MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 11 August 2010

Budget Monitoring - First Quarter 2010/11

Issue for Decision

To consider the capital and revenue budget and expenditure figures for the first quarter of 2010/11.

Decision Made

1. That the position, as detailed in the report of the Head of Finance & Customer Services, be noted and further reports be received, at least quarterly, during the financial year, in a similar format.

2. That the satisfactory revenue position at the end of the first quarter 2010/11 be noted.

3. That the proposals for slippage in the capital programme to 2011/12 be agreed.

4. That the detailed information on treasury management activity be noted.

Reasons for Decision

During 2009/10, the Cabinet received quarterly budget monitoring reports in this format and in line with best practice. The format has been agreed annually by successive Cabinets. It ensures that the Cabinet is aware of matters relating to the current financial activity of the Council that may affect the current or future medium term financial strategy.

The constitution delegates the financial responsibility for individual budgets to the relevant director and the overall responsibility to the Responsible Financial Officer. Previously the Cabinet, whilst agreeing to receive reports in this format, has considered the level of significance for budget variations to be £30,000. Above this value individual analysis has been reported in quarterly monitoring reports. This has not precluded the reporting of other matters where the projection is considered significant in the medium term.

The financial year 2009/10 saw the continuation of the major economic problems that developed in 2008/09 with an effect on the performance of the Council's budget. The effect was seen in two areas, income generating services that saw a decline in demand and support service that saw an increase in demand. The quarterly monitoring reports during 2009/10 reported these issues to the Cabinet in a timely and concise way, allowing the Cabinet to take the necessary actions to ensure that appropriate control of the Council's finances was maintained.

It was appropriate in this first quarterly report for Cabinet to consider the future use of the report and, if this method of reporting continues, the extent to which the report covers the areas required by Cabinet and the value of significant variations that warrant individual analysis. One enhancement to the report for 2010/11 relates to the section on treasury management which, in line with the Treasury Management Strategy, has been enhanced to consider performance more fully than in previous years. Due to the success of the reporting format used in 2009/10 to identify and control the effects of the economic downturn, it was recommended that Cabinet continue to receive these reports at least quarterly during 2010/11 in this format.

Revenue

The budget used in the report of the Head of Finance & Customer Services was the original estimate for 2010/11 as agreed by Council in March 2010, with the addition of the carry forward budgets agreed by Cabinet in May 2010. Actual expenditure to June 2010 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 2010 is set out in Appendix A to the report of the Head of Finance & Customer Services. The profiled budget shows the total amount expected to be spent by June 2010 after considering the expected pattern of spend throughout the year for each budget head.

Members will be aware that in 2009/10 there was a significant level of variance created by the economic downturn, during last year Cabinet action and management action together controlled potential variances of £0.5m. During 2009/10 Cabinet through the budget strategy process provided ongoing support into 2010/11 of £0.2m.

Appendix A of the report of the Head of Finance & Customer Services shows a favourable variance of £0.35m which compares to a favourable variance of £0.05m at the end of quarter one of 2009/10. Past experience suggests that the first quarter of each financial year contains the most significant movement in variances and represents the lowest level of spend activity expected during the year.

A detailed analysis of the variance at cost centre level shows two thirds of all cost centres are reporting minor favourable variances.

A detailed analysis of cross service issues identifies two specific issues of note:

a) A specific analysis of employee costs shows a favourable variance across the Council of £0.16m after allowance for the cost of temporary and agency staff; and

b) It is good practice to consider areas of adverse variance 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 identical to budgeted expectation of £1.7m. The level of budget is the result of three years of strategy to reduce budget expectation for income which has therefore been successful.

Significant favourable variances exist in two service areas and reports on these areas are given below:-

a) Parks and Open Spaces – there are variances in expenditure on grounds maintenance and increased income received for football pitch hire and circus hires. In total, including other minor variances, the favourable variance for this service is £33,000.

b) Planning Policy – activity in this area has had a slow start during 2010/11 due to uncertainty about government intentions. It is expected that greater activity and higher expenditure levels during the remainder of 2010/11 will ensure this budget is spent. The current favourable variance is £67,000.

One significant adverse variance also exists and is reported below:-

a) Armstrong Road Depot – due to the extended period since closure the site is again subject to non-domestic rates. The current deficit is £74,000. Management action is expected to identify resources to reduce this budget pressure during the second quarter.

At this stage the report of the Head of Finance & Customer Services identified no major risks that require action. The major adverse variance identified above is expected to be resolved by Management action during the second quarter.

In addition to the above considerations the budget from which the report of the Head of Finance & Customer Services is developed contains a requirement for savings from a number of services that were expected to be delivered in 2009/10 and have been carried forward to 2010/11. Major examples include the expected savings from shared services and smarter procurement. These items will continue to be monitored specifically in future reports.

Balances

Balances as at 1st April 2010 were £8.3m as previously reported. The current medium term financial strategy assumes balances of £3.7m by 31st March 2011. The major reason for the movement in balances during 2010/11 relates to the use of carry forwards approved by Cabinet in May 2010.

Within the overall balance given above, the 2010/11 budget strategy assumes £0.3m of resources set aside for LDF and £0.8m of general balances will be available.

The issues raised above are considered after allowing for the minimum level of balances of £2.3m.

