

# Third Quarter Budget Monitoring 2018/19



Policy & Resources Committee

27 March 2019

Lead Officer: Mark Green

Report Author: Paul Holland

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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 third 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 £1.0m. However this figure includes a number of large grants received that will be carried forward into 2019/20.
- Capital expenditure totalling £8.539m was incurred between 1 April and 31 December.
- The balance on the general fund is forecast to decrease to £9.9m 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 £0.8m against a forecast of £1.0m.
- The Council held investments totaling £30.825m at 31 December 2018.

# Revenue Budget

## 3<sup>rd</sup> Quarter 2018/19

## Revenue Spending

At the end of the third quarter, there is an overall positive variance of £1.07m 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

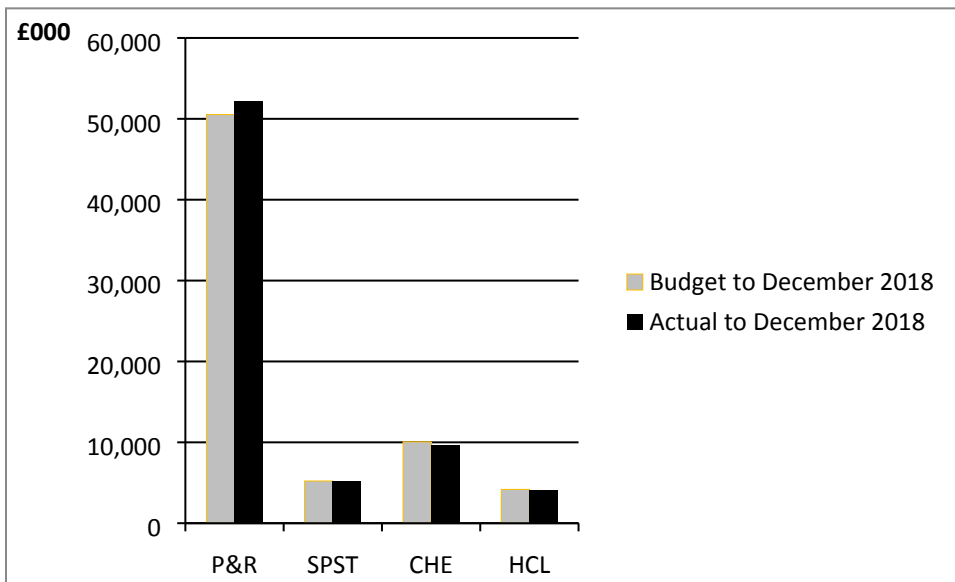
Table 2: by Priority

Table 3: by Expenditure Type

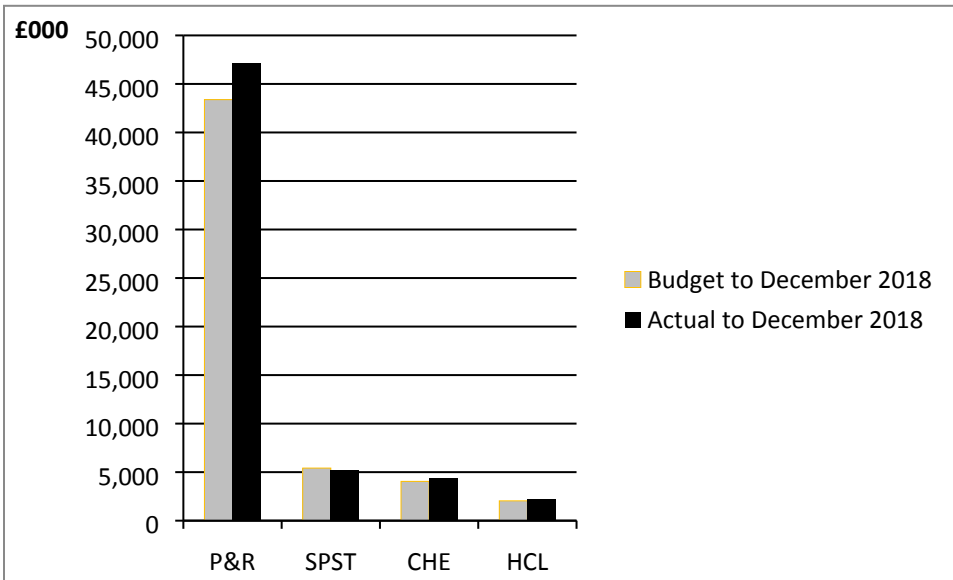
The figures are presented on an accruals basis i.e. they include expenditure for goods and services which we have received but not yet paid for. The budget now being used is the revised estimate for 2018/19.

