MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 10 August 2011

FIRST QUARTER REVENUE & CAPITAL MONITORING

Issue for Decision

To consider the capital and revenue budget and expenditure figures for the first quarter of 2011/12, including any problems identified as well as other financial matters with a material affect on the medium term financial strategy or the balance sheet.

Decision Made

1. That the satisfactory revenue position at the end of the first quarter 2011/12 be noted.
2. That the proposal at paragraph 1.4.8 a) of the report of the Head of Finance and Customer Service, to utilise £0.1m of the pensions back-funding budget to finance further redundancy payments, be approved.
3. That the proposals for slippage in the capital programme to 2012/13 be agreed;
4. That the details regarding treasury management activity, as set out in the report of the Head of Finance and Customer Services, be noted.

Reasons for Decision

The Director of Regeneration and Communities is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management, in accordance with Maidstone Borough Council's Constitution. However, in practice, day to day budgetary control is delegated to individual service managers, with assistance and advice from their director and the finance section. In consideration of this fact, whilst appreciating the need for Cabinet to remain fully aware of the Council's financial situation, Cabinet agreed to continue to receive these quarterly reports during 2011/12, including a section reporting on treasury management performance.

Revenue

The budget used in this report is the original estimate for 2011/12 as agreed by Council in March 2011, with the addition of the carry forward budgets agreed by Cabinet in May 2011. Actual expenditure to June 2011 includes all major accruals for goods and services received but not paid for by the end of the quarter.

Analysis at a summary level of the full year budget, the profiled budget and expenditure to June 2011 is set out at Appendix A to the report of the Head of Finance and Customer Service. The profiled budget shows the total amount expected to be spent by June 2011 after considering the expected pattern of spend throughout the year for each budget head.

This report deals with the first quarter of what will be a difficult and challenging financial year. There has been major organisational change, and the need to identify significant budget strategy savings of £1.9m. It is therefore difficult to draw any long term conclusions from the figures in this report at this stage.

Appendix A of the report of the Head of Finance and Customer Service shows actual spend is £0.43m less than the budget at the end of quarter one which compares to a figure of £0.79m less than budget at the end of quarter one 2010/11.

A detailed analysis of the figures at cost centre level shows 127 out of a total of 220 cost centres are currently reporting actual spend less than budget, which mirrors the position throughout 2010/11.

Also set out at Appendix A to the report of the Head of Finance and Customer Service is an analysis of cross service figures, which identifies three specific issues of note:

a) Employee costs are showing actual spend is £9,000 less than budget after allowance for the cost of temporary and agency staff. This is a consequence of the rigorous control of salaries budgets that has been put in place following the organisational restructure.

b) It is good practice to consider areas of adverse performance against budget reported in previous years in order to identify continued problems. The major area of difficulty in recent financial years has been income generation. A review of fees and charges across the Council shows performance is slightly down by £99,000 on the budgeted expectation of £1.7m. The most significant shortfalls are in Development Control, Building Control, Car Parking and Land Charges.

c) With regards to income generation a project is underway the purpose of which is to:

   - Identify new sources and improvements to existing income streams for the Council for the period of the Medium Term Financial Plan 2012/13 to 2016/17.
   - Prioritise income generating opportunities identified.
   - Formulate a robust, deliverable programme of projects for the high priority opportunities.

   The Corporate Services Overview & Scrutiny Committee has initiated a piece of work around the Council as a Business. It is important that both these pieces of work are conducted so that the research and analysis is complementary; liaison has, and will continue to take place between officers and the Chair of the Overview and Scrutiny Committee.

A number of service areas are reporting significantly less spend than was budgeted at the end of quarter one and reports on these areas are given below:-

a) Benefits Section – actual spend is currently £34,000 less than budgeted, which is a combination of a staff vacancy from a post which will shortly be deleted, and additional income of £17,000 received from the Fraud Partnership. This is one-off income, and will be held as a contingency against any unexpected costs that may arise from the Revenues & Benefits Partnership.

b) Recycling Services & Refuse Collection – actual spend is currently £31,000 less than budgeted, which is due to a combination of factors. Additional income is being received for garden sacks and green waste bins. In the case of the sacks demand can be seasonable and difficult to predict, and with the bins there has been a greater demand for them, but the additional purchase costs of the new bins will partially offset this extra income. There is also a shortfall in recycling credits income from Kent County Council (KCC), due to less residual waste being sent to them, but there are ongoing discussions with KCC with a view to addressing this shortfall. In overall terms it is still anticipated that actual spend will be broadly in line with the budgeted expectation by the end of the year, but the situation will continue to be monitored.

Two areas are showing significantly more spend that was actually budgeted at the end of quarter one, and these are reported below:-

a) Redundancy Costs – a budget of £250,000 was established to cover these costs, but there is now a spend £35,000 greater than this budget. As it is the first year of the triennial valuation of the pension fund, the budget for back-funding payments is £0.1m greater than required due to the budget being set at the highest charge expected over the three year period. It is recommended that Cabinet approve a temporary virement of this £0.1m to fund the shortfall and any future payments. After this resource has been utilised managers will be expected to fund any further costs of the restructure from savings produced.

b) Development Control – there is a significant shortfall of £38,000 in budgeted planning fee income. A vacant post within the Development Control team has been deleted to offset this shortfall and further options to deal with this situation are being investigated.

At this stage no major risks that require action have been identified. The issues identified above are expected to be resolved by appropriate management action during the year.

