

Second Quarter Budget Monitoring 2018/19



Policy & Resources Committee

21 November 2018

Lead Officer: Mark Green

Report Author: Ellie Dunnet / Paul Holland

Contents

Contents	1
Executive Summary	2
Revenue Budget	3
Reportable Virements	12
Capital Budget	13
Reserves and Balances	18
Council Tax & Business Rates	20
Treasury Management	25
Maidstone Property Holdings	28

Executive Summary

This report is intended to provide Members with an overview of performance against revenue and capital budgets and outturn during the second 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 second quarter there is an underspend against the revenue budgets of £1.6m. However this figure includes a number of large grants received that will be carried forward into 2019/20.
- Capital expenditure totalling £5.914m was incurred between 1 April and 30 September.
- The balance on the general fund is forecast to decrease to £8.7m by 31 March 2019.
- Collection Rates were narrowly missed for both Council Tax and Business Rates.
- Growth in business rates measured against the Council's baseline is £1.8m against a forecast of £2.2m.
- The Council held investments totaling £27.4m at 30 September 2018.

Revenue Budget

2nd Quarter

2018/19

Revenue Spending

At the end of the second quarter, there is an overall positive variance of £1.604m against the Council’s revenue budget. However this figure includes a number of large grants received that will be carried forward into 2019/20 and at this stage we expect 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.

As illustrated by the chart below, all committees have kept expenditure within the agreed budget, however two Committees (including this one) are showing a shortfall against their income budgets. The specific issues for this Committee are discussed later in this report.

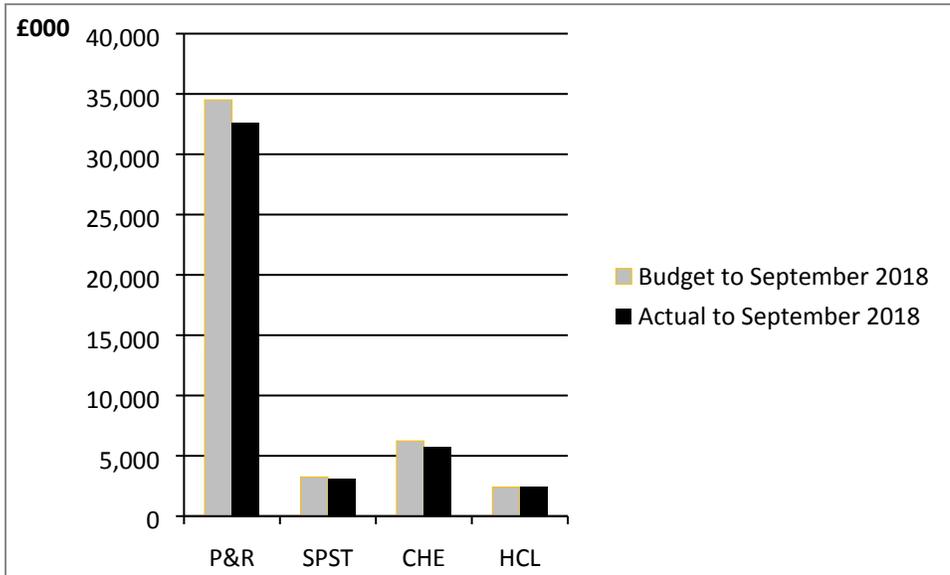


Chart 1 Performance against budget analysed by service committee (Expenditure)