The budgets for each service committee now include a figure for assumed salary slippage to reflect the forecast level of vacant posts across the year. This was previously shown as a figure for the whole Council as part of the budget monitoring report for this Committee.

As illustrated by the chart below, all committees with the exception of this one have kept expenditure within the agreed budget, however two Committees 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 Q3 2018/19

### ANALYSIS BY COMMITTEE

Committee	Full Year Budget	To 31 December 2018	Actual	Variance	Year End Forecast	Year End Variance <sup>1</sup>
	£000	£000	£000	£000	£000	£000
Policy & Resources	10,458	6,301	5,863	438	10,195	263
Strategic Planning, Sustainability & Transportation	-1,061	-775	-548	-227	-608	-463
Communities, Housing & Environment	8,377	5,461	4,793	668	8,156	221
Heritage, Culture & Leisure	1,588	1,419	1,239	181	1,619	-31
<b>Net Revenue Expenditure</b>	<b>19,362</b>	<b>12,407</b>	<b>11,347</b>	<b>1,059</b>	<b>19,362</b>	<b>-10</b>

Table 1 - Analysis by Committee

### ANALYSIS BY PRIORITY

Priority	Full Year Budget	To 31 December 2018	Actual	Variance	Year End Forecast	Year End Variance <sup>1</sup>
	£000	£000	£000	£000	£000	£000
Character	675	539	515	24	675	0
Health & Wellbeing	2,500	1,974	1,532	442	2,282	218
Clean & Safe	4,549	3,169	3,161	9	4,499	50
Leisure & Culture	2,599	2,089	1,931	158	2,562	38
Town Centre	111	97	71	26	67	44
Employment & Skills	383	310	303	8	383	0
Homes	1,410	907	1,036	-128	1,702	-293
Infrastructure	386	376	562	-187	466	-81
Trading	-5,063	-3,584	-3,738	154	-4,967	-96
Central & Democratic	11,813	6,464	6,024	440	11,703	110
<b>Net Revenue Expenditure</b>	<b>19,362</b>	<b>12,341</b>	<b>11,396</b>	<b>945</b>	<b>19,372</b>	<b>-10</b>

Table 2 - Analysis by Priority

### ANALYSIS BY SUBJECTIVE SPEND

Subjective	Full Year Budget	To 31 December 2018	Actual	Variance	Year End Forecast	Year End Variance <sup>1</sup>
	£000	£000	£000	£000	£000	£000
Employees	20,622	15,260	15,261	-0	20,837	-215
Premises	4,751	4,035	3,947	89	4,756	-5
Transport	1,251	835	788	47	1,251	0
Supplies & Services	19,439	6,727	5,992	735	19,194	245
Agency	6,029	4,504	4,548	-44	6,029	0
Transfer Payments	46,598	33,023	35,304	-2,281	46,598	0
Asset Rents	980	0	0	0	980	0
Income	-80,308	-52,044	-54,443	2,399	-80,273	-35
<b>Net Revenue Expenditure</b>	<b>19,362</b>	<b>12,341</b>	<b>11,396</b>	<b>945</b>	<b>19,372</b>	<b>-10</b>

Table 3 - Analysis by Subjective Spend

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

## Significant Variances

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
<b>Heritage, Culture &amp; Leisure Committee</b>	<b>£000</b>		
<b>Leisure Centre</b> – Serco have made a payment in respect of the profit share arrangement for 2016 and 2017. Some of this has been spent this year but the balance will need to be carried forward pending a decision on the future of leisure provision across the borough.	55		40
<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 will not now be realised this year.		-42	-57
<b>Crematorium</b> – Income has been exceeding the budget for the first three quarters but this is forecast to reduce in the final quarter. The additional income is being used to fund temporary staff to cover long-term sickness which will further reduce the forecast year-end variance and a contribution of £50,000 towards capital works at the Cemetery.	86		42
<b>Market</b> - 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 slightly by the end of the year.		-41	-44
<b>Cultural Services Section</b> – This variance is mainly due to staff vacancies.	30		38