Through the budget strategy savings and efficiencies were identified totalling £1.9m. At this time action has been identified that will deliver £1.75m of this sum. The remaining balance of £0.15m includes the savings from income generation that as at the first quarter of the year has not yet been delivered. These are the changes to dog bin provision which is under review and the changes to the CCTV provision which have been delayed by tendering requirements. It is expected at this time that management action will resolve the outstanding issues, however an alternative to bring forward savings planned for 2012/13 is being prepared.

Balances

Balances as at 1st April 2011 were £9.9m. The current medium term financial strategy assumes balances of £3.9m by 31st March 2012. The major reasons for the movement in balances during 2011/12 relate to the use of carry forwards approved by Cabinet in May 2011 and slippage in the capital programme in 2010/11.

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

Collection Fund

The collection rates achieved for the first quarter, and the targets set, are reported below. The rate is given as a percentage of the debt targeted for collection in 2011/12.

	Target %	**Actual %**
NNDR	33.2	34.3
Council Tax	30.2	30.1

The rate achieved for NNDR is slightly above target, whilst the Council Tax one is only marginally below target. This continuing positive performance has been achieved whilst the revenues section has being going through the establishment of the shared Revenues & Benefits partnership arrangement with Tunbridge Wells Borough Council.

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.

Capital Expenditure

Set out at Appendix B to the report of the Head of Finance and Customer Services is a summary of the current capital programme for 2011/12, as agreed by Cabinet in May 2011. This includes the initial capital programme for the financial year plus amounts carried forward from 2010/11.

The table set out at Appendix B to the report of the Head of Finance and Customer Services gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2011/12 after the adjustments detailed above.
3.	Actual spend to the end of June 2011.

4.	Balance of budget available for 2011/12.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2011/12.
8.	Balance of budget that will slip into 2012/13.
9.	Budget no longer required.

Capital expenditure in the first quarter of 2011/12 is shown as £0.7m. £6.8m of the total budgeted spend of £7.8m is in relation to a small number of major projects, and there has only been limited expenditure on these to date this year. The profile of expenditure for the remainder of the year suggests that the pattern of spend will be fairly even.

Following the enhanced monitoring process instigated to enhance control of the programme officers anticipate that £0.9m will need to be re-profiled into 2012/13. This is set out at column 8 of Appendix B to the report of the Head of Finance and Customer Services. Given below is an individual report on the major items:

a) The main phase of the Mote Park scheme is due to start in August, with completion scheduled for June 2012. The Capital Programme approved by the Council in March assumed that all payments would be made within 2011/12, but given the scheduled completion date it is now anticipated that £0.9m of the expenditure will slip into 2012/13, as there will be stage payments made as the scheme progresses. As this is a scheme that is 75% funded by the Heritage Lottery Fund there will be regular claims made to them to reclaim expenditure as the works progress.

Capital Financing

The agreed capital programme 2011/12 to 2014/15, as approved by Council in March 2011, identifies sufficient resources to finance the 2011/12 programme. It also identifies potential future need for prudential borrowing of £0.3m.

The financing of this programme requires £7.1m in capital receipts £4.9m in grants and contributions and £3.3m in revenue support.

Resources that can currently be confirmed are:

Funding Source:	£.m
Grants & Contributions	4.9
Capital Receipts	1.9
Revenue Support	3.3
	10.1

The capital receipts figures include the disposal of Raigersfield Lodge for £0.4m, which took place in early July. Progress is also being made on a number of other potential disposals, which could realise further receipts during the year.

Based on the current projected expenditure set out at Appendix B to the report of the Head of Finance and Customer Services, there are now sufficient resources to fund the programme for the current year without the need to borrow.

The slippage proposed for approval elsewhere in this report will mean that expenditure of £0.9m that was originally approved will be removed from 2011/12 if Cabinet approve the recommendation.

The identified slippage does not reduce the overall pressure on the capital programme over the current three year period. Anticipated funding is still required in full and there continues to be a minimum potential expectation of £0.3m in prudential borrowing.

Treasury Management

The Council has adopted and will incorporate into its Financial Regulations, the CIPFA Code of Practice on Treasury Management 2009 (Revised) in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In March 2011 the Council approved a Treasury Management Strategy for 2011/12 that was based on this code. This required that Cabinet should be informed of Treasury Management activities quarterly as part of greater budget monitoring.

Cabinet has previously agreed to receive an enhanced report on Treasury Management to cover levels of activity and current market conditions in more detail on a quarterly basis.

The first quarter of 2011/12 saw:

- Speed of recovery is lower than expected, which has been the same since the recession began in 2009.
- Public sector borrowing has been high during this period.
- CPI inflation has deteriorated further.
- Housing market has been static with the level of mortgage approvals having unchanged and house prices remained the same.

The Council's Treasury Management Advisors, Sector Treasury Management, provide the following forecast:

- The first base rate increase is expected to be in June 2012, which has slipped from September 2011 as previously forecasted.
- Rates are expected to steadily rise reaching 3% by mid 2014.
- Long term PWLB rates are expected to steadily increase to reach 5.60% by early 2014.

The projected movement in the base rate means that the Council will not benefit from any significant additional investment income in the medium term. However, continued low rates would be beneficial should the Council decide it needs to borrow to fund the capital programme in the near future.

As at 30 June 2011 the Council held £29.5m in investments. This is set out at Appendix C to the report of the Head of Finance and Customer

Services. £9.5m of investments in the appendix are in accounts which can be called upon immediately or for a short notice period.

During the first quarter of 2011/12 investment income has been above target. Income of £68,000 received compared to a budget of £57,000 with an average rate of 1.09%.

Alternatives considered and why rejected

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.

If such an approach were taken, Cabinet Members would have a reduced financial awareness. This could restrict Cabinet's ability to meet service requirement 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 Change and Scrutiny by: **18 August 2011**