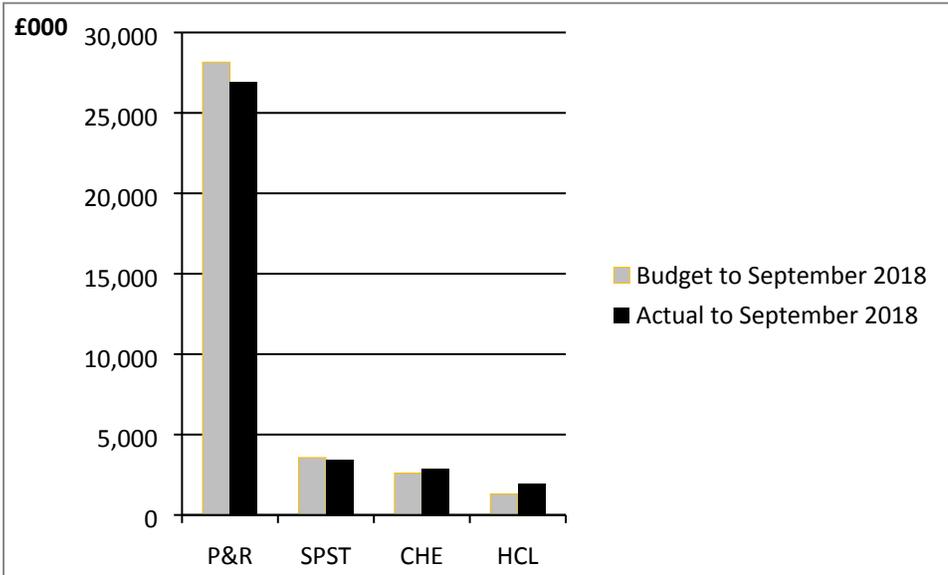


Chart 2 Performance against budget analysed by service committee (Income)

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 Q2 2018/19

ANALYSIS BY COMMITTEE

Committee	Full Year Budget £000	Budget to Q2 2018/19 £000	Actual Q2 2018/19 £000	Variance £000	Year End Forecast £000
Policy & Resources	10,142	4,549	3,831	718	9,948
Strategic Planning, Sustainability & Transportation	-984	-320	-275	-45	-753
Communities, Housing & Environment	8,665	3,636	2,844	792	8,375
Heritage, Culture & Leisure	1,540	1,099	984	115	1,556
Net Revenue Expenditure	19,362	8,964	7,385	1,579	19,126

Table 1 - Analysis by Committee

ANALYSIS BY PRIORITY

Priority	Full Year Budget £000	Budget to Q2 2018/19 £000	Actual Q2 2018/19 £000	Variance £000	Year End Forecast £000
Character	673	287	251	36	637
Health & Wellbeing	2,468	1,089	289	800	2,313
Clean & Safe	4,396	2,192	2,091	101	4,328
Leisure & Culture	2,506	1,420	1,363	58	2,494
Town Centre	112	92	77	15	112
Employment & Skills	353	207	208	-1	353
Homes	1,430	651	635	16	1,534
Infrastructure	383	271	369	-98	634
Trading	-5,110	-2,232	-2,359	127	-5,191
Central & Democratic	12,152	4,986	4,462	525	11,905
Net Revenue Expenditure	19,362	8,964	7,385	1,579	19,118

Table 2 - Analysis by Priority

ANALYSIS BY SUBJECTIVE SPEND

Subjective	Full Year Budget £000	Budget to Q2 2018/19 £000	Actual Q2 2018/19 £000	Variance £000	Year End Forecast £000
Employees	20,920	10,346	9,939	407	20,732
Premises	4,652	3,071	3,022	49	4,652
Transport	1,120	556	522	34	1,120
Supplies & Services	19,348	4,733	4,017	716	19,322
Agency	5,853	2,921	2,955	-34	5,853
Transfer Payments	47,930	22,875	21,486	1,389	47,930
Asset Rents	1,101	95	95	0	1,101
Income	-81,562	-35,632	-34,651	-982	-81,592
Net Revenue Expenditure	19,362	8,964	7,385	1,579	19,118

Table 3 - Analysis by Subjective Spend

¹A positive figure represents a favourable variance. A negative figure (ie -£X,XXX) represents an adverse variance.

Significant Variances

	Positive Variance Q2	Adverse Variance Q2	Year End Forecast Variance
Heritage, Culture & Leisure Committee	£000		
Leisure Centre – Serco have made a payment in respect of the profit share arrangement for 2016 and 2017. £5,000 has been committed for works the Leisure Centre, but the balance will need to be carried forward pending a decision on the future of leisure provision across the borough.	53		45
Mote Park Adventure Zone - 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 will not now be realised this year.			-57
Parks & Open Spaces – This area has benefited from additional income from works undertaken internally by the Grounds Maintenance team, but with the ongoing level of expenditure this will reduce by the end of the year.	31		12
Crematorium – Income received has been in excess of the budget so far this year, but the forecast is for this to reduce. Funding is also required for a temporary member of staff to cover sickness absence, and these two factors will reduce the positive variance by year end.	82		26
Market – Income is down against the budget, and there are increased costs in respect of service charge payments due and internal trade refuse collection charges, so the negative variance is forecast to increase by the end of the year.		-27	-42