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

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
<b>Strategic Planning, Sustainability and Transportation Committee</b>	<b>£000</b>		
<b>Building Regulations Chargeable</b> - 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.	57		70
<b>Street Naming &amp; Numbering</b> - Income is continuing to perform ahead of budget and is forecast to continue to do so for the remainder of the year.	44		41
<b>Development Control Advice</b> - Fees received for pre-application advice and from the recent introduction of Planning Performance Agreements have contributed towards a positive variance in this area.	113		100



<b>Development Control Appeals</b> - 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 though depending on the timing of the appeals.	52		40
<b>Development Control Majors</b> - As previously advised fee income has reduced this year due to a fall in the number of applications received. The position appears to have recovered somewhat in the final quarter.		-151	-200
<b>Development Control Other</b> – As with major applications fee income has reduced for similar reasons.		-115	-150
<b>Land Charges</b> – The budget was increased at the start of the year to reflect an increase in fees, but demand has fallen which has led to the negative variance.		-30	-45
<b>Development Management Section</b> - The team has needed to use agency staff to cover various vacant posts for the year to date. Although income is below budget, the level of staff resource has been maintained in order to deal with the backlog of applications earlier in the year. Good progress has been made in reducing the backlog.		-116	-170
<b>Development Management Enforcement Section</b> – This is a reflection of staff vacancies for the year to date.	35		13
<b>Residents Parking</b> – This variance is a combination of a lower number of penalty charge notices being issued, and an adverse ruling at a Traffic Penalty Tribunal where the adjudicator ruled that an incorrect contravention code had been used. This means that going forward a lower charge will be made which will further reduce income.		-95	-133
<b>Pay &amp; Display Car Parks</b> - Pay and Display is £60,000 above budget after taking account of the increase in charges intended to fund the new 'Pay to Park' Park and Ride scheme. Season tickets continue to do well and are £53,000 over budget.	130		120
<b>Off-Street Parking Enforcement</b> – Income is currently above budget but is expected to reduce to a break even position by the end of the year.	32		0
<b>Park &amp; Ride</b> – Following the trend from the first two quarters income levels continue to be disappointing and are forecast to continue this way for the remainder of the year		-89	-110

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

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
<b>Communities, Housing &amp; Environment Committee</b>	<b>£000</b>		
<b>CCTV</b> - 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.		-49	-61
<b>Pollution Control General</b> – The current variance has arisen due to a profiling error in the budget, which will be corrected in the fourth quarter. There is also an underspend on the professional services budget, along with additional income, which will be used to fund an additional employee.		-61	0
<b>Waste Crime</b> – The variance in this area has arisen from a combination of additional income and a carried forward budget that has not yet been spent.	64		66
<b>Occupational Health &amp; Safety</b> - There is a professional services budget of £49,000 in this area that is not expected to be spent this year.	40		55
<b>Public Conveniences</b> - 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.		-32	-50
<b>Recycling Collection</b> - Green bin hire continues to exceed the income budget, although demand has slowed down in the second half of the year.	38		40
<b>HMO Licensing</b> – This variance has arisen from additional income received.	31		33
<b>Homelessness Prevention</b> - The quarter three variance reflects a number of grants that will be carried forward, so the projected year end variance is zero.	297		0
<b>Ulcombe Caravan Site (Water Lane)</b> – There have been increased site management costs and there is reduced income due to vacant plots.		-44	-29
<b>Community Partnerships &amp; Resilience Section</b> - This variance has been caused by vacant posts in the team, which have taken longer to fill than hoped.	53		71
<b>Housing &amp; Inclusion Section</b> - This variance has been caused by vacant posts in the team. Some of these posts are grant-funded so the relevant grants will be carried forward.	76		101
<b>Housing &amp; Health Section</b> - This variance has been caused by vacant posts in the team.	32		30
<b>Fleet Workshop &amp; Management</b> - 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 a savings target of £50,000 that will only be partly achieved this year.		-57	-60

<b>Grounds Maintenance – Commercial</b> - 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 and a contribution of £20,000 towards capital works at the Cemetery.	113		118
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**Table 6 Significant Variances – Communities, Housing & Environment Committee**

