MAIDSTONE BOROUGH COUNCIL

CABINET

12 AUGUST 2009

REPORT OF HEAD OF FINANCE

Report prepared by Paul Riley,
Head of Finance

1. BUDGET MONITORING – FIRST QUARTER 2009/10

1.1 Issue for Decision

1.1.1 To consider the capital and revenue budget and expenditure figures for the first quarter of 2009/10 and any problems identified.

1.1.2 To consider other financial matters with a material effect on the medium term financial strategy or the balance sheet.

1.2 Recommendation of the Head of Finance

1.2.1 It is recommended that:

a) Cabinet note the position as detailed in the report and agree to receive further reports, at least quarterly, during the financial year; in a similar format;

b) The appropriate Cabinet Member receives reports on options for mitigating the major revenue budget issues in the report;

c) Cabinet agree the revised use of the balances set aside for KIG and LDF work;

c) Cabinet agree the proposals for slippage in the capital programme to and from later years;

d) Cabinet receive a further specific report on the possible solutions to the potential funding shortfall for the capital programme reported in section 1.8.3.

1.3 Reasons for Recommendation

1.3.1 During 2008/09 Cabinet received quarterly budget monitoring reports in line with best practice. This format has been agreed annually by successive Cabinets. It ensures that Cabinet is aware of matters relating to the current financial activity of the Council that may affect the medium term financial strategy or the current or future budget strategy.

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

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

1.3.4 It is appropriate in this first quarterly report for Cabinet to consider the future use of the report and, if this method of reporting continues, the extent to which the report covers the areas required by Cabinet and the value of significant variations that warrant individual analysis. Due to the success of the reporting format used in 2008/09 to identify and control the effects of the economic downturn, it is recommended that Cabinet continue to receive these reports at least quarterly during 2009/10 in the current format.

1.4 Revenue

1.4.1 The budget used in this report is the original estimate for 2009/10 as agreed by Council in February 2009, with the addition of the carry forward budgets agreed by Cabinet in May 2009. Actual expenditure to June 2009 includes all major accruals for goods and services received but not paid for by the end of the quarter.

1.4.2 Analysis at a summary level of the full year budget, the profiled budget and expenditure to June 2009 is attached as Appendix A. The profiled budget shows the total amount expected to be spent by June 2009 after considering the expected pattern of spend throughout the year for each budget head.

1.4.3 Members will be aware that in 2008/09 there was a significant level of variance created by the economic downturn, during last year

Cabinet action and management action together controlled potential variances of £1.5m. During 2008/09 Cabinet, through the budget strategy process, provided ongoing support into 2009/10 of £0.5m.

1.4.4 Appendix A shows a favourable variance of £0.05m which could be compared to levels in excess of £0.2m in 2008/09 and as high as £0.4m in prior years. Past experience suggest that the first quarter of each year contains the most significant movement in variances for the year. Notwithstanding the potential issues regarding slippage levels, good budgetary control is evidenced by the levels of variance reported. This suggests the balance between cost of service and level of service is being handled effectively by managers. Considering current economic pressures there is a considerable amount of effort required on the part of managers to achieve this.

1.4.5 A detailed analysis of the variance shows a high number of budgets displaying favourable variances below the £30,000 threshold for significant. Of the 210 cost centres below the threshold two thirds are reporting favourable variances. An analysis of employee costs shows a favourable variance across the Council of £0.1m after accounting for the cost of temporary and agency staff cover, this is reduced from previous years and is an expected reflection of the last review of structure.

1.4.6 Further analysis of income generating services shows some significant variances which are dealt with, in detail, in the paragraphs below. The majority of adverse variances are minor in value and it is assumed the normal financial management arrangements will enable Directors to control these.

1.4.7 It is good practice to continue to monitor issues that were reported as significant in the previous year through these quarterly reports. In 2008/09 the significant issues all related to reductions in income generation and increases in services providing support to residents. As these remain the significant issues for 2009/10 there are no unique issues to monitor as a consequence of 2008/09 reports.

1.4.8 There are no significant favourable variances that require reporting. The significant adverse variances that require reporting are as follows:

a) Previous office accommodation – both of the offices owned by the council have been designated as surplus assets for sale. The Head of Business Improvement is actively marketing these properties at present, however the current situation in the property market has meant that no significant interest has been shown in either property. The council vacated these premises during May and June 2008 and they have remained vacant business premises since that date. As they are now long term vacant business premises, business rates become fully due for 2009/10. The cost is predicted to be £140,000 for a full year if no action is taken. At this time there is no provision in the 2009/10 estimate for this cost.

b) Parkwood Industrial Estate – this property is the largest industrial estate in the council's portfolio and has an adverse variance of £36,000. This particular cost centre is indicative of a problem spread throughout the council's budgets that incorporate commercial rents as an income source. Arrears, although developing, are being monitored and chased and only make a small contribution to this problem. The most significant issue is vacant property where rental income has been included as a budget estimate but is not now due to the council as there is no tenant.

