MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 13 February 2013

BUDGET MONITORING THIRD QUARTER 2012/13

Issue for Decision

To consider the Revenue and Capital Outturn position as at 31st December 2012.

Decision Made

1. That the satisfactory revenue position at the end of the third quarter 2012/13 be noted.

2. That the proposals for slippage and re-profiling in the capital programme to 2013/14 be agreed.

3. That the detail in the report of the Head of Finance & Customer Services on the collection fund, general fund balances and treasury management activity be noted.

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 of the Head of Finance & Customer Services advised and updated Cabinet 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.

Revenue

The budget used in the report of the Head of Finance & Customer Services was the revised estimate for 2012/13. Actual expenditure to December 2012 includes 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 2012 and expenditure to December 2012, was attached as Appendix A to the report of the Head of Finance & Customer Services. The profiled budget showed the total amount expected to be spent by December 2012 after considering the expected pattern of spend throughout the year for each budget head. An indicative projected year end outturn figure was also shown.

Appendix A to the report of the Head of Finance & Customer Services showed actual spend is £0.24m less than the budget at the end of quarter three, compared to a figure of £0.33m less than the budget at the end of quarter two. A detailed analysis of the figures at cost centre level shows 116 out of a total of 213 cost centres are currently reporting actual spend less than budget, which mirrors the position at the end of quarter two.

As part of a series of changes to the budget monitoring and reporting process the financial analysis in Appendix A to the report of the Head of Finance & Customer Services is based on direct expenditure only. This removes the influence of internal recharges and accounting adjustments upon the variance analysis. At this time it is expected that final outturn will report an under spend, after adjustment for resources to be carried forward into 2013/14, of approximately £0.30m.

Also shown at Appendix A to the report of the Head of Finance & Customer Services was an analysis by subjective across all services. This identified that £300,000 of the under spend relates to employee costs, due to continuing vacancy levels.

In addition to the under spend in employee costs, the subjective analysis showed that income receipts are creating an adverse variance against expected budget to date. The third table at Appendix A to the report of the Head of Finance & Customer Services summarised the position specifically with regard to fees and charges income. This was the subject of a separate report to Cabinet in December 2012 as this has been an area that has been adversely affected by the economic downturn. At the end of the third quarter income is £34,879 under the target figure. It was noted that within this variance a number of areas reported income in excess of budget which has reduced the adverse variance, and it is anticipated that the variance will be reduced by year end.

The adverse variances in Parks & Open Spaces, at the Market, in Land Charges and on the Park & Ride service are discussed in more detail below. The other area of concern was income from Pay & Display Car Parking. Whilst there was a shortfall in income, the budget pressure has been offset by a significant reduction in running costs.

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

a) The Community Development budget is showing a favourable variance of £38,494 against the budget. This is because external funding has been received for a number of projects which have either only just started or have yet to commence, so it is anticipated that this variance will reduce during the final quarter.

b) The budget for Maidstone House is showing a favourable variance of £53,340. This is a consequence of additional income, some of which relates to previous years. There have been ongoing discussions with the landlords on a number of issues, some of which have been resolved, and some of which are still continuing, so there may be further adjustments due on this budget.

c) The overall budget for Planning is showing a favourable variance of £59,876. The most significant element of this is Development Control Applications, where additional planning fee income is producing a favourable variance of £133,686. This is due to an increase in the charge for planning fees and in applications, and new staff will be recruited to deal with the increased workload. However, Land Charges is showing an adverse variance of £43,486, which is due to less than anticipated income. This is a consequence of the downturn in the housing market, which cannot be directly influenced by the Council.

d) The Environmental Enforcement budget is showing greater than anticipated income of £72,104 from Fixed Penalty Fines for litter. Officers are looking at options for utilising this excess income within the Street Scene operational area, in particular exploring options to fund equipment that will improve street cleanliness. There are also ongoing discussions to fund the legal costs of prosecution. In addition to this £25,000 will be transferred to the Parks & Open Spaces budget on a one-off basis, as this area has been experiencing difficulties in income generation and with unanticipated costs arising from tree works and insurance excesses.

e) On-Street Parking is showing greater than anticipated income of £58,512, as well as less than anticipated expenditure of £27,793. The Transport & Parking Services Manager has indicated that a programme of works for lines and signs has been identified, and this will be undertaken in bulk by the end of the financial year, thus benefiting from economies of scale. The under spend on the repairs and maintenance should therefore reduce by the end of the financial year. However this is partially offset by expenditure on Residents Parking, which is currently £35,745 greater than budget. This is mainly due to a shortfall in Penalty Charge Notices income for the year to date. The Transport & Parking Services Manager is aware of the position and is currently investigating the reasons behind the shortfall.

