

# First Quarter Budget Monitoring 2018/19

Policy & Resources Committee

19 September 2018

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## Executive Summary

This report is intended to provide Members with an overview of performance against revenue and capital budgets and outturn during the first quarter of 2018/19. It also includes an update on other matters which may have a material impact on the Council's Medium Term Financial Strategy and Balance Sheet.

Robust budget monitoring is a key part of effective internal financial control, and therefore is one of the elements underpinning good corporate governance.

The aim of reporting financial information to service committees at quarterly intervals is to ensure that underlying trends can be identified at an early stage, and that action is taken to combat adverse developments or seize opportunities.

It is advisable for these reports to be considered in conjunction with quarterly performance monitoring reports, as this may provide the context for variances identified with the budget and general progress towards delivery of the Council's strategic priorities.

Headline messages for this quarter are as follows:

- We are expecting to remain within the agreed overall budget for this financial year. At the end of the first quarter there was an underspend against the revenue budget of £0.831m, which is projected to decrease by the end of this financial year.
- Capital expenditure totalling £1.671m was incurred between 1 April and 30 June.
- The balance on the general fund is forecast to decrease to £8m by 31 March 2019.
- Collection Rates were exceeded for Business Rates, but narrowly missed for Council Tax. Uncollectible business rates totalling £154,173.56 are proposed for write off.
- Growth in business rates measured against the Council's baseline is £1.9m against a forecast of £2.2m.
- The Council held investments totaling £23.9m at 30 June 2018.

# Revenue Budget 1<sup>st</sup> Quarter 2018/19



## Revenue Spending

At the end of the first quarter, there is an overall positive variance of £831,000 against the Council’s revenue budget. Based on current information we expect this to reduce but for the Council to remain within budget for the year.

The three tables on page 6 set out the summary position, analysed in three ways:

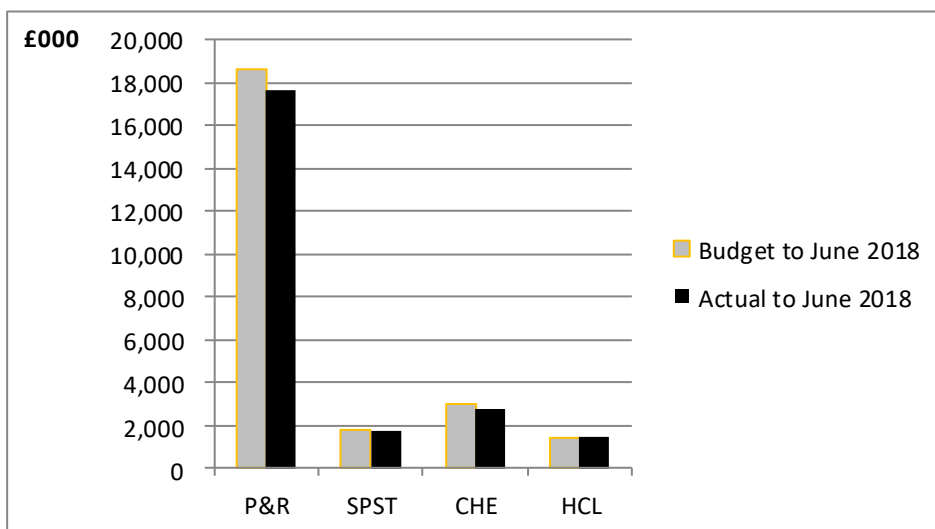
Table 1: by Committee

Table 2: by Priority

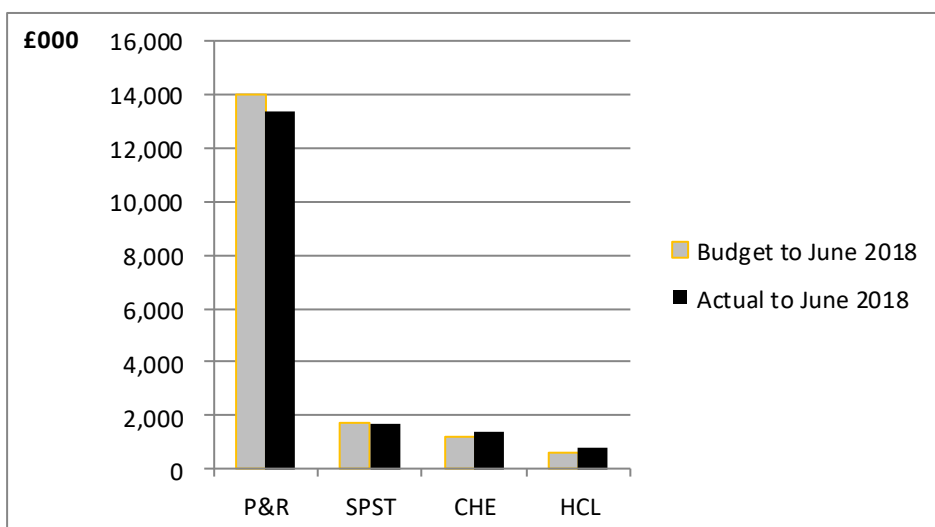
Table 3: by Expenditure Type

The figures are presented on an accruals basis i.e. they include expenditure for goods and services which we have received but not yet paid for.