	Positive Variance Q3	Adverse Variance Q3	Year End Forecast Variance
<b>Policy &amp; Resources Committee</b>	<b>£000</b>		
<b>Business Terrace Expansion</b> – This variance has arisen from additional income achieved following the latest expansion of the Terrace.	48		44
<b>Unapportionable Central Overheads</b> - Pension payments to Kent County Council are lower than was anticipated when the budget was set.	44		58
<b>Interest &amp; Investment Income</b> - 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.	85		100
<b>Sundry Corporate Properties</b> - 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.		-80	-101
<b>Granada House – Commercial</b> - 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.	48		48
<b>Mid-Kent Audit Partnership</b> - 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.	49		15
<b>Accountancy Section</b> – This variance is caused by staff vacancies.	30		30
<b>Property &amp; Projects Section</b> - This variance is caused by staff vacancies.	39		35
<b>HR Services Section</b> - 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.	117		52
<b>The Link</b> – This is due to a combination of reduced utility recharges from the Mall and a reduction in building maintenance costs.	41		45
<b>IT Operational Services</b> - 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.		-43	45

<b>Central Telephones</b> – This variance has arisen following the introduction of the Skype service.	33		40
<b>Youth Development Programme</b> – The budget is for two apprentices posts, but these are both currently vacant.			33

**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 third quarter of 2018/19:

Reason	Value	Temp/Perm
Reversal of part of a previous entry for the market	£2,400	Temporary
Funding for valuation software	£33,940	Temporary
Funding for Low Emission Zone Feasibility Study	£33,000	Temporary
Funding for Business Support service	£5,570	Temporary

**Table 8 Reportable Virements, Q3 2018/19**

# Capital Budget

## 3<sup>rd</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 December 2018. The budget figure is the revised estimate for 2018/19 and includes resources which have been brought forward from 2017/18, which have been added to the agreed budget for the current year.

To date, expenditure totaling £8.539m has been incurred against a budget of £23.986m. At this stage, it is anticipated that there will be slippage of £4.637m, 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 Q3 2018/19

Table 9 Capital Expenditure, Q3 2018/19

Capital Programme Heading	Revised Estimate 2018/19 £000	Actual to December 2018 £000	Budget Remaining £000	Q4 Profile £000	Projected Total Expenditure £000	Projected Slippage to 2019/20 £000	Budget Not Required £000
<b>Communities, Housing &amp; Environment</b>							
Housing Incentives	1,041	2	1,039	98	100	941	
Housing - Disabled Facilities Grants Funding	1,348	289	1,059	300	589	759	
Housing Investments	4,683	3,097	1,585	1,303	4,400	282	
Purchase of Lenworth House	2,228	61	2,167	2,167	2,228	-0	
Brunswick Street - Costs of Scheme	1,642	609	1,033	1,033	1,642	-0	
Union Street - Costs of Scheme	917	392	525	525	917	-0	
Commercial Waste	180		180	180	180		
Street Scene Investment	151	27	124	124	151	0	
<b>Total</b>	<b>12,189</b>	<b>4,477</b>	<b>7,712</b>	<b>5,730</b>	<b>10,207</b>	<b>1,982</b>	
<b>Heritage, Culture &amp; Leisure</b>							
Continued Improvements to Play Areas	574	74	500	100	174	400	
Commercial Projects - Crematorium Projects	416	296	121	121	417	-0	
Commercial Projects - Mote Park Adventure Zone	1,957	1,355	602	602	1,957	-0	
Mote Park Improvements	391	9	383	75	84	308	
Mote Park Visitor Centre	150	90	60	60	150	-0	
Mote Park Lake - Dam Works	200	116	84	84	200	-0	
Other Parks Improvements	100		100			100	
Museum Development Plan	25	23	2	2	25	-0	
<b>Total</b>	<b>3,814</b>	<b>1,963</b>	<b>1,850</b>	<b>1,044</b>	<b>3,007</b>	<b>806</b>	
<b>Policy &amp; Resources</b>							
High Street Regeneration	2,830	1,469	1,360	1,100	2,569	260	
Asset Management / Corporate Property	844	286	558	410	696	148	
Feasibility Studies	74	6	69	30	36	39	
Infrastructure Delivery	600		600			600	
Software / PC Replacement	159	103	56	56	159	0	
Acquisition of Commercial Assets	2,354		2,354			2,354	
Kent Medical Campus - Innovation Scheme	150	93	57	57	150	0	
Maidstone East/Sessions Square	552	62	490	100	162	390	
<b>Total</b>	<b>7,564</b>	<b>2,019</b>	<b>5,545</b>	<b>1,753</b>	<b>3,772</b>	<b>3,792</b>	
<b>Strategic Planning, Sustainability &amp; Transportation</b>							
Riverside Towpath	40		40	10	10	30	
Bridges Gyrotory Scheme	188	80	109	40	120	69	260
<b>Total</b>	<b>228</b>	<b>80</b>	<b>149</b>	<b>50</b>	<b>130</b>	<b>99</b>	<b>260</b>
<b>Sub-Total</b>	<b>23,795</b>	<b>8,539</b>	<b>15,256</b>	<b>8,577</b>	<b>17,116</b>	<b>6,679</b>	<b>260</b>
Section 106 Contributions	191		191			191	
<b>TOTAL</b>	<b>23,986</b>	<b>8,539</b>	<b>15,447</b>	<b>8,577</b>	<b>17,116</b>	<b>6,870</b>	<b>260</b>