A number of areas are showing significantly more spend or a shortfall in income than was actually budgeted at the end of quarter three, and these are reported below:-

a) The Sundry Corporate Property budget is reporting expenditure greater than budget of £92,102. The main element of this is the vacant retail unit underneath King Street Multi-Storey Car Park, for which business rates are still due, as well as there being no rental income received. Cabinet have agreed to demolish the car park and re-develop the site as a surface car park. It is expected that this budget pressure will reduce but not be completely removed during the remainder of the financial year due to the impending demolition meaning a period of restricted options to generate income. Whilst the performance report elsewhere on this agenda does not currently show problems in relation to this issue, the pending demolition means that members should expect to see an effect on performance by the year end.

b) The projected overspend for the Museum was reported to be £131,569 at the end of the second quarter. £54,443 of the overspend continues to relate to the Museum's NNDR bill which has been challenged, the outcome of which will not be known until August 2013. A further £34,000 continues to relate to one-off utility and building costs that will not be incurred in 2013/14. Management action has been taken to reduce the overspend, including the use of external grants and additional income arising from the commercial use of the collections and this has been reduced to £85,000. It will be difficult to further reduce the current projected overspend in the remaining quarter, although further options for management action are being considered in consultation with Finance.

The Museum is continuing to configure its service in line with the requirements of the new facility and putting into place the activities set out in the business plan. The service configuration together with the management action being taken will ensure a balanced budget for 2013/14 onwards.

c) The Market is now showing an adverse variance of £41,308. This is a combination of a downturn in income from both the Tuesday and Saturday markets, and from the operator of the site, reflecting the current low level of occupancy. Efforts are continuing to encourage a greater level of trading activity at the Tuesday and Saturday markets.

d) Park & Ride continues to show a significant shortfall in income, with the adverse variance now standing at £90,707. This follows the trend for the previous two quarters, and reflects the ongoing decline in the number of passengers using the service as referenced in the performance report elsewhere on this agenda. A reduction in the contract costs budget has been implemented in readiness for a reduction in service levels in January 2013. A report to fund the shortfall by using a carry forward of £0.117m from On Street Parking was agreed by Cabinet and has been confirmed by Kent County Council.

e) There is also a continuing problem with the Homeless Temporary Accommodation budget showing expenditure greater than budget, with the variance now standing at £83,616, which reflects the position reported for the previous two quarters. This budget experienced similar problems during the last financial year, with expenditure on providing temporary accommodation being significantly higher than the budgeted figure. Growth of £60,000 was approved as part of the budget strategy for 2012/13, but demand for this service continues to be higher than anticipated. The service manager is working with the Cabinet Member to bring forward proposals to reduce the pressure but it is unlikely that this budget pressure will be reduced during this financial year. The performance report elsewhere on this agenda demonstrates the increased level of demand for this service that has caused this budget pressure and includes in its appendices an action plan to manage the demand.

The report of the Head of Finance & Customer Services identified no risks that require action by Cabinet at this time. Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2012/13 is a favourable variance of £0.30m.

Through the budget strategy for 2012/13, savings and efficiencies were identified totalling £1.9m. These savings are being monitored corporately and it is anticipated that the target will be met in year, with a number of staffing related savings delivered early as reflected in the projected underspend.

Balances

Balances as at 1st April 2012 were £10.1m. The current medium term financial strategy assumes balances of £5.1m by 31st March 2013.

The major reason for the movement in balances during 2012/13 relates to the use of carry forwards approved by Cabinet in May 2012. In addition, the balance of £5m at 31st March 2013 assumes the use of the 2011/12 underspend.