All Committees remained within the agreed overall budget, or have achieved/exceeded this during quarter one. Where income has fallen short of the budget, the impact has been offset through reduced expenditure. The charts below show income and expenditure against the budget for the first quarter of 2018/19. The charts include housing benefit income and expenditure, which is why the totals for Policy & Resources Committee are significantly higher than for other areas.



**Chart 1 Performance against budget analysed by service committee (Expenditure)**



**Chart 2 Performance against budget analysed by service committee (Income)**



Within these headline figures, there are a number of adverse and favourable variances for individual service areas. This report draws attention to the most significant variances, i.e. those exceeding £30,000 or expected to do so by the end of the year. Pages 6-7 provide further detail regarding these variances, and the actions being taken to address them.

The variances are grouped by service committee, and each committee has been given an opportunity to consider and respond to the matters arising within their respective areas. Where applicable, the response of the committee has been provided.

It is important that the potential implications of variances are considered at this stage, so that contingency plans can be put in place and if necessary, this can be used to inform future financial planning.

## Revenue Budget Summary Q1 2018/19

### ANALYSIS BY COMMITTEE

Committee	Full Year Budget £000	To 30 June 2018 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance <sup>1</sup> £000
Policy & Resources	10,116	2,746	2,441	305	10,171	-56
Strategic Planning, Sustainability & Transportation	-1,000	52	34	18	-965	-35
Communities, Housing & Environment	8,752	1,809	1,430	379	8,514	238
Heritage, Culture & Leisure	1,494	814	686	128	1,531	-37
<b>Net Revenue Expenditure</b>	<b>19,363</b>	<b>5,422</b>	<b>4,591</b>	<b>830</b>	<b>19,252</b>	<b>111</b>

Table 1 - Analysis by Committee

### ANALYSIS BY PRIORITY

Priority	Full Year Budget £000	To 30 June 2018 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance <sup>1</sup> £000
Character	626	232	214	17	626	0
Health & Wellbeing	2,472	476	111	365	2,281	191
Clean & Safe	4,403	1,108	1,056	52	4,333	70
Leisure & Culture	2,466	852	773	79	2,466	0
Town Centre	105	63	36	27	105	0
Employment & Skills	293	76	76	0	293	0
Homes	1,430	382	330	52	1,430	0
Infrastructure	348	169	207	-39	509	-161
Trading	-5,065	-893	-886	-7	-5,047	-18
Central & Democratic	12,286	2,957	2,674	283	12,257	29
<b>Net Revenue Expenditure</b>	<b>19,363</b>	<b>5,422</b>	<b>4,591</b>	<b>830</b>	<b>19,252</b>	<b>111</b>

Table 2 - Analysis by Priority

### ANALYSIS BY SUBJECTIVE SPEND

Subjective	Full Year Budget £000	To 30 June 2018 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance <sup>1</sup> £000
Employees	20,259	5,077	4,991	86	20,305	-46
Premises	4,491	2,127	2,236	-109	4,491	0
Transport	1,073	269	242	27	1,073	0
Supplies & Services	19,115	2,562	2,190	372	18,939	176
Agency	5,829	1,445	1,428	17	5,829	0
Transfer Payments	48,085	11,454	10,690	764	47,985	100
Asset Rents	1,101	48	40	8	1,101	0
Income	-80,590	-17,561	-17,225	-336	-80,471	-119
<b>Net Revenue Expenditure</b>	<b>19,363</b>	<b>5,422</b>	<b>4,591</b>	<b>830</b>	<b>19,252</b>	<b>111</b>

Table 3 - Analysis by Subjective Spend

## Significant Variances

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
<b>Heritage, Culture &amp; Leisure Committee</b>	<b>£000</b>		
<b>Mote Park Adventure Zone</b> – This was due to open in Summer 2018, however due to the flooding incident that occurred earlier this year the project has been substantially delayed and will not now open until Spring 2019. This means that the estimated income of £57,000 which the Council had expected to generate from August 2018 will not be realised this year.			-57
<b>Parks &amp; Open Spaces</b> – Although this area is currently showing a positive variance there are urgent tree works required that mean that by year-end it is forecast to be on budget.	35		0
<b>Crematorium</b> – Income has been higher than forecast for the year to date but the surplus is expected to reduce due to maintenance works required to the cremator and reinstatement works to the carpark following its expansion. The reinstatement works relate to landscaping and planting around the new car park which were not covered in the capital work.	51		20

