MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 11 February 2015

BUDGET MONITORING 3RD QUARTER 2014/15

Issue for Decision

(1) To consider the capital and revenue budget and expenditure figures for the third quarter of 2014/15; and

(2) To consider other financial matters with a material effect on the medium term financial strategy or the balance sheet.

Decision Made

(1) That the satisfactory revenue position at the end of the third quarter of 2014/15 be noted;

(2) That the proposals for slippage and re-profiling in the capital programme to 2015/16 be approved;

(3) That the detail in the report on the collection fund, general fund balances and treasury management activity be noted;

(4) That approval be given to utilising £106,500 of the projected underspend for the advancement of the review of office accommodation; and

(5) That approval be given to set aside £400,000 of the projected underspend for 2014/15 to fund specific projects which support the delivery of the Council's strategic priorities.

Reasons for Decision

The Director of Regeneration & Communities is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management. However, in practice day to day budgetary control is delegated to service managers, with assistance and advice from their director and the finance section. The report advised and updated Members on the current position with regard to both revenue and capital expenditure against the approved budgets, and also included sections on Collection Fund performance and Treasury Management performance.

The report uses a number of terms that may require definition and a glossary of terms was given in section 1.14.3 of the report of the Director of Regeneration and Communities.

Revenue

The budget used in this report was the agreed estimate for 2014/15 which included the carry forward resources agreed by Cabinet in May 2014. Actual expenditure to December 2014 included all major accruals for goods and services received but not paid for by the end of the quarter.

An analysis that is summarised by portfolio, of the full year budget, the profiled budget to December 2014 and expenditure to December 2014 was attached as Appendix A to the report. The financial analysis is based on direct expenditure only. This removes the influence of internal recharges and accounting adjustments upon the variance analysis. An indicative projected year end outturn figure is also shown.

Appendix A to the report showed that actual spend is £687,682 less than the budget at the end of the third quarter. A detailed analysis of the figures at cost centre level shows 139 out of a total of 232 cost centres are currently reporting actual spend less than budget. The projected outturn at 31 March 2015 is currently an underspend of £587,682. Proposals for utilisation of the underspend are detailed at paragraphs 1.4.7 and 1.4.8 of the report.

Also shown at Appendix A was a subjective analysis across all services. This identifies that within the net under spend £474,989 (Q2 2014/15 £189,248) relates to employee costs, due to continuing vacancy levels

The third table at Appendix A summarised the position specifically with regard to fees and charges income. At the end of the third quarter this income is £96,324 above the target figure. It should be noted that within this total there are a number of areas reporting income below budget. Further details of service areas where major variations from budgeted fees and charges are given later in this section of the report.

In accordance with best practice, virements are reported to Cabinet as part of quarterly budget monitoring. A virement represents the transfer of a budget between objectives that occurs subsequent to the formal approval of the budget by Council. One reportable virement was undertaken during the third quarter, relating to a rent reduction of £1,530 at the Masters Tower, Old College.

In August 2014, Cabinet approved funding of £90,000 to progress the review of office accommodation and prepare the Council for 2023 when the current accommodation comes to the end of its lease period. At this time it was agreed that further funding would be identified in accordance with the recommendations of the reviews. Following the completion of the initial reviews, it has been identified that further funding of £106,500 will be required for the advancement of the project through to the end of 2014/15. This amount includes the works required to relocate the Contact Centre to the Gateway, which is additional to the original scope of the project. It is recommended that this is funded from the underspend for the current year. A detailed report on the development of work streams for this project and further funding required will be presented to Cabinet in March 2015.

It is also proposed that £400,000 of the remaining underspend is earmarked for the progression of a small number of specific projects which support the council's strategic priorities. A list of potential projects identified to receive this funding will be presented to Cabinet in March.

A number of service areas are reporting positive variances through significantly less spend or additional income than was budgeted for at the end of the third quarter. Brief details on these areas are given below:-

(a) There is a positive variance of £73,474 (Q2 2014/15 £52,122) on pay and display car parks which is attributable to a combination of lower than expected running costs and higher than expected income. Two car parks, King Street and Lockmeadow are performing significantly above their income targets. In addition to this, on-street parking is showing an underspend of £79,952 (Q2 2015/14 £37,514) which is largely due to lower than expected running costs and higher than expected income from parking meters and PCNs. This is detailed further in the Quarter 3 Key Performance Indicator report elsewhere on this agenda. However, it should be noted that this income is ring fenced so this does not represent a general underspend.

(b) There is an underspend of £53,420 (Q2 2014/15 £27,396) relating to residents parking, where income from resident and visitor permits has been higher than anticipated.

(c) The Park and Ride budget is reporting an underspend of £34,534 (Q2 2014/15 £10,530) which is a continuation of the trend observed in the first two quarters of the year. This is a result of a reduction in income budgets following a reduction in the contract price, and season ticket income, which is currently below target now being reported as a separate income stream. However, it should be noted that this service has marginally missed its target for the number of on-board transactions this quarter, as detailed in the Key Performance Indicator report which was also on the agenda.