## Capital Budget Variances Q3 2018/19

### Communities, Housing & Environment Committee

- The construction phase of the Brunswick Street and Union Street developments is now underway.
- The purchase of Lenworth House will be completed in the fourth quarter.
- A total of 13 temporary accommodation properties have either been completed or are close to completion under phase two of the purchase and repair programme. A further two properties are due to be purchased before the end of the financial year.
- The Housing Incentives budget has historically been under-utilised and is being reviewed to reset it to a more realistic level.

### Heritage, Culture & Leisure Committee

- 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 previous monitoring reports, the final cost of this project exceeded the original estimates. Additionally, £70,000 has been earmarked from the projected revenue surplus in 18/19 for the Crematorium and Grounds Maintenance to contribute towards work at the Cemetery.
- The Mote Park Improvements budget is for the construction of the new estate services building. It is currently anticipated that the major expenditure on this project will now take place in 2019/20.

### 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.
- No projects have been identified this year for the Infrastructure Delivery or Acquisition of Commercial Assets budgets and so these will be carried forward into 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.

### Write-off of Assets

Following the establishment of the new Business Improvement District (BID) it has been agreed that they will be responsible for the provision of Christmas Lights. The Council currently holds lights to the value of £36,000 and these will be transferred to the BID company. This report recommends that the asset value of the lights is written-off when they are transferred to the BID company.



# **Reserves & Balances**

## **3<sup>rd</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 third 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	31 December 2018	31 March 2019 (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	30
2017/18 amounts carried forward and spent in 2018/19	1,406	1,143	674
Unallocated balance	7,015	7,015	7,015
<b>Sub-total</b>	<b>9,501</b>	<b>9,238</b>	<b>8,719</b>
<b>Earmarked Reserves</b>			
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
<b>Sub-total</b>	<b>2,619</b>	<b>1,134</b>	<b>1,246</b>
<b>Total General Fund balances</b>	<b>12,120</b>	<b>10,372</b>	<b>9,965</b>

**Table 10 Reserves & Balances, Q3 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 3<sup>rd</sup> Quarter 2018/19**

## Council Tax & Business Rates

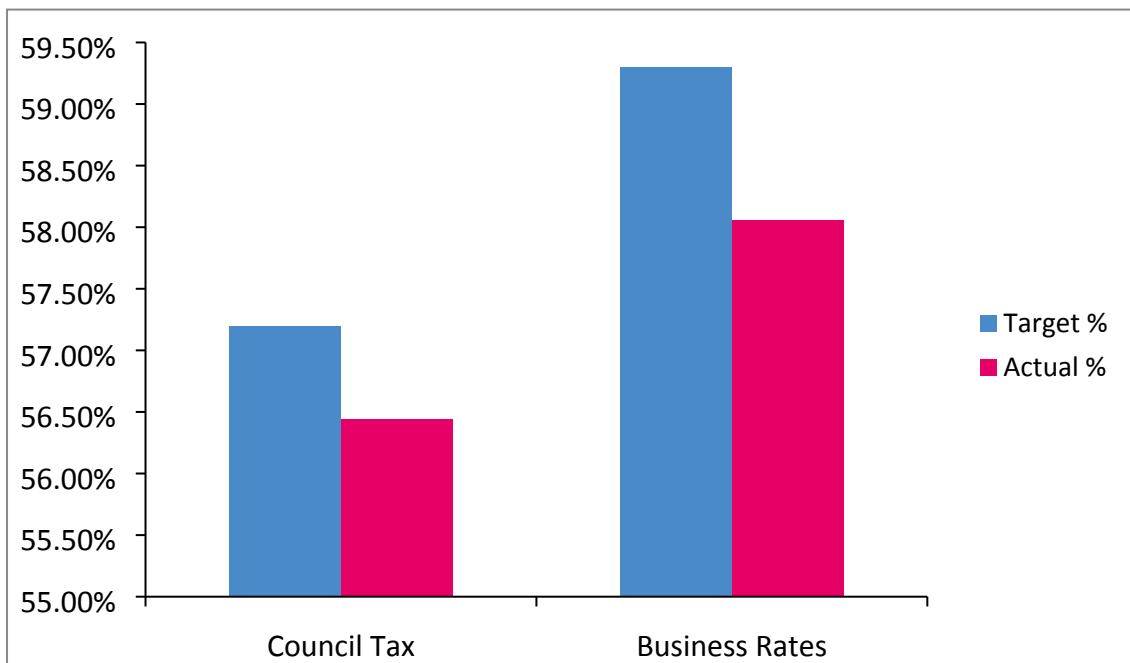
The Council is reliant on income generated through Council Tax and Business Rates (NNDR), which is accounted for through the Collection Fund. As a billing authority, Maidstone Borough Council collects Council Tax and Business Rates on behalf of other public sector entities and passes this on in accordance 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 third quarter of 2018/19.