**Table 4 Significant Variances – Heritage, Culture & Leisure Committee**

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
<b>Strategic Planning, Sustainability and Transportation Committee</b>	<b>£000</b>		
<b>Development Control Advice</b> – Income is showing a positive variance mainly due to the introduction of Planning Performance Agreements.	31		60
<b>Development Management Section</b> – There has been a high level of expenditure on temporary staff costs, although the vacant posts they are covering are now being filled.		-35	-60
<b>On Street Parking</b> – Penalty Charge Notice (PCN) income budgets have been realigned with the new contract. At the end of the first quarter, the income target was not being achieved for on street PCNs, creating a variance of -£43,000. There have been some issues with reporting this data following the introduction of a new system in June, which may partially explain the variance. Parking meters income and dispensation payments are performing slightly better than budget which has helped to partially offset the variance for PCNs.		-36	-32
<b>Pay &amp; Display Car Parks</b> – Pay & Display income is currently £13,000 below expectation and this is forecast to be £78,000 by the end of the year. However this has been offset by increased season ticket sales and the Parking Reserve budget introduced when the increased tariff was implemented.	68		159
<b>Park &amp; Ride</b> – The first month of pay to park has been disappointing with income 50% lower than the equivalent period last year. Expenditure is currently £35,000 over budget, and whilst this is expected to improve slightly, if income levels stay the same then they will end the year £143,000 under the budgeted figure. A 'pay to park' model is currently being trialled for this service, and this will be subject to evaluation towards the end of this year.		-48	-161

**Table 5 Significant Variances – Strategic Planning, Sustainability and Transportation Committee**



## Significant Variances (continued)

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
<b>Communities, Housing &amp; Environment Committee</b>	<b>£000</b>		
<b>Recycling Collection</b> – This area shows an underspend in running costs and increased income from garden waste bin hire due to increased demand.	37		70
<b>Homeless Temporary Accommodation</b> – Demand for this service continues to increase, following the introduction of the Homelessness Reduction Act which became law in April 2018. The underspend reflects the Council’s strategy of investing in its own properties for temporary accommodation, which means that income is retained by the Council. Surplus budgets will be set aside and reinvested into the ongoing maintenance of these properties.	31		45
<b>Homelessness Prevention</b> – The forecast year end variance reflects potential underspends including £60,000 on the Homefinder scheme.	51		103
<b>Grounds Maintenance Commercial</b> - Income in the first quarter is higher than forecast due to Section 106 works that have been completed. However additional income is earmarked to fund remedial works at the Parkwood Depot.	91		20

**Table 6 Significant Variances – Communities, Housing & Environment Committee**

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
<b>Policy &amp; Resources Committee</b>	<b>£000</b>		
<b>Elections</b> – This variance has arisen from insufficient funding for MBC elections which occur during a year when no other elections are taking place. 2018 was the first year since 2008 in which a standalone Local Election has taken place. In years when joint elections have taken place, it has been possible to offset some of the costs of running the election against the amounts which we are able to claim back from the Electoral Commission. This will be addressed as part of the upcoming budget cycle.		-42	-42
<b>Sundry Corporate Properties</b> – The budget includes a £0.257m additional income target, but this is dependent upon new commercial premises being purchased. At this stage none have been identified but this could change during the year should suitable opportunities arise.		-75	-165
<b>Legal Services</b> – The variance arises from additional income received for works done on Section 106 agreements and other legal agreements.	46		37
<b>Procurement Section</b> – The current overspend will be offset by a restructure which should bring this area within budget by the year end.		-32	0
<b>Human Resources</b> – The current underspend represents vacant posts which will shortly be filled.	67		14
<b>Debt Recovery Service</b> - The current underspend represents a vacant post which will shortly be filled, plus additional income that has been received. As this service has vacancies which are currently being recruited to, we are anticipating that this may have an adverse impact on income over the course of the year so we are currently not forecasting an underspend for the end of the year.	46		0

**Table 7 Significant Variances – Policy & Resources Committee**

## Reportable Virements

In accordance with best practice, and in order to be transparent about alterations made to the agreed budget during the course of the year, virements are reported to Policy and Resources committee as part of the budget monitoring process. A virement represents the transfer of a budget between objectives that occurs after the budget for the year has been formally approved by Council. Generally this will be linked to decisions with a financial impact which have been taken outside of the budget setting process, or for projects where funding spans more than one financial year.

Virements may be temporary, meaning that there has been a one off transfer of budget to fund a discrete project or purchase, or permanent, meaning that the base budget has been altered and the change will continue to be reflected in the budget for subsequent years.

