options are currently being considered to deliver this option identified as part of the Service Review process.
- **New Wheeled Bins for Flat Recycling** – a review is currently taking place considering blocks of flats to determine the number of bins required before any orders are placed.
- **Waste & Horticulture Back Office System** – the first stage implementing information systems for bin deliveries, domestic, and garden waste has been completed. The second stage of implementation, focusing on trade waste, is commencing in October 2019.
- **Replacement Playground Programme** – the installation of new play equipment at the sites in Central Avenue, Durndale Lane and Waterton Avenue is starting in October 2019. It is intended that these works will be completed by April 2020.
- **IT Equipment air conditioning unit** – a way forward has now been agreed on the replacement of the server room air conditioning unit and Property Services have obtained quotes for the work, on behalf of IT Services.
- **Brookvale Office Accommodation** – demolition works in respect of structures at the Brookvale Depot have been completed. External consultants are currently undertaking a feasibility study for the development and their report is awaited.
- **Property Acquisition Programme** – there has been no further activity under this programme in the second quarter of the year. The council continues to be pro-active in identifying suitable acquisition opportunities to add to its commercial property portfolio.
- **Land Acquisition Programme** – there has been no further activity under this programme in the second quarter of the year. The council continues to maintain an overview of strategic land sites in the borough so that, as sites come to the market, their acquisition can be considered as a means of delivering development and revenue generating opportunities for the council and the wider borough in the future.
- **Land at Dering Way** - The scheme is currently on hold pending the outcome of a wider master planning exercise for the various landholdings under the ownership of the council in the Denton area. This master planning exercise will seek to consider complementary uses of the adjacent land holdings to ensure that development in that area maximises benefits to the council and to the wider community, taking advantage of opportunities to improve access to and provision of services, green space and high quality housing.
- **Heritage Quarter (St George's Centre)** – work is continuing on the re-enlivenment of the mall areas of St Georges with new paving laid, removal of some of the non-structural canopies and improvement to the two mall entrance malls of the Centre. The overall programme of works is expected to be completed in Quarter Three.
- **Cascades Replacement Flumes** – an updated survey of condition has been received from the original manufacturer, as well as programme of works and associated options to internal and external flume areas. This has now been discussed with GCLL, with works due to take place end December / early January. Works are now estimated to cost around £60k, funded from a combination of S106 monies and existing Council budgets.
- **Replacement Artificial Sports Pitches** – the Gravesend Rugby Football Club site was highlighted within the Gravesham 2016 Playing Pitch Strategy as strategically important to the local area but in need of refurbishment. Gravesham Sports Trust were successful

in raising the additional external funding required, and works to complete replacement carpet works on site have now been completed.

- **Heritage Assets** – St Andrews Arts Centre – a river wall specification is being prepared for the tendering process which will complete in early 2020. Site works have been deferred to 2020/21 as they need to be carried out in warmer months, due to the materials being used. Further works are being evaluated at Gravesend Cemetery, the Blockhouse and New Tavern Fort.
- **Back-up Generator** – tender documents to procure a back-up generator have been prepared. The project manager is currently making arrangements for the tender to be issued.
- **Envelope Filling Equipment** – due to an increasing number of breakdowns occurring with the current machine, the purchase of new equipment will be made in Quarter Three of this financial year.
- **Parking Machines** –the Parking Team continue to explore the most suitable options for the council in terms of parking equipment, whilst taking in to account local need and corporate objectives. Any new equipment purchased will be in operation over the next six to eight years, and therefore it is essential that the team ensure the new equipment is flexible enough to accommodate future changes if required.

