

**POLICY & RESOURCES
COMMITTEE****17 February 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes**Budget Monitoring 3rd Quarter 2015/16**

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	Paul Holland, Senior Finance Manger - Client
Classification	Public
Wards affected	N/A

This report makes the following recommendations to this Committee:

1. To note the Authority's Revenue position at the end of December 2015 i.e. end of Quarter 3 for 2015/16;
2. Agree the slippage position and re-profiling of the Capital Programme for 2015/16;
3. Review the details on the updated progress on the Collection Fund, General Fund Balances and Treasury Management activity;

This report relates to the following corporate priorities:

- Securing a successful economy for Maidstone Borough – The Council is committed to delivery of Value for Money services and securing a successful economy for Maidstone Borough Council
- This report outlines its measures in securing that commitment

Timetable**Policy & Resources Committee****17th February 2016**

Budget Monitoring 3rd Quarter 2015/16

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The report updates the Committee on the capital and revenue expenditure as at the end of December 2015, Quarter 3 of 2015/16, against the approved budgets including the collection fund and treasury management.
 - 1.2 The report begins by presenting revenue information specifically in relation to this Committee's services. All information on a strategic level across the entire budget is then reported as both perspectives seek to ensure maximum transparency in reporting to this Committee.
 - 1.3 The revenue budget forecast for year end is currently showing a projected underspend of £23,710 against a total net budget of £20,133,460.
 - 1.4 The Capital Programme is forecasting slippage of approximately £402,000 by the year ending 2015/16 and is mainly due to an under spend on housing grants. The capital expenditure for the quarter ending December 2015 totalled £1,532,000 from a budget of £4,900,000.
 - 1.5 Other balance sheet elements are reporting satisfactory progress although interest on investments remains lower than expected at 0.76%.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The report intends to provide Members, Senior Officers and stakeholders with an indication of the current position regarding the financial performance of the Council in accordance with the recommendations to the Policy and Resources Committee outlined in the paragraph 3 of this report.
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3. REASONS FOR RECOMMENDATIONS

- 3.1 The Head of Finance and Resources is the Section 151 Officer and Responsible Financial Officer, and has overall responsibility for Budgetary Control and Financial Management. However, in practice the day to day Budgetary Control is delegated to Service Managers, with assistance and advice from their Director and the Finance section. This report provides a progress update report to the Policy and Resources Committee on the current financial performance of the Revenue and Capital Expenditure against the approved budgets, to also include Memorandum Accounts such as the Collection Fund, whilst giving an overview of the performance of Treasury Management.
 - 3.2 This report uses a number of terms that may require definition and a glossary of terms is given in section 7 of the report.
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4. REVENUE MONITORING

- 4.1 The budget used in this report is the agreed revised estimate for 2015/16 (as reported elsewhere on this agenda). Actual expenditure to the end of December 2015 includes all major accruals for goods and services received but not paid for by the end of the quarter.

Committee Level Outturn 2015/16 - Third Quarter results

- 4.2 The financial information set out in Appendix A, can be summarised below in Table 1

Committee	Full Year Budget £	Forecast £	Variance £
Policy & Resources	7,578,660	7,114,140	464,520
Strategic Planning, Sustainability & Transport	-302,790	-243,000	-59,790
Communities, Housing & Environment	8,631,560	8,841,560	-210,000
Heritage, Culture & Leisure	489,580	660,600	-171,020
Sub-Total	16,364,580	16,373,300	23,710
Net transfer to reserves & balances	3,736,450	3,736,450	0
Totals	20,133,460	20,109,750	23,710

Table 1: Committee level Outturn Summary Quarter 3 – 2015/16

As can clearly be seen from the table, the Policy and Resources Committee reported an overall positive variance of £464,520 against a net budget of £7,578,660. This is a variance of 6.1%.

- 4.3 The report detailed the major issues that contributed to the positive variance for this Committee as follows:
- a) Contingency Budget – the budget is likely to be underutilised by up to £200,000 in year. However the efficiency proposals in the 2016/17 medium term financial strategy plan for this budget to be a saving.
 - b) Corporate Management – under the current external audit fees arrangement there is a lower charge than is budgeted for, resulting in a positive variance of £33,780. The additional budget is being held to allow funding for any additional audit costs, and also until the outcome of the upcoming tender exercise for our external audit services is known.
 - c) A number of sections currently have vacant posts which are producing a total underspend of £267,000. These sections are Property & Projects, Improvement, Customer Services, ICT and Audit.
 - d) Learning & Development – there is an under spend of £36,000 against this budget which relates to reduced expenditure on central training

offset by additional training income received.