Table 4 Significant Variances – Heritage, Culture & Leisure Committee

	Positive Variance Q2	Adverse Variance Q2	Year End Forecast Variance
Strategic Planning, Sustainability and Transportation Committee	£000		
Building Regulations Chargeable – Income is continuing to perform ahead of budget and is forecast to continue to do so for the remainder of the year. Budget surpluses in this area will be transferred to earmarked reserves at the end of the year.	51		70
Street Naming and Numbering - Income is continuing to perform ahead of budget and is forecast to continue to do so for the remainder of the year.	25		46
Development Control Advice – Fees received for pre-application advice and from the recent introduction of Planning Performance Agreements have contributed towards a positive variance in this area.	53		60
Development Control Applications – Fee income has dramatically reduced this year due to a fall in the number of applications received, particularly for major developments. The forecast is for this trend to continue for the remainder of this year and the position could worsen depending on the number and timing of applications for major developments.		-191	-200
Development Control Appeals – There has been a delay in bringing a number of anticipated appeals forward which means that for this year the budget is likely to show a positive variance. This could lead to additional costs being incurred in 2019/20, depending on the timing of the appeals.	45		45
Development Management Section – The team has needed to use some agency staff for the year to date. Usage is expected to decrease over the remainder of the year but there will still be a negative variance by the end of the year.		-56	-75
On Street Parking – Penalty Charge Notice (PCN) income continues to be below expectation. This is due in part to continuing issues with the new system although progress has been made in identifying the problems, and it is hoped that they will be rectified by the end of the 3rd quarter. Parking meters income is performing slightly better than budget which has helped to partially offset the variance for PCNs.		-66	-154
Residents Parking – Penalty Charge Notice (PCN) income accounts for all of this variance. During the 2 nd quarter only 219 PCNs were issued in residents areas. However permit income is currently performing above budget by £10,000.		-34	-102
Pay & Display Car Parks - Income has worsened slightly during the 2nd quarter and is now £59,000 below budget. However Season tickets continue to do well and are £43,000 over budget. The cost centre is forecast to have an increased favourable variance by year end.	119		178

Off Street Parking Enforcement - Penalty Charge Notice income is above expectation and is forecast to continue to be so for the remainder of the year.	60		100
Park & Ride – Following the trend from the first quarter, income levels continue to be disappointing and are forecast to continue this way for the remainder of the year. Reports on the future of the service are also on the agenda for SPS&T Committee’s November meeting.		-72	-149

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

	Positive Variance Q2	Adverse Variance Q2	Year End Forecast Variance
Communities, Housing & Environment Committee	£000		
CCTV – The negative variance has arisen due to a combination of a savings target that will not be met and an income target that will not be achieved.		-26	-48
Occupational Health & Safety – There is a professional services budget of £49,000 in this area that is not expected to be spent this year.	27		40
Public Conveniences – The negative variance in this area is mainly due to additional expenditure on utilities and repairs and maintenance. There is also an unachieved saving of £10,000.		-27	-50
Recycling Collection – Green bin hire continues to exceed the income budget, although demand will slow down in the second half of the year.	43		60
Homelessness Prevention – The forecast year end variance reflects potential underspends including £60,000 on the Homefinder scheme.	379		159
Community Partnerships & Resilience Section – This variance has been caused by vacant posts in the team, which have taken longer to fill than hoped.	29		56
Housing & Health Section - This variance has been caused by vacant posts in the team.	31		36
Fleet Workshop & Management – The workshop has now been outsourced, but prior to that a high level of work had been outsourced to local garages due to resourcing issues. This has contributed to the negative variance along with an unrealised saving of £50,000 that will only be partly achieved this year.		-42	-50
Grounds Maintenance Commercial – Income continues to be high due to works funded from Section 106 contributions, capital projects and other external works. The additional income is being used to fund additional staff to deal with the extra work.	107		87