The table below details the reportable virements which were made during the first quarter of 2018/19:

Reason	Value £000	Temp/Perm
Establish budgets for business rates retention pilot projects	520	Temporary
Fund new waste crime budgets as agreed by CHE October 2017	12	Temporary
Reinstate Mote Park gate locking budget	12	Temporary
Funding for the Economic Development service	22	Temporary
Funding for Penenden Heath Botanical Garden	21	Temporary
Mid Kent Planning Support employee budget savings	52	Temporary

**Table 8 Reportable Virements, Q1 2018/19**

# Capital Budget

## 1<sup>st</sup> Quarter 2018/19

## Capital Spending

The five year capital programme for 2018/19 onwards was approved by Council on 7 March 2018. Funding for the programme remains consistent with previous decisions of Council in that the majority of capital resources come from New Homes Bonus along with a small grants budget.

Progress made towards delivery of planned projects for 2018/19 is set out in the table on the following page. This shows expenditure incurred up to the end of June 2018. The budget figure includes resources which have been brought forward from 2017/18, and these have been added to the agreed budget for the current year.

To date, expenditure totaling £1.671m has been incurred against a budget of £28.754m. At this stage, it is anticipated that there will be slippage of £8.850m, although this position will be reviewed at the end of the year when the Committee will be asked to approve the carry forward of resources into the next financial year. Further detail relating to the areas for which slippage has been identified has been provided on page 13.

## Capital Budget Summary Q1 2018/19

Capital Programme Heading	Adjusted Estimate 2018/19 £000	Actual to June 2018 £000	Budget Remaining £000	Projected Expenditure 2018/19 £000	Projected Slippage to 2019/20 £000
<b>Communities, Housing &amp; Environment</b>					
Housing Development and Regeneration	9,301		9,301	4,144	5,157
Temporary Accommodation	4,683	533	4,150	4,683	0
Disabled Facilities Grants	1,348	41	1,307	641	707
Flood Action Plan	501		501	501	0
Public Realm Capital Improvements	150	12	138	72	78
Commercial Waste	180		180	180	0
Gypsy Site Fencing Works	42		42	42	0
<b>CHE Total</b>	<b>16,205</b>	<b>586</b>	<b>15,619</b>	<b>10,263</b>	<b>5,942</b>
<b>Heritage, Culture &amp; Leisure</b>					
Mote Park Dam Works	1,230	13	1,217	58	1,172
Mote Park Visitor Centre	583	30	553	448	135
Mote Park Adventure Zone and Other Improvements	1,455	687	768	1,332	123
Continued Improvements to Play Areas	589	29	560	279	310
Museum Development Plan	154	1	153	154	0
Crematorium Development Plan	416	88	328	203	213
Other Parks Improvements	100		100	100	0
<b>HCL Total</b>	<b>4,527</b>	<b>848</b>	<b>3,679</b>	<b>2,574</b>	<b>1,953</b>
<b>Policy &amp; Resources</b>					
Property Investment Strategy	2,355		2,355	2,355	0
Infrastructure Delivery	600		600	600	0
Town Centre Regeneration	2,830	186	2,644	2,548	282
Corporate Property	843	44	799	694	149
Maidstone East/Sessions Square	551	7	544	326	225
Software / PC Replacement	120		120	120	0
Feasibility Studies	74		74	74	0
<b>P&amp;R Total</b>	<b>7,373</b>	<b>237</b>	<b>7,136</b>	<b>6,717</b>	<b>656</b>
<b>Strategic Planning, Sustainability &amp; Transportation</b>					
Bridges Gyrotory Scheme	449		449	150	299
Riverside Towpath	40		40	40	0
<b>SPS&amp;T Total</b>	<b>489</b>	<b>0</b>	<b>489</b>	<b>190</b>	<b>299</b>
<b>Sub-total All Committees</b>	<b>28,594</b>	<b>1,671</b>	<b>26,923</b>	<b>19,744</b>	<b>8,850</b>
Section 106 Contributions	160		160	160	0
<b>TOTAL</b>	<b>28,754</b>	<b>1,671</b>	<b>27,083</b>	<b>19,904</b>	<b>8,850</b>

Table 9 Capital Expenditure, Q1 2018/19

## Capital Budget Variances Q1 2018/19

### Communities, Housing & Environment Committee

- The Housing Development and Regeneration scheme includes the developments at Union Street and Brunswick Street which are both in the early stages of development. This means that there is likely to be significant slippage of the budget into 2019/20.
- The Temporary Accommodation budget will be fully utilised to purchase properties to house homeless families. The purchases of 15 properties are either completed or in progress and a further 2 are likely to be purchased when suitable ones are identified.