Collection Fund

The collection rates achieved for the first quarter, and the targets set, are shown below. The rate is given as a percentage of the debt targeted for collection in 2010/11.

	Target %	**Actual %**
NNDR	33.6	33.9
Council Tax	30.4	30.7

In both cases the rate achieved is slightly above 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 value of Council Tax to be collected is based upon an assumption about the number of properties in each band during the year. Since October 2009, when the figures were collated for the calculation of Council Tax, the number of properties has increased by 0.9% whereas the increase built into the budget was 0.4%. This additional increase will provide extra resource to ensure the collection fund does not enter deficit at the year end.

Capital Expenditure

Attached at Appendix B of the report of the Head of Finance & Customer Services is a summary of the current capital programme for 2010/11, as agreed by Cabinet in May 2010. This includes the initial capital programme for the financial year plus amounts carried forward from 2009/10.

The table in Appendix B of 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 2010/11 after the adjustments detailed above.
3.	Actual spend to the end of June 2010.
4.	Balance of budget available for 2010/11.
5 – 7	Quarterly analysis of expected spend for the remainder of 2010/11.
8.	Balance of budget that will slip into or from 2010/11.
9.	Budget no longer required.

Capital expenditure in the first quarter of 2010/11 is shown as £0.6m. The profile of expenditure for the remainder of the year identifies the greatest level of expenditure occurring in the second quarter.

Following the enhanced monitoring process instigated this year to enhance control of the programme officers anticipate that £1.2m will slip into 2011/12. This is detailed in column 8 of Appendix B of the report of the Head of Finance & Customer Services. Given below is an individual report on the major items:

a) Support for grant applications – at this stage it is expected that no support will be offered in 2010/11.

b) Green Space Strategy – A minor balance of this budget is expected to slip into 2011/12.

c) Mote Park Regeneration – the work on this scheme is linked to the Heritage Lottery Fund approval process and this has caused a delay to the start on site date for the scheme.

d) Gypsy Site Improvements – the grant available from central government towards gypsy site redevelopment has ceased and this will mean funding is not available to finance £0.45m of this budget. Commitments exist to spend approximately £50,000 in the second quarter and the balance will be carried forward to 2011/12.

e) Support for Social Housing – this funding is scheduled in accordance with the work programmes of the respective RSLs. Due to timing of the work programmes there is a need to slip part of the agreed funding into 2011/12.

Capital Financing

The agreed capital programme 2010/11 to 2012/13, originally approved by Council in March 2010, identifies sufficient resources to finance the 2010/11 programme. It also identified future need for prudential borrowing of £2.5m.

This programme has been updated for 2010/11, by Cabinet in May 2010, to account for fourth quarter slippage from 2009/10. The current years programme, including slippage, is given at Appendix B of the report of the Head of Finance & Customer Services.

The financing of this programme requires £4.3m in capital receipts £4.7m in grants and contributions and £1.6m in revenue support.

Resources that can currently be confirmed are:

Funding Source:	£.m
Grants	4.3
Contributions	0.2
Capital Receipts	2.1
Revenue Support	1.6
	8.2

However, amongst the grants confirmed above is £1.4m growth point grant. Although the funding for this grant has been confirmed by the government confirmation is dependent upon a number of specific criteria which officers are in the process of confirming to the government at this time.

The balance of resources required to fund the programme but not yet confirmed is £2.3m (£0.2m from contributions and £2.1m from capital receipts). A significant level of interest exists towards the assets that the Council is marketing and officers are taking action to ensure resources are delivered before need for funding is required.

The slippage proposed for approval will mean that £1.2m of this pressure will be removed from 2010/11. This will mean a need to identify £0.9m of additional capital receipts within 2010/11.

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 expectation of £1.8m in prudential borrowing.

<u>Treasury Management</u>

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 February 2010 the Council approved a Treasury Management Strategy for 2010/11 that was based on this code. This required that Cabinet should be informed of Treasury Management Activities quarterly as part of greater budget monitoring.

This quarterly monitoring report has always reported on treasury management issues to Cabinet however the level of detail will be enhanced to cover levels of activity and current market conditions in more detail.

The Council's Treasury Management Advisors, Sector Treasury Management, predict a mild and steady improvement in the economy based on the following key factors:

a. MPC [*Monetary Policy Committee*] inflation forecast being below target in two years' time.

b. The first bank base rate increase is expected to be in 2011, and will reach 3.75% by March 2013.

c. Long term PWLB rates are expected to steadily increase to reach 5.25% by early 2013.

As at 30 June 2010 the Council held £24.26m in investments. This is detailed in Appendix C of the report of the Head of Finance & Customer Services. The investments with no maturity date shown in the appendix are investments in accounts that can be called immediately and equate to half of the investments held.

During the first quarter of 2010/11 investment income has been above target and totals £98,029 against a target of £92,630.

The average rate of interest received on the Council's investments over the period has been 2.55%. The target for 2010/11 was set against an assumption of 3.3% average interest during the first quarter of the year.

This reduction in investment rates is offset by an increased level of funds invested which is the reason why, despite lower rates, the interest received is greater than budgeted. Actual average investments over the period totalled £15.6m against an assumption of £11.3m.

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

Electronic budget monitoring and performance reports within financial systems

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: **20th August 2010**