Table 6 Significant Variances – Communities, Housing & Environment Committee

	Positive Variance Q2	Adverse Variance Q2	Year End Forecast Variance
Policy & Resources Committee	£000		
Unapportionable Central Overheads – Pension payments to Kent County Council are lower than was anticipated when the budget was set.	32		60
Elections - 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.		-33	-33
Interest & Investment Income – Interest rates are higher than what was assumed in the budget, and addition slippage in the capital programme has meant more surplus funds are available for investment.	41		85
Sundry Corporate Properties – The budget assumed income from the purchase of further commercial properties, but to date the only one has been the Boxmend Industrial Estate, so the income target is unlikely to be realised this year.		-49	-75
Granada House Commercial – This area has benefited from the receipt of £48,000 additional income relating to 2017/18. This was not accrued for as there was uncertainty around whether or not would receive it.	49		48
Mid Kent Audit Partnership – A manager in the team has been seconded to another authority, who have funded this in its entirety. The forecast positive variance will be split between the partners at the end of the year.	35		16
Facilities & Corporate Support Section – This variance is caused by staff vacancies and is projected to increase by year end.	33		57
HR Services Section – This variance is caused by a combination of staff vacancies and less expenditure than forecast on running costs. The forecast is for this variance to reduce by the end of the year.	104		80
IT Operational Services – There is a saving of £100,000 in this service that will not be realised, although this has been partially offset by an underspend on the equipment purchase budget.		-28	-55
Debt Recovery Service – The positive variance has arisen from vacant posts. It is anticipated that the service will be taking on work from Dartford and Sevenoaks Councils which will produce a small surplus by the end of the year before allocation of overheads.	38		18

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 second quarter of 2018/19:

Reason	Value	Temp/Perm
Fund database costs for Fixed Penalty Notices	£2,680	Permanent
Fund increase to new Park & Ride contract as per SPST report January 2018	£32,700	Permanent
Fund new waste licence	£1,000	Permanent
Fund temporary digital officer as agreed (Housing)	£2,410	Temporary
Fund GDPR costs incurred to date	£26,740	Temporary
Loan to BID company	£20,000	Temporary
Funding for 'Let's Do Business Group' from Business Rates Pool	£6,000	Temporary
Fund Tractivity license from Business Rates Pool	£6,750	Temporary
Fund Thames Gateway Partnership & North Kent Enterprise Zone from business rates pool	£29,330	Temporary
Fund legal advice for the Farmer's Market from the Business Rates Pool	£2,880	Temporary
Fund rateable value finder service from incentive grant	£26,920	Temporary

Table 8 Reportable Virements, Q2 2018/19

Capital Budget

2nd 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 September 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 £5.914m has been incurred against a budget of £28.754m. At this stage, it is anticipated that there will be slippage of £8.375m, 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 below.

Capital Budget Summary Q2 2018/19

Capital Programme Heading	Adjusted Estimate 2018/19 £000	Actual to September 2018 £000	Budget Remaining £000	Q3 Profile £000	Q4 Profile £000	Projected Total Expenditure £000	Projected Slippage to 2019/20 £000	Budget Not Required £000
Communities, Housing & Environment								
Housing Development and Regeneration	9,301	640	8,661	2,862	1,024	4,526	4,775	
Temporary Accommodation	4,683	2,559	2,124	785	1,094	4,438	245	
Disabled Facilities Grants	1,348	195	1,153	200	250	645	703	
Flood Action Plan	501		501		501	501	0	
Public Realm Capital Improvements	150	26	124	20	20	66	84	
Commercial Waste	180		180		180	180	0	
Gypsy Site Fencing Works	42		42		42	42	0	
Total	16,205	3,420	12,785	3,867	3,111	10,398	5,807	0
Heritage, Culture & Leisure								
Mote Park Dam Works	1,230	58	1,172	15	15	88	1,142	
Mote Park Visitor Centre	583	55	528	25	368	448	135	
Mote Park Adventure Zone and Other Improvements	1,455	921	534	225	195	1,341	114	
Continued Improvements to Play Areas	589	30	559	50	200	280	309	
Museum Development Plan	154	6	148	75	73	154	0	
Crematorium Development Plan	416	265	151			265	151	
Other Parks Improvements	100		100		100	100	0	
Total	4,527	1,335	3,192	390	951	2,676	1,851	0
Policy & Resources								
Property Investment Strategy	2,355		2,355	1,170	1,185	2,355	0	
Infrastructure Delivery	600		600	300	300	600	0	
Town Centre Regeneration	2,830	832	1,998	982	734	2,548	282	
Corporate Property	843	202	641	140	352	694	149	
Maidstone East/Sessions Square	551	35	516	319		354	197	
Software / PC Replacement	120	54	66	33	33	120	0	
Feasibility Studies	74	1	73	37	36	74	0	
Total	7,373	1,124	6,249	2,981	2,640	6,745	628	0
Strategic Planning, Sustainability & Transportation								
Bridges Gyrotory Scheme	449	35	414	50	50	135	54	260
Riverside Towpath	40		40	5	5	10	30	
Total	489	35	454	55	55	145	84	260
Sub-total	28,594	5,914	22,680	7,293	6,757	19,964	8,370	260
Section 106 Contributions	160		160		160	160	0	
TOTAL	28,754	5,914	22,840	7,293	6,917	20,124	8,370	260