(d) There is a positive variance of £39,859 (Q2 2014/15 £26,684) against corporate management which is largely a result of a reduction in the external audit fee set by the Audit Commission. This represents 6% of the profiled budget at the end of the third quarter.

(e) There is a variance of £32,886 (Q2 2014/15 £1,533) within grants arising from the 'Make Maidstone Smile' budget which is yet to be utilised.

(f) There are underspends against Human Resources and Learning and Development of £31,391 (Q2 2015/14 £22,139) and £49,079 (Q2 - £6,583) respectively, which relate to unspent carry forwards.

(g) The environmental enforcement section is showing an underspend of £47,894 (Q2 2014/14 £38,608). This is due to a combination of smaller underspends in the controlled running costs for this service and is a continuation of the position at the end of the second quarter.

(h) The private sector renewals budget is reporting an underspend of £35,553 (Q2 2014/15 £10,410) which relates to lower than budgeted controlled running costs. The variance represents 1.5% of the total budget for the year.

(i) The homelessness prevention budget is reporting an underspend of £34,302 (Q2 2014/15 £12,486) which is a combination of unspent carry forwards and lower than budgeted controlled running costs.

(j) Development control income has continued to exceed the budgeted figure, with a positive variance of £154,935 (Q2 2014/15 £19,767) at the end of quarter three.

A number of areas are showing significantly more spend or a shortfall in income compared to the amounts actually budgeted at the end of the third quarter, and these are reported below:-

(a) The Homeless Temporary Accommodation budget has continued to show expenditure greater than budget, with an adverse variance of £354,664 at the end of the third quarter of 2014/15 (Q2 2014/15 £289,711). Cabinet will be aware that a project is underway to target reductions in the cost of temporary accommodation and one of the new properties became operational during second quarter. It is anticipated that this will result in a reduction in future expenditure on temporary accommodation. During the third quarter the council saved £32,190 after running costs, in comparison to the cost of alternative sources of temporary accommodation. Aylesbury House was fully occupied throughout November and December although it should be noted that the savings are not sufficient to compensate for the overspend.

(b) There is an adverse variance of £116,621 (Q2 2014/15 £78,667) against the crematorium budget, largely due to lower than expected income, which is currently 10% below the target. Repairs and maintenance costs have also been higher than budgeted. There has been a recent upturn in bookings which will help to address this variance, and the situation is being monitored closely by the service manager. However, it should be noted that the income levels achieved in 2013/14 were exceptional due to the closure of Medway crematorium for refurbishment during the year.

(c) The procurement section is showing an adverse variance of £41,443 (Q2 2014/15 £31,276) which is a result of income targets not being achieved during the first half of the year. This is a continuation of the trend observed for the past two financial years.

(d) There is an overspend of £42,955 (Q2 2014/15 £35,449) on the Museum budget which represents 7% of the profiled budget at the end of the third quarter. This is a consequence of income being lower than expected, reactive maintenance work and installation of a fire alarm.

(e) There is an overspend of £39,766 (Q2 2014/15 £12,344) showing against the non-pooled ICT budget. This is due to a number of commitments for which funding is yet to be confirmed.

(f) There is an adverse variance of £37,206 (Q2 2014/15 £10,530) appearing within unapportionable central overheads. This represents a 2% variance and relates to pension accruals where contributions have been higher than the figures anticipated at the time the budget was set.

(g) There is an adverse variance of £31,130 arising from lower than expected investment income due to low interest rates. This was detailed in the report of the Director of Regeneration and Communities at paragraph 1.9.5.

(h) Budgets have now been established for the Mid Kent Planning Support service, which is currently reporting an underspend of £49,204k across the three authorities in the partnership. However, it should be noted that this will be off-set by implementation costs which are currently £96,060k.

(i) The report identified a number of areas which required action by Cabinet at this time and these were set out in the recommendations at section 1.2 of the report. In each case the proposed actions are set out in the recommendations at paragraph 1.2.1 of the report. Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2014/15 is an underspend of £587,682.

(j) The budget strategy for 2014/15 identified savings and efficiencies totalling £1,254,000. These savings are being monitored corporately and it is anticipated that this target will be met by the end of the year.

Balances

Balances as at 1st April 2014 were £15.4m. The current medium term financial strategy assumes balances of £4.5m by 31st March 2015.

The major reason for the movement in balances during 2014/15 relates to the use of carry forwards approved by Cabinet in May 2014.

The position set out above allows for the level of balances of £2.3m, as previously agreed by Cabinet, to be maintained.

Collection Fund

Following the introduction of local council tax support from 1 April 2013 and the approval of the Business Rates pooling arrangement with Kent County Council, enhanced monitoring of the collection fund has been put in place to provide adequate assurance around developments affecting the assumptions made in the current year's budget.

The collection rates achieved at the end of the second quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2014/15.

	Target %	Actual %
Council Tax	86.79	86.50
NNDR	85.82	85.57

The target collection rate has been marginally missed for both Council Tax and NNDR. It should be noted that however that Maidstone's collection rate for the year to date is above average compared with other Kent districts.