- e) Legal Services – the section has received significantly higher income from external services than was originally budgeted for, resulting in a positive variance of £68,000. Approval has been granted for legal services to increase their staff numbers to cope with an increased workload and this additional income is anticipated to continue in future years this forms part of the funding for those new posts.

4.4 There were also a number of adverse variances:

- a) Procurement Section – the adverse variance of £50,000 is a result of income targets not being achieved for the year to date. This is a continuation of the trend observed for the past three financial years.
- b) Internal Printing – there is currently an adverse variance of £35,000 in this area. A review is currently underway to look into the printing operation and to ascertain methods of reducing this figure going forward.

Committee Level Third Quarter Results and Forecast 2015/16

4.5 Attached at **Appendix A** is a table detailing the current budget and expenditure position for this Committee's services in relation to the third quarter of 2015/16, to December 2015. The appendix details net budget per cost centre for this Committee. The budget used is the revised budget to be approved elsewhere on this agenda. Actual expenditure is shown to the end of December 2015 and includes accruals for goods and services received but not yet paid for.

4.6 The columns of the table in the Appendix show the following detail:

- a) The cost centre description;
- b) The value of the total budget for the year;
- c) The amount of the budget expected to be spent by the end of 2015;
- d) The actual spend to that date;
- e) The variance between expected and actual spend;
- f) The forecasted spend to year end; and
- g) The expected significant variances at 31 March 2016.

4.7 Appendix A shows that of an annual budget of £7,578,660 the expectation is that £5,827,147 would be spent at the end of the third quarter of the year and £7,114,140 would be the projected outturn by the end of 31 March 2016. At this point in time the budget is reporting an under spend of £524,674 and the forecast for year-end shows a projected variance of £464,520 to reflect the likely outcome at 31 March 2016.

Strategic Level Third Quarter Results and Forecast 2015/16

4.8 Given at **Appendix B** is a summary of the third quarter's budget performance at the level of the strategic budget. The budget and actual figures are provided at the same level as set out in paragraph 4.2. The

figures are analysed in three ways and set out in three tables which show the following levels of detail:

Table 1: Subjectively by Committee;

Table 2: Subjectively by Priority;

Table 3: Subjectively by Expenditure Type.

- 4.9 Each Committee will consider the major adverse and positive variances reported within their service areas. In each case they will chose to either: develop plans to act further in resolving the issue; or to continue to monitor the position and act if necessary at a later date.
- 4.10 In addition to the issues considered by the other service committees, this committee is reporting a positive variance as detailed in paragraph 4.7 above.
- 4.11 In accordance with best practice, virements are reported to Policy and Resources Committee 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. There was only one reportable virement during the 3rd quarter, when £5,000 budget that was not required in central telephones was vired to the Contingency budget.

Strategic Level Capital Programme 2015/16

- 4.12 The capital programme was approved by Council on 2 February 2015.
- 4.13 Funding for the programme remains consistent with previous decisions of Council in that the majority of resources come from New Homes Bonus along with a small grants budget and a small number of capital receipts from asset sales. Previous decisions of Council and Policy and Resources Committee have focused the use of New Homes Bonus on infrastructure projects where these are required by the infrastructure delivery plan that forms part of the Local Plan.
- 4.14 The current programme is set out in Appendix C and shows the approved budget and actual expenditure to date. The budget figures have been adjusted to reflect capital slippage identified in the first and second quarter budget monitoring reports. The Appendix details the profile of expenditure that is forecast for the remainder of the year and identifies £402,000 that will require carry forward approval into 2016/17. The major schemes that have incurred slippage are:
- a) **Housing Grants** – based on current and average spend over the last three years we will need to slip £230,000 into 2016/17.
 - b) **Mote Park: Car Parking and Café Refurbishment** – the works on these projects are ongoing and some of the planned expenditure is likely to slip into 2016/17.
- 4.15 The Council has the necessary resources to manage the programme in 2015/16 with the majority of funding arising from New Homes Bonus.

