

MAIDSTONE BOROUGH COUNCIL

CABINET

WEDNESDAY 12 NOVEMBER 2014

**REPORT OF DIRECTOR OF REGENERATION AND
COMMUNITIES**

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1. BUDGET MONITORING 2ND QUARTER

1.1 Issue for Decision

1.1.1 To consider the capital and revenue budget and expenditure figures for the second quarter of 2014/15.

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

1.2 Recommendation of Head of Finance & Resources

1.2.1 It is recommended that Cabinet:

a) Note the satisfactory revenue position at the end of the second quarter of 2014/15;

b) Agree the proposals for slippage and re-profiling in the capital programme to 2015/16;

c) Note the detail in the report on the collection fund, general fund balances and treasury management activity.

1.3 Reasons for Recommendation

1.3.1 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. This report advises and updates the Cabinet on the current position with regards to both revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.

1.3.2 The report uses a number of terms that may require definition and a glossary of terms is given in section 1.14.3 of the report.

1.4 Revenue

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

1.4.2 An analysis that is summarised by portfolio, of the full year budget, the profiled budget to September 2014 and expenditure to September 2014 is attached as Appendix A. 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.

1.4.3 Appendix A shows that actual spend is £461,040 less than the budget at the end of the second quarter. A detailed analysis of the figures at cost centre level shows 139 out of a total of 233 cost centres are currently reporting actual spend less than budget. The projected outturn at 31 March 2015 is currently £361,040.

1.4.4 Also shown at Appendix A is a subjective analysis across all services. This identifies that within the net under spend £189,248 (Q1 2014/15 £114,618) relates to employee costs, due to continuing vacancy levels.

1.4.5 The third table at Appendix A summarises the position specifically with regard to fees and charges income. At the end of the second quarter this income is £18,564 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.

1.4.6 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. Four virements totalling £402,410 were undertaken in the second quarter relating to:

- a) £120,000 temporary funding for development control appeals, as agreed by Cabinet when considering the Q1 budget monitoring report;

- b) £51,410 funding for Information Manager post, as agreed by Cabinet in August 2014; and
- c) £230,000 funding for various schemes, as agreed by Cabinet in August 2014.

1.4.7 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 second quarter. Brief details on these areas are given below:-

- a) There is a positive variance of £52,122 (Q1 2014/15 £32,358) on pay and display car parks which is attributable to a combination of an underspend on running costs and higher than expected income. Two car parks, King Street and Lockmeadow are performing significantly above their income targets. However, income from season tickets has continued to decline and the underspend will be substantially off-set by the overspend in off-street parking enforcement.
- b) On-street parking is showing an underspend of £37,514 (Q1 2015/14 £10,391) which is largely due to lower than expected running costs. Income is £7,000 above target overall, although it should be noted that within this total, income from PCNs is £8,000 below target. However, it should be noted that this income is ring fenced so this does not represent a general underspend.
- c) The benefits section is showing an underspend of £39,067 (Q1 2015/14 £15,681) which is mainly due to vacant posts.
- d) There is a positive variance of £81,207 (Q1 £84,009) which mainly relates to lower than expected expenditure on wheeled bins and continued receipts from the bulky domestic refuse collection service and green waste bin hire. No problems are anticipated at year-end, although Weekend Freighter costs may increase substantially. The weekend freighter does not form part of the contract and any increase would be a direct cost to the Council.
- e) Recycling collection was underspent by £96,953 at the end of the second quarter (Q1 2014/15 £46,964) as a result of higher than expected income levels and a small positive variance on controlled running costs.
- f) The environmental enforcement section is showing an underspend of £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 first quarter.