Table 9 Capital Expenditure, Q2 2018/19

Capital Budget Variances Q2 2018/19

Communities, Housing & Environment Committee

- The Brunswick and Union Street housing developments are progressing, with monthly progress meetings being held with the contractor. Sites are currently being prepared for the commencement of development, and the majority of pre-commencement planning conditions have now been submitted and discharged for both schemes. We are still on track for completion of both schemes in September 2020.
- On site works at Lenworth House are progressing well, with final works to the new build rear block currently taking place. Completion is currently forecast for 12th December.
- A total of 11 temporary accommodation properties have been completed and handed over under phase two of the purchase and repair programme. A further two properties are due to be handed over in the first week of November. The remaining three properties are currently going through the legal acquisition conveyancing process, and sufficient funds appear to be available to target one further property for completion by financial year end.

Heritage, Culture & Leisure Committee

- At this stage it is not anticipated that there will not be any significant spend on the Mote Park Dam Works project during 2018/19. The project is still going through the process of obtaining planning permission.
- 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. The Council's insurers have agreed to make a payment of £20,000 for part of the claim, but any settlement of the remaining amount is still to be determined, and an update will be included in the next 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 which are now substantially complete. As described in the quarter 1 monitoring report, the final cost of this project exceeded the original estimates. The final account remains subject to agreement with the contractor. The remaining budget for the Crematorium Development Plan has been earmarked for future projects as per the Bereavement Services report to the committee's September meeting.

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 expenditure of £0.035m incurred against a budget of £0.489m. At this stage, it is anticipated that there will be slippage of £0.349m, although this position will be reviewed at the end of the year when the Committee will be asked to approve/note the carry forward of resources into the next financial year. The originally approved budget for the Bridges Gyrotory Scheme included a contingency figure of £0.26m, but now the scheme is substantially complete within budget this sum is no longer required.

Reserves & Balances

2nd 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 second 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 September 2018	31 March 2018 (forecast)
	£000		
General Fund			
Commercialisation – contingency	500	500	500
Invest to Save projects	500	500	500
2017/18 underspend earmarked to specific areas	80	80	30
2017/18 amounts carried forward and spent in 2018/19	1,406	1,143	674
Unallocated balance	7,015	7,015	7,015
Sub-total	9,501	9,238	8,719
Earmarked Reserves			
New Homes Bonus funding for capital projects	1,404	0	0
Local Plan*	400	400	400
Neighbourhood Plans	70	70	40
Accumulated Surplus on Trading Accounts	51	51	70
Business Rates Growth Fund	694	613	736
Sub-total	2,619	1,134	1,246
Total General Fund balances	12,120	10,372	9,965

Table 10 Reserves & Balances, Q2 2018/19

* In the Q1 monitoring report, this table indicated that £31,000 would be spent from the Local Plan reserve during 2018/19. It has since been identified that funding for this spend had been allocated from the business rates pilot financial sustainability fund, and the above figures therefore reflect this adjustment.

Council Tax & Business Rates 2nd Quarter

Council Tax & Business Rates

The Council is 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 second quarter of 2018/19.