Whilst the percentage variances are small, the gross values of Council Tax and Business Rates collected each year are significant. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action is currently being taken to attempt to bring collection rates back to target.

Prior year arrears collection is on target and officers will continue to pursue payment of any developing arrears along with the arrears from prior years.

Council Tax Support – The actual collection rate is 66.72% against a target of 59.11%.

The level of local council tax support recorded at the end of quarter 3 shows a caseload of 10,054 claimants (10,471; Q3 2013/14). For Maidstone Borough Council the support provided is £1.52m (£1.62m; Q3 2013/14) compared to an estimated support of £1.60m used to calculate the budget.

While there are a significant proportion of pensionable age claimants the overall reduction in claimants shows a positive correlation between reductions in those claiming job seekers allowance in the borough and the reduction in caseload. Members should note that as the year progresses, changes in caseload have a proportionately reduced effect on the full year cost.

Retained business rates – the current collectable business rates is showing a minor net increase of £0.4m against the original estimate.

The major risk from appeals has been provisioned and this remains adequate when compared to the level of change due to appeals decisions witnessed to date.

Capital

Attached at Appendix B to the report was a summary of the current capital programme for 2014/15, as agreed by Council. This includes the initial capital programme for the financial year plus amounts carried forward from 2013/14. It also reflects the slippage that was identified in the monitoring report for the first two quarters of 2014/15.

The table in Appendix B gave the following detail:

Column	**Detail.**
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2014/15 after the adjustments detailed above.

3.	Actual spend to the end of December 2014.
4.	Balance of budget available for 2014/15.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2014/15.
8.	Balance of budget that will slip into 2015/16.
9.	Budget no longer required.

Capital expenditure to the end of the third quarter of 2014/15 is shown as £1.39m. The budget for the year, adjusted for slippage detailed in the first and second quarter budget monitoring reports is £5.97m. This comprises a number of planned projects for which expenditure is expected to be incurred in the final quarter of the year, including £0.88m for acquisition of commercial assets, £0.28m for continued improvements to play areas and £1.17m housing grants.

Following the third quarter monitoring, officers anticipate that £1.89m will need to be reprofiled into 2015/16. This was detailed in column 8 of Appendix B. These are items where the programmed works have been rescheduled to now take place during 2015/16.

Capital Financing

The agreed capital programme for the period 2014/15 to 2018/19, as approved by Council in March 2014, identifies sufficient resources to finance the 2014/15 programme.

Resources that can currently be confirmed are:

Funding Source:	£m
Grants & Contributions	0.5
Revenue Support	10.2
Prudential Borrowing	6.0
Capital receipts	0.2
	16.9

The slippage and re-profiling proposed for approval elsewhere in this report will mean that net expenditure of £1.89m will be re-profiled into 2015/16 subject to this recommendation being agreed.

Treasury Management

The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In March 2014, the Council approved a Treasury Management Strategy for 2014/15 that was based on this code. The strategy requires that Cabinet should formally be informed of treasury management activities quarterly as part of budget monitoring.

During the quarter ended 31 December 2014:

- Inflation (CPI) fell to 1.0% in November. This is the lowest it has been since 2002 and is expected to remain at this level for the remainder of 2015.

- GDP has grown by 2.6%.

The Council's Treasury Management advisors, Capita Asset Services, have provided the following forecast:

- The markets are now expecting to see an increase in the Bank Rate towards the end of 2015.

- The Governor of the Bank of England has repeatedly stated that these increases will be slow and gradual due to concerns over the impact on consumers with lower than inflation pay increases.

- Economic growth has slowed in the third quarter but is expected to continue through to 2016.

- The fall in unemployment is expected to continue and average pay is expected to increase.

  The latest interest rates and PWLB rate forecasts are listed below.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70

Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

At 30 September 2014 the council held investments totalling £30.06m (Q2 2014/15 £29.83m). A full list of investments held was included at Appendix C to the report. £19.06m (Q2 2014/15 £21.83m) of investments are in accounts which can be called upon immediately or for a short notice period. This is due to the shorter term rates being more appealing than longer term.

Investment income is below target with a balance of £156,000 (Q2 2014/15 £101,000) compared to a budget of £187,500 (Q2 2014/15 £125,000). The average interest rate for this period is 0.69% (Q2 2014/15 0.69%). The low interest rates are a consequence of Government support for lending schemes which have prompted a reduction in need for additional cash by financial institutions.

Treasury management performance is regularly benchmarked against similar councils and this has shown that these results are in line with the benchmark group.

There has been no borrowing during the third quarter of 2014/15.

Alternatives considered and why rejected

The budget monitoring process could be left to officers. The current Constitution already requires officers to report budget variances to the relevant Cabinet Member in specific circumstances. The absence of any such reports would then suggest that no specific items have been identified for consideration.

If such an approach were taken the leadership team would have a reduced financial awareness. This could restrict their ability to meet service requirements and achieve the Council's corporate objectives.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **20 February 2015**