**Chart 3 Collection Rates for Council Tax and Business Rates, Q3 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 third 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, Q3 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 three 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 third 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 unsuccessful application for piloting 75% retention of business rates in 2019/20 was submitted on behalf of Kent and Medway authorities.

# Treasury Management 3<sup>rd</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 31<sup>st</sup> December 2018:

- UK inflation CPI rate fell to 2.1% in December 2018 nearing the Government target of 2%. It has subsequently fallen further in January 2019, to 1.8%.
- The most recent labour market data for December 2018 showed the unemployment rate at 4%, its lowest since 1975.
- Bank of England Bank Rate is currently at 0.75%. The Council's advisors, Link Asset Services, forecast one further rate rise during 2019/20, however this is dependent on the outcome from Brexit.

The council held investments totalling £30.825m. A full list of investments held at this time is shown below. £14.825m 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.

Investment income for this period is £160k against a budget of £75k with an average rate of 0.74%. This is due to higher than anticipated investment rates due to a bank rise in August 2018 and larger sums to invest.

## Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
FEDERATED INVESTORS (UK)	MONEY MARKET FUND	2,970,000	31/12/2018	01/01/2019	0.75%	2 Years	£8,000,000
ABERDEEN ASSET MANAGEMENT	MONEY MARKET FUND	5,855,000	31/12/2018	01/01/2019	0.75%	2 Years	£8,000,000
GOLDMAN SACHS INT'L BANK	NOTICE ACCOUNT	3,000,000	22/11/2018	25/02/2019	0.88%	100 Days	£3,000,000
NATIONAL COUNTIES BS	DEPOSIT - BS	1,000,000	27/11/2018	07/03/2019	0.85%	100 Days	£1,000,000
LANCASHIRE COUNTY COUNCIL	DEPOSIT - LA	3,000,000	16/11/2018	18/03/2019	0.75%	5 Years	£5,000,000
SUFFOLK COUNTY COUNCIL	DEPOSIT - LA	2,000,000	01/10/2018	22/03/2019	0.85%	5 Years	£5,000,000
LLOYDS BANK PLC	NOTICE ACCOUNT	3,000,000	18/12/2018	25/03/2019	0.80%	6 months	£3,000,000
THURROCK BOROUGH COUNCIL	DEPOSIT - LA	1,000,000	17/10/2018	29/03/2019	0.85%	5 Years	£5,000,000
THURROCK BOROUGH COUNCIL	DEPOSIT - LA	2,000,000	15/11/2018	15/04/2019	0.87%	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
THURROCK BOROUGH COUNCIL	DEPOSIT - LA	2,000,000	27/09/2018	26/04/2019	0.92%	5 Years	£5,000,000
CHERWELL DISTRICT COUNCIL	DEPOSIT - LA	2,000,000	15/10/2018	15/07/2019	1.05%	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

**Table 13 Short Term Investments, 2nd Quarter 2018/19**

## Borrowing

There have been no borrowing requirements in the last quarter.

# **Maidstone Property Holdings Ltd**

## **3<sup>rd</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 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 31<sup>st</sup> December 2018.

During the first three quarters of 2018/19, the net rental income totalled £59,571. 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 30<sup>th</sup> 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 totaled £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.