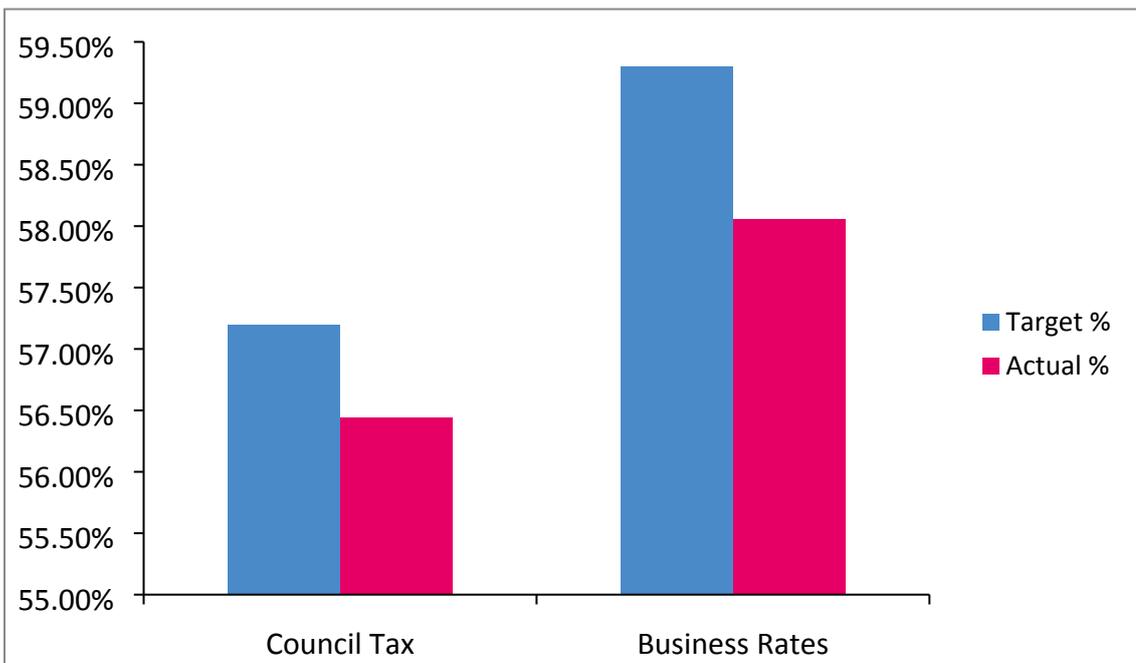


Chart 3 Collection Rates for Council Tax and Business Rates, Q2 2018/19

The targets were narrowly missed for both Council Tax (56.44% collected against a target of 57.20%) and Business Rates (58.06% collected against a target of 59.30%). Although as a percentage of the overall total, these variances appear small, the sums involved are significant, and officers are therefore monitoring this closely.

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

	Collected Jul - Sept 2018
Council Tax	£61,410,084
Business Rates	£35,564,245

Table 11 Council Tax & Business Rates Collected, Q2 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.

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 are 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 £0.8m.

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 second quarter show that Maidstone is on track to receive the following amounts:

- Financial Sustainability Fund – £940,000
- The opportunity to bid against Housing & Commercial Growth Fund (North Kent Cluster) – £4,900,000

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.

A separate report 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. An application for piloting 75% retention of business rates in 2019/20 has now been submitted on behalf of Kent and Medway authorities, and we expect to hear the outcome of this in early December.

Treasury Management 2nd Quarter

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 September 2018:

- Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August Inflation Report.
- The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975.
- The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors.

The council held investments totaling £27.395m. A full list of investments held at this time is shown below. £11.395m 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 including precept payments and business rates pool funding. The remainder of investments are fixed term deposits with other Local Authorities which are deemed to be secure investments, along with two certificates of deposit with Rabobank which are tradable if necessary.

Investment income up to the end of the second quarter was £93,000.

Average interest rate for this period is 0.70%. The current performance target for investments returns is 3 month LIBOR plus 10 basis points. 3 Month LIBOR at the end on June was 0.73%, which means the benchmarked figure is 0.83%. 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.

Investments

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	30/09/2018	03/01/2019	0.88%	100 Days	£3,000,000
Lloyds Bank plc	Notice Account	£3,000,000	30/09/2018	03/01/2019	0.80%	6 months	£3,000,000
Federated Investors (UK)	Money Market Fund	£5,395,000	30/09/2018	01/10/2018	0.69%	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
Thurrock Borough Council	Deposit - LA	£2,000,000	27/09/2018	26/04/2019	0.92%	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
Total		£27,395,000					

Table 13 Short Term Investments, 2nd 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 £m	Rate %	Start Date	End Date
Newport City Council	2,500	0.45	23/07/2018	27/07/2018

Table 14 Short Term Borrowing, 2nd Quarter 2018/19

The cost of this borrowing amounted to £123.29.

Maidstone Property Holdings Ltd

2nd Quarter 2018/19



Maidstone Property Holdings

Maidstone Property Holdings Ltd. was incorporated on 30th 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 31st March, in order to align with the Council's financial reporting period. The 2017/18 accounts have now been audited by the company's external auditors, UHY Hacker Young. A board meeting will be convened shortly in order to formally approve the accounts, and the Company Secretary will ensure that these are filed with Companies House by the deadline of 31st December 2018.

During the first two quarters of 2018/19, the net rental income totalled £39,447. This compares with £34,193 over the same period in 2017/18 and represents rent charged to tenants, less costs recharged by the managing agent. As at 30th September 2018, there were no rent arrears. At this point in time, one of the twenty flats is vacant and the property team is working to identify a suitable tenant.

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.