### Heritage, Culture & Leisure Committee

- At this stage it is not anticipated that there will be any significant spend on the Mote Park Dam Works project during 2018/19.
- As referenced in the revenue section of this report there has been a delay in completing the Adventure Zone project. The costs above do not include an estimated £0.4m of costs that have been incurred to date as a result of the flooding incident that are currently the subject of an insurance claim. There will be a further update on the position in the second quarter budget monitoring report.
- The play area improvements scheme is now substantially complete, but the budget does include funding for ongoing maintenance and replacements which is unlikely to be needed this year so this will be slipped into 2019/20.
- The Crematorium Development Plan included improvement works to the Car Park. The estimated costs of this were £0.236m, but the final cost of the project was £0.320m. (The scheme commenced during 2017/18, so the total cost is spread over two financial years). During the course of the works being undertaken a number of issues were identified. Additional drainage works and a retaining wall were required, and the cost of resurfacing of the car park was not included in the tender documents that were issued for this contract. The remaining budget has been earmarked for future projects.

### Policy & Resources Committee

- The Town Centre Regeneration scheme is scheduled for completion in early 2019 so final contract payments will fall into the early part of 2019/20.
- The Maidstone East/Sessions Square budget line represents funding available for the partnership with Kent County Council to facilitate the ongoing development of this site. Income generated on the car park at this site is being used as the primary source of funding for this work. At this stage there is sufficient funding available to proceed with the development work so it is anticipated that there will be budget carried forward at the year end.

### Strategic Planning, Sustainability & Transportation Committee

- To date, there has been no expenditure incurred against a budget of £0.489m. At this stage, it is anticipated that there will be slippage of £0.190m, although this position will be reviewed at the end of the year when the Committee will be informed of the resources proposed for carry forward into the next financial year.

# Reserves & Balances

## 1<sup>st</sup> Quarter 2018/19



## Reserves & Balances

The total of earmarked reserves and general fund balances as at 31st March 2018 was £11.9 million. The makeup of this balance, and movements in the first quarter of 2018/19 are set out in the table below.

The projected closing balance allows for the minimum level of general balances of £2m, as agreed by Council in March 2018, to be maintained.

	1 April 2018	30 June 2018	31 March 2018 (forecast)
	£000		
<b>General Fund</b>			
Commercialisation – contingency	500	500	500
Invest to Save projects	500	500	500
2017/18 underspend earmarked to specific areas	80	80	0
2017/18 amounts carried forward and spent in 2018/19	1,406	1,406	0
Forecast revenue under spend	0	0	11
Unallocated balance	7,015	7,015	7,015
<b>Sub-total</b>	<b>9,501</b>	<b>9,501</b>	<b>8,026</b>
<b>Earmarked Reserves</b>			
New Homes Bonus funding for capital projects	1,404	856	0
Local Plan	400	380	369
Neighbourhood Plans	70	70	70
Accumulated Surplus on Trading Accounts	51	51	51
Business Rates Growth Fund	694	651	780
<b>Sub-total</b>	<b>2,619</b>	<b>2,008</b>	<b>1,270</b>
<b>Total General Fund balances</b>	<b>12,120</b>	<b>11,509</b>	<b>9,296</b>

**Table 10 Reserves & Balances, Q1 2018/19**



# **Council Tax & Business Rates 1<sup>st</sup> Quarter 2018/19**

## Council Tax & Business Rates

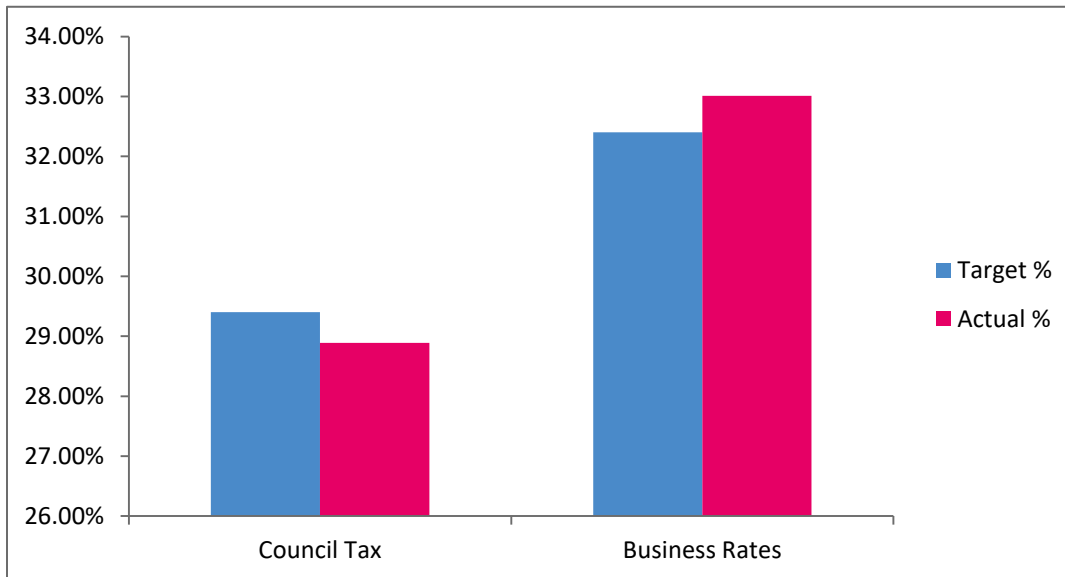
The Council is increasingly reliant on income generated through Council Tax and Business Rates (NNDR), which is accounted for through the Collection Fund. As a billing authority, Maidstone Borough Council collects Council Tax and Business Rates on behalf of other public sector entities and passes this on in accordance with precepts and demands set at the beginning of the year.