1.4.8 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 second 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 £289,711 at the end of the second quarter of 2014/15 (Q1 2014/15 £99,166). 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, although at this stage it is too early to identify any significant impact.
- b) There is an adverse variance of £78,667 (Q1 2014/15 £15,028) against the crematorium budget due to lower than expected income. 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 £31,276 (Q1 2014/15 £13,402) 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) The museum budget is overspent by £35,449 at the end of the second quarter (Q1 2014/15 £22,853). This is a result of lower than expected income and reactive building maintenance during the first half of the year.
- e) Cobtree Manor Park is currently showing an overspend of £31,540 due to extra staff costs from MBS to cover weekend supervision and necessary works due to a substantial increase in visitor numbers. These costs will be recharged to the Trust at year end which will bring expenditure back in line with the budget.
- f) There is an adverse variance of £100,941 (Q1 2014/15 £114,234) arising from the Mid Kent Planning Support Service. This additional cost will be shared across the three authorities involved in the partnership, and the requirement for additional resources is anticipated to continue through to the end of the financial year. Budgetary arrangements for this service are currently being agreed with partner authorities and the council's share of this variance will be addressed once these measures are finalised.

1.4.9 Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2014/15 is an underspend of £361,040.

1.4.10 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.

1.5 Balances

1.5.1 Balances as at 1st April 2014 were £15.4m. The current medium term financial strategy assumes balances of £3.6m by 31st March 2015.

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

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

1.6 Collection Fund

1.6.1 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.

1.6.2 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	58.21	58.10
NNDR	59.12	59.23

The target collection rate has been marginally missed for Council Tax and marginally exceeded for NNDR. It should be noted that Maidstone's collection rate for the year to date is in line with the other Kent districts.

1.6.3 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 for Council Tax back to target.

- 1.6.4 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.
- 1.6.5 **Council Tax Support** – The actual collection rate is 52.8% (44.77%; Q2 2013/14).
- 1.6.6 The level of local council tax support recorded at mid-year shows a caseload of 10,196 claimants (10,602; Q2 2013/14). For Maidstone Borough Council the support provided is £1.49m (£1.42m; Q2 2013/14) compared to an estimated support of £1.60 used to calculate the budget.
- 1.6.7 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.
- 1.6.8 **Retained business rates** – the current collectable business rates is £53.9m compared to an initial estimate of £53.7m, representing a minor net increase of £0.2m.
- 1.6.9 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.

1.1 Capital

- 1.1.1 Attached at Appendix B is 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 quarter of 2014/15.
- 1.1.2 The table in Appendix B gives 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 September 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.

1.1.3 Capital expenditure to the end of the second quarter of 2014/15 is shown as £0.7m. The budget for the year, adjusted for slippage detailed in the first quarter budget monitoring report is £7.2m. This comprises a number of planned projects for which significant expenditure is yet to be incurred, including £1.5m for acquisition of commercial assets, £1.0m for continued improvements to play areas and £1.6m housing grants.

1.1.4 Following the second quarter monitoring, officers anticipate that £1.3m will need to be reprofiled into 2015/16. This is detailed in column 8 of Appendix B. These are items where the programmed works have been rescheduled to now take place during 2015/16.

1.2 Capital Financing

1.2.1 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.

1.2.2 Resources that can currently be confirmed are:

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

1.2.3 The slippage and re-profiling proposed for approval elsewhere in this report will mean that net expenditure of £1.3m will be re-profiled into 2015/16 subject to this recommendation being agreed.

1.3 Treasury Management

1.3.1 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.

1.3.2 During the quarter ended 30 September 2014:

- Inflation (CPI) has remained at 1.5%. This is the lowest it has been since 2009 and is expected to fall further later in the year.
- GDP has grown by 3.2%.

1.3.3 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 during the third quarter 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 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.

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.50%
10yr PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

1.3.4 At 30 September 2014 the council held investments totalling £29.83m (Q1 2014/15 £26.53m). A full list of investments held is included at Appendix C. £21.83m (Q1 2014/15 £21.53m) 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.

1.3.5 Investment income is below target with a balance of £101,000 (Q1 2014/15 £47,000) compared to a budget of £125,000 (Q1 2014/15

£57,000). The average interest rate for this period is 0.69% (Q1 2014/15 0.68%). 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.

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

1.4 Alternative Action and why not Recommended

1.4.1 The budget monitoring process could be left to officers. The 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.

1.4.2 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.