There are a small number of minor asset sales and government grant in relation to disabled facilities grants also funding the programme.

Reserves and Balances

- 4.16 The total of reserves and balances as at 1st April 2015 was £15.3m. The current medium term financial strategy assumes balances of £14.4m by 31st March 2016.
- 4.17 The movement in balances during 2015/16 relates to the use of carry forwards approved by Policy and Resources Committee in April 2015 and reported to this committee in July 2015 and the use of resources from earmarked reserves in relation to the local plan and the use of.
- 4.18 The position set out above allows for the minimum level of general balances of £2.3m, as agreed by Council in February 2015, to be maintained.

Collection Fund

- 4.19 Due to the risks that surround the pooling arrangements in place for business rates growth and the local council tax discount scheme, the Council monitors the collection fund carefully.
- 4.20 The collection rates achieved during the second quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2015/16.

	Target %	Actual %
Business Rates	85.6	84.4
Council Tax	86.6	85.8

Table 2: Collection Rates for Council Tax and Business Rates to December 2015

- 4.21 Both Business Rates and Council Tax have marginally missed the target. For Business Rates this sum equates to approximately £717,000 out of a collectable debt for the year of £59,730,569. For Council Tax this sum equates to approximately £726,000 out of a collectable debt for the year of £90,784,564.
- 4.22 As shown above, while the percentage variances are small, the gross values of Business Rates and Council Tax collected each year are significant. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken before year end to attempt to bring the collection rate back to target.
- 4.23 Officers will continue to pursue payment of any developing arrears along with the arrears from prior years which is on target and.
- 4.24 **Council Tax Support** – The actual collection rate is 67.28% against a target of 66.72%.
- 4.25 The level of local council tax support recorded at the end of Quarter 2 shows a caseload of 9,605 claimants (10,054 as at Q3 - 2014/15). For

Maidstone Borough Council the support provided is £1.56m (£1.52m at Q3 - 2014/15) compared to an estimated support of £1.5m used to calculate the budget.

- 4.26 Whilst there is 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.
- 4.27 **Retained Business Rates** – the current collectable business rates is £59,730,569 against a target of £58,525,000 showing a net increase of £1.205 m against the original estimate.

Treasury Management

- 4.28 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 2015, the Council approved a Treasury Management Strategy for 2015/16 that was based on this code. The Strategy requires that the Committee should formally be informed of Treasury Management activities on a quarterly basis as part of budget monitoring.
- 4.29 During the Quarter ended 31st December 2015:
- Data released in December for the period to October 2015, showed employment the highest at 73.9% and unemployment at 5.2% the lowest it had been since 2006.
 - Wage growth was generally strong over the year; although having peaked at 3.3% in May, it fell to 2.4% in October.
 - Inflation, having dipped below zero earlier in 2015, remained very low at 0.1% year/year in November 2015, oil prices have fallen even further and growth in China isn't looking like it is going to return to its usual 7%+ levels very soon
- 4.31 The Council's Treasury Management advisors, Arlingclose have provided the following forecast for interest rates and PWLB Rates, along with the upside and downside of any potential changes:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.50	1.60	1.65	1.70	1.75	1.24
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
1-yr LIBID rate														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	2.15	1.82
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
5-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.30	1.38	1.45	1.53	1.60	1.68	1.75	1.83	1.90	1.98	2.05	2.13	2.20	1.75
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
10-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.90	1.95	2.00	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.20
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
20-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.53	2.55	2.58	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.65
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
50-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.55	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.83	2.85	2.69
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

- The latest forecast still shows that the first Bank Rate change will be in September 2016. At the beginning of the October-December 2015 quarter the general consensus was that the MPC would look to raise interest rates in early 2016. However a number of factors have pushed back the expectation of a rate rise to Q3 or Q4 of 2016, with possibly one or two increases in 2017.
- PWLB rates are similar in that the rises in rates will be gradual over a period of time, especially within the long term rates.

4.32 Arlingclose have recently been appointed as the new advisors following a tender exercise.

4.33 The council held investments at 31st December 2015 totalling £35.21m. A full list of investments held is given in **Appendix D**. £7.2m (20%) of investments are in accounts which can be called upon immediately or for a short notice period for daily cash flow purposes. The majority of investments are fixed between 6 months and 1 year (short term) to reduce the risks of default by counterparties.