The difference between income collected from ratepayers and the precepts and demands on the Collection Fund generates a surplus or deficit which is distributed or recovered in the subsequent financial year. This can have short term cash flow implications for the Council as well as potential longer term impact on the Council's budget.

Due to the risks in this area, including the risk of non-collection and the pooling arrangements in place for business rates growth, the Council monitors the Collection Fund carefully. However, this is a highly volatile area and fluctuations which arise from rateable value appeals can make this difficult to forecast.

## Collection Rates

The collection rates achieved compared to the target are reported in the chart below. The rates are given as a percentage of the debt targeted for collection in the first quarter of 2018/19.



**Chart 3 Collection Rates for Council Tax and Business Rates, Q1 2018/19**

The target was exceeded for Business Rates, but narrowly missed for Council Tax. Although as a percentage of the overall total, this variance appears small, the sums involved are significant, and officers are therefore monitoring this closely.

The total amounts collected during the first quarter of 2018/19 are set out below:

	Amount Collected April - June 2018
Council Tax	£31,295,000
Business Rates	£20,287,000

**Table 11 Council Tax & Business Rates Collected, Q1 2018/19**

The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will continue to be taken after the year end. Officers will continue to pursue payment of any developing arrears along with the arrears from prior years.

Due to the statutory arrangements in place for accounting for this income, the impact of shortfalls against the forecast income levels are absorbed over the next two financial years. This forms part of the budget setting process and will be detailed in the Collection Fund Adjustment report which will come to this Committee in January 2019.

### **Irrecoverable Business Rates**

The Committee is asked to approve the write off of £154,173.56 unpaid business rates debt identified in Table 12 below. Please note that information relating to individuals is restricted under data protection laws and has therefore been redacted from this table.

As noted above, the Council takes a robust approach to recovery of business rates. This involves progressive action which would typically include:

- Reminder for non-payment
- Final notice for non-payment
- Summons for non-payment
- Application to the Magistrates Court for a liability order
- Instruction of an enforcement agent to recover
- Bankruptcy or liquidation, where appropriate
- Proceeding to seek committal to prison (individuals)

Throughout the process the Council actively encourages contact from any business experiencing difficulty in order to negotiate arrangement for payment.

The Council could continue to hold these debts as outstanding, but this option is not recommended as there is no prospect of recovery and this would distort the financial position of the Council.

For the businesses listed in Table 12, the Council has exhausted all of the recovery processes in trying to collect the unpaid amounts. It is therefore suggested that these amounts are written off and the Council's accounts are amended to reflect the fact that the payments identified are not expected to be recovered. The Council maintains a provision for bad debts, and there is sufficient resource available within this balance to cover the value of the proposed write offs.

## Irrecoverable Business Rates (continued)

Business Name	Fin. Year	O/S debt	Costs	Total to be written off	Reason for write off	Action taken
JJ Viva Limited	2017/18 2018/19	£41,052.80 £4,137.11	£200.00 £0.00	<b>£45,389.91</b>	Dissolved	Various methods of recovery. Summons issues, liability order granted, sent to Mid Kent Enforcement Service but returned as not likely chance of recover. Company dissolved 24.07.2018.
Bangal Management Services Ltd	2016/17 2017/18	£23,045.90 £22,263.66	£200.00 £200.00	<b>£45,709.56</b>	Dissolved	Various methods of recovery. Summons issued, liability order granted, sent to Mid Kent Enforcement Service but returned as no likely chance of recovery. Company dissolved 24.07.2018
Tandoor Mahal Kent Limited	2013/14 2014/15 2015/16 2016/17	£4339.19 £5829.50 £3134.37 £1038.28	£200.00 £200.00 £200.00 £200.00	<b>£15,141.34</b>	Dissolved	Various methods of recovery. Summons issued, liability order granted, Company dissolved 24.05.2016
Newark Trading Limited t/a Anna	2015/16	£13,719.14	£200.00	<b>£13,919.14</b>	Dissolved	Recovery action taken - summons, liability order granted - passed to Bailiff. Company Dissolved.
Wiladi Limited	2015/16	£17,664.96	£200.00	<b>£17,864.96</b>	Liquidation	Company in liquidation 15.04.2016, no prospect of a dividend to unsecured creditors.
The Buffet House Ltd	2016/17 2017/18	£12500.00 £3248.65	£200.00 £200.00	<b>£16,148.65</b>	Dissolved	Various methods of recovery. Summons issued, liability order granted, sent to Mid Kent Enforcement Service but returned as no likely chance of recovery. Company dissolved 20.02.2018.
<b>Total</b>				<b>£154,173.56</b>		