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 01/04/2019 £	Actual Income 2019/20 £	Anticipated Use of Funding 2019/20 £	Projected Balance 31/03/2020 £
Capital Receipts	(988,020)	(213,340)	407,480	(793,880)
S106 Capital Contributions	(531,060)	(50,000)	0	(581,060)
Capital Grants unapplied	(330,290)	0	273,250	(57,040)
Total Capital Resources	(1,849,370)	(263,340)	680,730	(1,431,980)

Table 6: General Fund Capital Resources 2019/20

Capital Grants Unapplied	Opening Balance 01/04/2019 £	Actual Income 2019/20 £	Use of Funding 2019/20 £	Projected Balance 31/03/2020 £
Transport Quarter Stage 3	(179,160)	0	0	(179,160)
Localised Council Tax Support	(89,220)	0	0	(89,220)
Local Enterprise Partnership Funding	(6,910)	0	6,910	0
Land at South of Hever Court Road	(55,000)	0	0	(55,000)
Total Capital Grants Unapplied	(330,290)	0	6,910	(323,380)

Table 7: Capital Grants Unapplied 2019/20

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 2019/20 £	Purpose of S106
Infrastructure Maintenance Depot (IMD) Compensation fund	(2,590)	0	0	(2,590)	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.
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 Leisure Contribution.
Whitehill Road	0	0	(1,000)	(1,000)	Highways contribution
Springhead Leisure Contribution	(150,000)	0	0	(150,000)	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
Bluewater - Gravesend Town Centre Improvements	(259,460)			(259,460)	A scheme to improve or enhance the environmental setting, visitor and shopper experience, and / or attractiveness of Gravesend Town Centre.
Dover Road - Open space	(50,000)			(50,000)	For use by Gravesend Council leisure for Springhead Recreation Ground pitch improvements at Dover Road Development, Includes levelling works to make 'pitch' 2 more usable to accommodate junior markings and potential 5V5 pitch.
Total S106 Contributions	(581,050)	0	(81,000)	(662,050)	

Table 8: S106 Contributions 2019/20

5. TREASURY MANAGEMENT

5.1 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 26 February Full Council approved the Treasury Management Strategy Statement for 2019-20, 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

5.2 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 30 September 2019 can be found at Appendix Three of this report.

5.3 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%.

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

5.5 **UK** – After only tepid annual **economic growth** of 1.4% in 2018, growth in quarter 1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of the original March Brexit deadline so quarter 2 was expected to be slightly negative and duly came in at -0.2% q/q, +1.3% y/y.

5.6 The Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, but have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that Bank Rate would be cut in order to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.9% in June before edging back to 3.8% in July, (excluding bonuses). Growth in employment fell to only 31,000 in the three months to July, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975.

- 5.7 **CPI inflation** fell to 1.7% in August and is likely to remain close to 2% over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.
- 5.8 The rise in wage inflation and fall in CPI inflation is good news for **consumers** as their spending power is improving in this scenario as the difference between the two figures is now around 2.1%, i.e. a real terms increase. 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.
- 5.9 **USA.** President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but growth fell back to 2.0% in quarter 2. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Fed increased rates by 0.25% in December 2018 to between 2.25% and 2.50%, it has taken decisive action to reverse monetary policy by cutting rates by 0.25% in each of July and September in order to counter the downturn in the outlook for US and world growth. There are expectations that it could cut again in December.
- 5.10 **EUROZONE.** The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced further stimulus which provides banks with cheap borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

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

IMPLICATIONS	APPENDIX 1
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 30 September against the original budget set for the 2019/20 financial year, and illustrate how this affects the Working Balances and Earmarked Reserves held by the Council.
Data Protection Impact Assessment	<p><i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i></p> <p>a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data?</p> <p>A definition of each type of data can be found on the Information Commissioner’s Office website via the above links.</p> <p>N/A</p> <p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p> <p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk.</p> <p>N/A</p>
Equality Impact Assessment	<p>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.</p> <p>No decision – paper is for information only.</p> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p> <p><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></p>
Corporate Plan	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks

Crime and Disorder	No direct implications.
Digital and website implications	No direct implications.
Safeguarding children and vulnerable adults	No direct implications.