4.34 Investment income at 31st December totalled £187,000, and the average interest rate for this period is 0.76%.

4.35 There was no borrowing during the third quarter.

5. AVAILABLE OPTIONS

5.32 This report covers a series of issues all of which require consideration. Each issue and the options are set out below:

- 5.33 In considering the strategic position on the revenue budget at the end of December 2015 the committee can rely upon the actions of service committees with the additional knowledge that the current projected outturn is a minor positive variance.
- 5.34 The capital programme is reporting approximate slippage of £402,000 and expenditure of on £1,532,000. The programmes where major slippage occurs are shown in Appendix C. The committee could agree the slippage as proposed or take an alternative action such as removal of the budget or transfer of the budget to other schemes. If such alternative action is taken the councillors should be aware that the medium term financial strategy sets a hierarchy of priorities for the capital programme and any alternative scheme should be the highest priority unfunded scheme currently proposed.
- 5.35 Details of the performance of the collection fund and the level of available balances are both as expected and the committee need only note this information at this time.
- 5.36 Treasury Management is for information only as the Audit, Governance & Standards Committee takes responsibility for considering changes that may be required, for reference on to Council. The committee could make reference to the Audit, Governance and Standards Committee of any issues that it may wish to be considered at a future meeting.

6. PREFERRED OPTIONS AND RECOMMENDATIONS

- 6.32 The report is for advice in relation to the actions being taken by officers and other service committees and it is recommended that the committee note the current situation with two exceptions:
- a) The committee is recommended to create a working group to enable the free development of proposals to generate savings and efficiencies over the next five years; and
 - b) The committee is requested to approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.

7. 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 Policy and Resources Committee.
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 1st April 2013.
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 1st 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.

8. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Delivery of Value of Money Services – 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 which is linked to the strategic plan and corporate priorities.	Head of Finance & Resources
Risk Management	The Council has produced a balanced budget for both capital and revenue expenditure and income for 2015/16. This budget is set against a backdrop of limited resources and in a difficult economic climate. Regular and comprehensive performance monitoring of the type included in this report ensures early warning of significant issues that may place the Council at financial risk. This gives this committee the best opportunity to take actions to mitigate such risks. Retrofits one of the five risks outlined in the Finance Risk Register – Maximise the	Head of Finance & Resources

	<p>Council's capability to make informed strategic decisions, manage budgets, commit and measure resources.</p> <p>The issues set out in this report do not exhibit the level of potential risk identified in previous years.</p>	
Financial	<p>Forms a key part of the process of budget monitoring and ensures that the Authority can react quickly to potential service problems. Financial implications are the focus of this report through high level budget monitoring. The process ensures that the Council is not faced with corporate financial problems that may prejudice the delivery of the Council's strategic priorities.</p>	Head of Finance & Resources
Staffing	<p>The budget for staffing represents approximately 50% of the direct spend of the council and is carefully monitored. Any issues in relation to employee costs will be raised in this and future monitoring reports.</p>	Head of HR
Legal	<p>The Council has a statutory obligation to maintain a balanced budget this monitoring process enables the committee to remain aware of issues and the process to be taken to maintain a balanced budget for the year.</p>	Mid-Kent Legal Services
Equality Impact Needs Assessment	<p>The budget ensures the focus of resources into areas of need as identified in the Council's strategic priorities. This monitoring report ensures that the budget is delivering services as set in the budget to meet those needs.</p>	Policy & Information Manager
Environmental/Sustainable Development	<p>No specific issues arise</p>	Head of Service or Manager

Community Safety	No specific issues arise	Head of Service or Manager
Human Rights Act	No specific issues arise	Mid-Kent Legal Services
Procurement	No specific issues arise	Head of Finance & Resources
Asset Management	Resources available for asset management are contained within both revenue and capital budgets and do not represent a significant problem at this time.	Head of Service & Manager

9. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Revenue Budget Monitoring – 3rd Quarter 2015/16 (Committee Level)
- Appendix B: Revenue Budget Monitoring – 3rd Quarter 2015/16 (Strategic Level)
- Appendix C: Capital Programme Monitoring – 3rd Quarter 2015/16
- Appendix D: Treasury Management – Budget Monitoring, Investments 3rd Quarter 2015/16

10. BACKGROUND PAPERS

- None