Table 12 Business Rates proposed for write off, Q1 2018/19

## Kent Business Rates Pool (50% retention)

Since 2013/14, 50% of business rates collected has been retained by local authorities, with the remainder being paid over to central government and redistributed in the form of grant funding. Under this scheme, business rates collected by Maidstone is shared as follows:

- 40% retained by Maidstone Borough Council
- 9% paid to Kent County Council
- 1% paid to Kent Fire & Rescue
- 50% paid to the government

In reality, this does not mean that 40% of the business rates collected has actually been retained by Maidstone, as a system of tariffs and top ups ensures that this is redistributed across local authorities in accordance with need.

However, local authorities have been able to retain a proportion of the growth against their business rates baseline, which is subject to a levy. Councils are able to minimise the levy payable on growth by entering into pooling arrangements with other authorities, which this Council has been doing since 2014/15.

Business rates pools involve the sharing of risk as well as reward. The Kent Business Rates pool, which for the past 3 years has comprised Kent County Council, Kent Fire and Rescue and 12 district Councils shares the benefits derived through pooling as follows:

- 30% of the pooling benefit is retained by the District Council
- 30% of the pooling benefit is paid to Kent County Council
- 30% of the pooling benefit is used to form a Growth Fund, which is spent by this the District Council, in consultation with Kent County Council on initiatives to promote economic development.
- 10% is held as contingency to fund safety net payments to other pool members as required.

As agreed previously the 30% share of the pool benefit retained by the Maidstone will be used to fund the delivery of the Economic Development Strategy, alongside the 30% growth fund share which is spent in consultation with KCC.

For 2018/19, the forecast amount to be shared through the business rates pool was £1m. The position at the end of quarter one shows a slight shortfall against the forecast, with a current projection of £0.9m.

A contributing factor to this has been empty property relief awarded, which has been higher than the initial projections. This is being monitored closely by officers from the Finance and Revenues sections. We are currently maintaining a provision of £5.8m for rateable value appeals. This is a volatile area of income which can be difficult to predict, with particular uncertainty surrounding appeals which arise against the 2017 list due to changes in the process for how appeals are dealt with by the Valuation Office Agency. A prudent provision is maintained in order to minimise the impact of appeals on the Council's income.

The Economic Development team allocates Maidstone's share of the funding to projects one year in arrears, so any shortfall remaining at the end of the year will not jeopardise existing plans, but the current projections will be used to inform the teams planning from 2019/20 onwards.

## 100% Retention Pilot

For 2018/19, Kent and Medway authorities successfully bid to participate in a pilot for 100% retention of business rates. As with the 50% retention scheme, this does not mean that all business rates collected by Kent authorities will be retained within Kent due to the system of top ups and tariffs. However under the pilot, all growth against the business rates baseline is retained locally, and no levy is charged on this. For Kent and Medway, the pilot is anticipated to result in an additional £34m being retained across Kent and Medway, in addition to the growth which the Council was expecting to retain outside of the pilot.

For this year, the pilot is running alongside the Kent Business Rates Pool for 50% retention.

Based on the initial forecasts, the Council was expected to derive the following financial benefits from the 100% retention pilot:

- Financial Stability Fund – £640,000
- The opportunity to bid against Housing & Commercial Growth Fund (North Kent Cluster) – £3,291,000

Forecasts made at the end of the first quarter show that Maidstone is on track to receive the following amounts:

As mentioned previously, this is a volatile area which can be difficult to forecast. We will therefore continue to base our expenditure plans around the initial forecast until the final amounts are known.

- Financial Sustainability Fund – £940,000
- The opportunity to bid against Housing & Commercial Growth Fund (North Kent Cluster) – £4,884,000

Separate reports will set out further detail on the allocation and spending plans for the business rates growth expected to be retained through the 100% retention pilot, and plans for applying to pilot a 75% retention scheme in 2019/20.

# Treasury Management 1<sup>st</sup> Quarter 2018/19



## Treasury Management

The Council has adopted and incorporated into its Financial Regulations, the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). This CIPFA Code covers the principles and guidelines relating to borrowing and investment operations. In March 2018, the Council approved a Treasury Management Strategy for 2018/19 that was based on this code. The strategy requires that Policy & Resources Committee should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

During the Quarter ended 30th June 2018:

- UK Consumer Price Inflation (CPI) index fell over the quarter and the data released for May showed CPI at 2.4%, a 12-month low.
- The most recent labour market data for April 2018 showed the unemployment rate at 4.2%, a low last seen in 1975. However, real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households.
- Q1 GDP data released in April and revised in May showed economic activity slowing to 0.2%.