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

Collection Fund

The collection rates achieved for the third quarter, and the targets set, are shown below. The rate is given as a percentage of the debt targeted for collection in 2012/13.

	Target %	**Actual %**
NNDR	87.9	86.5
Council Tax	87.8	87.0

Both have marginally missed their respective targets and this reflects the experience at other billing authorities in Kent, although it should be noted that Maidstone has the highest collection rate for the year to date in Kent for Council Tax.

Whilst the percentage variances are small, the gross values of Council tax and Business Rates collected each year are significant. These variances represent approximately £0.75m of income that is now behind the profiled collection schedule. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken before year end 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.

The changes to the local government finance system, in particular the Business Rates Retention Scheme which comes into effect from April 2013 will create a level of risk for the Council that is new and as yet untested. Robust monitoring of the collection rates as well as early warning systems will be critical to ensure timely management action can be taken to minimise any adverse variances.

Capital Expenditure

Attached at Appendix B to the report of the Head of Finance & Customer Services is a summary of the current capital programme for 2012/13, as agreed by Council. This includes the initial capital programme for the financial year plus amounts carried forward from 2011/12. It also reflected the slippage that was identified in the second quarter report.

The table in Appendix B to the report of the Head of Finance & Customer Services gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2012/13 after the adjustments detailed above.
3.	Actual spend to the end of December 2012.
4.	Balance of budget available for 2012/13.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2012/13.
8.	Balance of budget that will slip into 2013/14.
9.	Budget no longer required.

Capital expenditure to the end of the third quarter of 2012/13 is shown as £2.8m. £1.7m of this spend is in relation to the major projects at Mote Park and in the High Street.

The figures for the High Street project include preliminary expenditure incurred in respect of phase 2 of the scheme, covering initial investigation and design costs. These costs will be funded from the budget agreed for phase 2.

Following the third quarter's monitoring, officers anticipate that £0.871m will need to be re-profiled into 2013/14. This is detailed in column 8 of Appendix B to the report of the Head of Finance & Customer Services. These are items where the programmed works have been rescheduled to now take place during 2013/14.

Capital Financing

The agreed capital programme 2011/12 to 2014/15, as approved by Council in March 2012, and subsequently amended by Cabinet in May 2012 and again in July 2012, identifies sufficient resources to finance the 2012/13 programme.

Resources that can currently be confirmed are:

Funding Source:	£.m
Grants & Contributions	2.1
Capital Receipts	3.0
Revenue Support	3.9
	9.0

The capital receipts figure includes the disposals of Hayle Place and 13 Tonbridge Road which took place in April. 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 shown at Appendix B to the report of the Head of Finance & Customer Services there are sufficient resources to fund the programme for the current year without the need to borrow.

The slippage and re-profiling approved will mean that net expenditure of £0.871m will be re-profiled into 2013/14.

Treasury Management

The Council has adopted and incorporated 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 2012 the Council approved a Treasury Management Strategy for 2012/13 that was based on this code. The strategy requires that Cabinet should be informed of Treasury Management activities quarterly as part of budget monitoring.

During the quarter ended 31st December 2012:

- The Bank of England November 2012 Inflation Report has again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%;

- Retail sales in the high street have weakened where consumers are looking to repay debt. However sales elsewhere have remained constant;

- Employment continued to rise, but slower than anticipated;

- There has been a 0.4% quarterly fall in GDP in this quarter which leaves growth for 2012 at about -0.1%.

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

- There is potential for more quantative easing in 2013;

- The main rating agencies have all made it clear they are reviewing the UK's "AAA" status in early 2013. There is a chance of the current ratings being downgraded;

- Bank rate is not expected to start rising until quarter 1 of 2015;

- PWLB long term rates are expected to reach 5.2% by March 2016;

- As at 31st December 2012 the Council held £31.1m, in investments. A full list of the investments held is given in Appendix C to the report of the Head of Finance & Customer Services. £18.1m 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 2012/13 investment income has been above target. Income of £0.22m has been received compared to a budget of £0.19m. This is due to investment rates being higher than expected in the first part of the year, however recent rates have fallen.

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 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 Change and Scrutiny by: **21 February 2013**