1.5 Impact on Corporate Objectives

1.5.1 This report monitors actual activity against the revenue and capital budgets and other financial matters set by Council for the financial year. The budget is set in accordance with the Council's medium term financial strategy and is therefore focused on the strategic plan and corporate objectives.

1.5.2 Regular monitoring by Cabinet ensures that actual activity is in accordance with the plan set out in the budget and that the Council is able to achieve its objectives.

1.6 Risk Management

1.6.1 The Council has produced a balanced budget for both capital and revenue expenditure and income for 2014/15. This budget is set against a backdrop of limited resources and an economic climate that is still in difficulty. Regular and comprehensive monitoring of the type included in this report ensures early warning of significant issues that may place the Council at financial risk. This gives Cabinet the best opportunity to take actions to mitigate such risks.

1.6.2 The current revenue budget does not exhibit the level of risk identified in previous years and a small contingency exists for any significant budget pressures that may yet develop.

- 1.6.3 Funding for the capital programme has been secured for 2014/15.
- 1.6.4 Reporting on other issues such as council tax and non-domestic rates collection and treasury management activity ensures that the report covers all major balance sheet items in addition to the capital programme and revenue budget. No significant risks are identified in any of these areas.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 Financial implications are the focus of this report through high level budget monitoring. The process of budget monitoring ensures that services can react quickly to potential resource problems. The process ensures that the Council is not faced by corporate financial problems that may prejudice the delivery of corporate objectives.

1.8 Conclusions

1.8.1 The second quarter monitoring report shows a positive evaluation for the period. Revenue and capital expenditure, balances, treasury management and council tax and NNDR collection are all considered to be satisfactory and will continue to be closely monitored throughout the year.

1.8.2 All other items monitored are at or above target for the second quarter.

1.8.3 Glossary of terms:

Term	Definition
Accrual	The inclusion in the financial report of a money value to represent the receipt of goods or services within the report period, if actual payment has not yet been made.
Adverse variance	The difference between expected (budgeted) cost and actual cost where the actual value is a higher cost than expected.
Capital expenditure	Spending on the creation, purchase or enhancement of the Council's assets
Capital Receipts	Income from the sale of assets. This income can only be used for the creation, purchase or enhancement of other Council assets.
Carry forwards	A budget for works or services that remained unused at year end, has a purpose that still requires completion and has been moved into the following year with the approval of Cabinet.
Collection Fund	The collection fund is a statutory fund that the Council maintains for the collection and distribution of council tax and business rates.
Cost centre	An accounting location or service as set out in the annual budget report i.e. The Museum or the Leisure Centre.
Local council tax support	The local system of discount applied to council tax that replaced the national council tax benefit system on 1 st April 2013.
Portfolio	A grouping of council services that are all the responsibility of one Cabinet Member as set out in the annual budget report.
Positive variance	The difference between expected (budgeted) cost and actual cost where the actual value is a lower cost than expected.
Profiled budget	The total amount expected to be spent (from the budget) by the period end, after

considering the expected pattern of spend throughout the year and past trends.

Retained business rates	The system of localised business rates in operation since 1 st April 2013. The system allows the Council to retain a proportion of business rates collected rather than pay the total amount to central government.
Revenue expenditure	Expenditure on the day to day running costs of the Council's services.
Revenue Support	Revenue funding that has been set aside to finance goods and service of a capital nature.
SELEP	South East Local Enterprise Partnership
Subjective analysis	An accounting type used to define costs i.e. salaries, vehicle hire, premises rents.
Treasury Management	The management of the organisation's investments, cash flows and banking along with control of the risks associated with those activities.
Virement	A virement represents the transfer of a budget between services (cost centres) that happens after the formal approval of the budget by Council. The authority to make certain types of virement is set out in the Council's constitution.

1.9 Relevant Documents

1.9.1 Appendices:

Appendix A – Revenue Budget Report

Appendix B – Capital Programme 2014/15

Appendix C – List of Investments as at 30 September 2014

IS THIS A KEY DECISION REPORT?

THIS BOX MUST BE COMPLETED

Yes

No

If yes, this is a Key Decision because:

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Wards/Parishes affected:

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