## Investments

The council held investments totaling £23.89m. A full list of investments held at this time is shown in the table below. £9.89m of investments are in money market funds and notice accounts which can be called upon immediately or for a short notice period for daily cash flow purposes. The remainder of investments have less than 6 months to mature due to the increase spending in the capital programme, which in turn, helps reduce counterparty risk.

Investment income for this period is £37,000.

Average interest rate for this period is 0.62%. The benchmark for investments is 3 month LIBOR plus 10 basis points. 3 Month LIBOR at the end on June was 0.67%, which means the benchmarked figure is 0.77%. The Council is therefore below target which is due to funds being more liquid to ensure they are readily available to meet the Council's liabilities.

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Max. Deposit
Goldman Sachs Int'l Bank	Notice Account	3,000,000	30/06/2018	03/10/2018	0.88%	100 Days	£3,000,000
Lloyds Bank PLC	Notice Account	2,000,000	30/06/2018	03/10/2018	0.70%	6 months	£3,000,000
Standard Life Liquidity Funds	Money Market Fund	80,000	30/06/2018	01/07/2018	0.53%	2 Years	£8,000,000
Federated Investors (UK)	Money Market Fund	4,810,000	30/06/2018	01/07/2018	0.53%	2 Years	£8,000,000
Suffolk County Council	Deposit - LA	2,000,000	02/10/2017	01/10/2018	0.50%	5 Years	£5,000,000
Lancashire County Council	Deposit - LA	1,000,000	17/04/2018	17/10/2018	0.80%	5 Years	£5,000,000
Thurrock Borough Council	Deposit - LA	2,000,000	10/11/2017	09/11/2018	0.75%	5 Years	£5,000,000
Lancashire County Council	Deposit - LA	3,000,000	16/05/2018	16/11/2018	0.75%	5 Years	£5,000,000
Lancashire County Council	Deposit - LA	1,000,000	17/04/2018	16/04/2019	1.00%	5 Years	£5,000,000
London Borough of Croydon	Deposit - LA	2,000,000	01/05/2018	01/05/2020	1.05%	5 Years	£5,000,000
Cooperatieve Rabobank UA	Certificate of Deposit	2,000,000	16/10/2017	15/10/2018	0.64%	13 months	£3,000,000
Cooperatieve Rabobank UA	Certificate of Deposit	1,000,000	20/10/2017	19/10/2018	0.62%	13 months	£3,000,000
<b>Total</b>		<b>23,890,000</b>					

**Table 13 Short Term Investments , 1<sup>st</sup> Quarter 2018/19**



## Borrowing

The Council borrowed funds for short term liquidity purposes during the quarter. Details of the borrowing are as follows:

Lender	Amount £	Term	Rate	Interest Payable
Rhondda Cynon Taff Superannuation Fund	£2,500,000	22/05/18 to 29/05/2018	0.35%	£167.81
Rhondda Cynon Taff General Fund	£2,600,000	25/05/2018 to 29/05/2018	0.35%	£99.73
Rhondda Cynon Taff General Fund	£3,940,000	22/06/2018 to 26/06/2018	0.35%	£151.12
Rhondda Cynon Taff General Fund	£3,500,000	26/06/2018 to 27/06/2018	0.35%	£33.56
<b>Total Interest Payable</b>				<b>£452.22</b>

**Table 14 Short Term Borrowing, 1<sup>st</sup> Quarter 2018/19**

# Maidstone Property Holdings Ltd

## 1<sup>st</sup> Quarter 2018/19



## Maidstone Property Holdings

Maidstone Property Holdings Ltd. was incorporated on 30<sup>th</sup> September 2016 and is used by the Council as a vehicle for letting residential properties on assured short hold tenancies. The company, which is a wholly owned subsidiary of the Council, currently holds one property which consists of 20 flats on a 22 year lease from the Council.

A recent internal audit review identified that there should be a mechanism in place to enable the company to formally report to the Council. Given that the current level of activity within the company is relatively low, it was decided that this would be done via the quarterly budget monitoring process. This section of the report intends to provide the committee with an overview of the activity and performance of the company for the year to date.

The company's financial year end has been changed to 31<sup>st</sup> March, in order to align with the Council's financial reporting period. The 2017/18 accounts are currently subject to audit by the company's external auditors, UHY Hacker Young and need to be filed with Companies House by 31<sup>st</sup> December 2018.

During the first quarter of 2018/19, the net rental income totalled £21,815. This compares with £20,773 in the same quarter of 2017/18 and represents rent charged to tenants, less costs recharged by the managing agent. As at 30<sup>th</sup> June 2018, all flats were occupied and there were no rent arrears.

The Council generates income from the company through charges made for the services provided, and the property lease. For the 2017/18 financial year these charges totalled £76,107. After these charges have been taken into account, it is anticipated that the company will end 2018/19 in a break even position.

As the activity of the company increases over time, we will keep the governance and reporting arrangements under review to ensure that they remain appropriate and commensurate with the scope of activity and associated risks.