c) Crematorium – the adverse variance reported for the crematorium is £35,000. The Crematorium is undergoing major refurbishment works and the effect on the service was considered when setting the 2009/10 fee structure however demand for the service is lower than expected, although this is reported as being a wider problem across the country. In addition to this, extra security work has been required to enable operations to continue at the Crematorium during the refurbishment and this has increased first quarter expenditure levels.

d) Various parking related services – although no single parking cost centre has a significant adverse variance, the aggregate variance for all parking areas is in excess of £0.1m. The year end projection suggests that the major problem area is the park and ride service. For two areas, pay & display and residents parking, indications are that delayed commencement of new schemes has temporarily influenced the variance and future reports should identify a reduction in the variance reported here.

1.4.9 The work completed to date on the Kent International Gateway (KIG) and the resulting influence this had had and the Local Development Framework (LDF), has placed a strain upon available resources. The initial resources, set aside from balances in earlier years, were £1m for LDF work and £0.4m for KIG work. At this time the £0.4m previously allocated to KIG work has been committed and recent developments have required further costs to be incurred. It is expected that the potential additional cost will be in the region of £0.5m for the appeal process to complete. Realignment of the priorities for the use of Housing and Planning Delivery Grant (HPDG) carried forward from 2008/09 has enabled officers to identify £0.15m that can be redirected to KIG resources. This leaves a balance of £0.35m to be found. A review of the likely costs of the remaining LDF work suggests a total cost at present between £0.6m and £0.8m leaving a balance of between £0.2m and £0.4m available. As this issue relates to the use of balances it is further raised in section 1.5 for consideration.

1.4.10 In addition to the above items, the budget on which this report is developed contains a requirement for savings from a number of services that have not been delivered at this early stage. Examples include savings from shared services; smarter procurement; and salary vacancies. These items will continue to be monitored and updates will be provided in future reports to Cabinet.

1.4.11 In overall terms the report identifies a number of adverse variances that will require management action and careful monitoring. At this early stage the information suggests that corrective action by management could contain much of this variance within current budget. Whilst monitoring of all these issues will continue throughout the year and be reported to Cabinet in future monitoring reports, it is recommended that the relevant Cabinet Members receive individual reports on the four issues detailed in 4.8 above to consider any further action required.

1.5 Balances

1.5.1 Balances as at 1st April 2009 are £7.2m as previously reported. The current medium term financial strategy assumes balances of £4.7m by 31st March 2010.

1.5.2 Within the overall balance given above the 2009/10 budget strategy assumes £0.8m remains of the resources set aside for LDF, no resources remain from the set aside for KIG and £0.9m remains in general balances by 31st March 2010. These figures are given after allowing for the minimum level of balances of £2.2m.

1.5.3 The balance of projected costs relating to KIG is detailed in section 1.4.9 at a net increase of £0.35m. Cabinet may wish to consider funding this additional cost from the amount remaining of the funds set aside for the LDF work as there is a natural interaction between LDF costs and KIG cost due to a number of common themes. At present officers believe that the interaction between the two activities will mean that a new distribution of cost between the two is necessary but that the total sum of £1.4m from balances will be enough, subject to further unforeseen events, to cover the total cost requiring resources.

1.5.4 It is recommended that Cabinet agree to the realignment of the balances set aside for KIG and LDF work and receive a further report if future unforeseen events require a revision to officer's current analysis of the costs.

1.6 Collection Fund

1.6.1 The collection rates achieved for the first quarter, and the targets set, are reported below. The rate is given as a percentage of the debt due for 2009/10.

	Target %	Actual %
NNDR	33.3	32.2
Council Tax	30.6	29.9

1.6.2 In both cases the rate achieved is slightly below target. At this stage in the year the value of this under recovery against target is £0.25m. It must be stressed this is against a first quarter target, which is higher than the remaining quarters due to the number of payments in full received at the beginning of the year. Part of this under recovery can be attributed to the move to instalment payments by businesses and individuals to improve cash flow.

1.6.3 Officers will continue to pursue payment of any developing arrears along with the arrears from prior years. Prior year arrears collection is on target.

1.6.4 The value of Council Tax to be collected is based upon an assumption about the number of properties in each band during the year. In February 2009 when the Council set the Council Tax the assumed band D tax base with 59,057.6 at the end of the June 2009 the tax base is 59,424.0. This level of tax base is a 0.6% increase over the assumption made for the estimate. This increase will provide additional resource to ensure the collection fund does not enter deficit at the year end.

1.7 Capital Expenditure

1.7.1 Attached at Appendix B is a summary of the current capital budget for 2009/10, as agreed by Cabinet on May 2009. This includes the initial capital programme plus amounts carried forward from 2008/09 as adjusted by the decision of Cabinet in May 2009 to ensure the current programme is fully funded. This is calculated as follows:

£m

Budget agreed at Council (February 2009)	9.3
Add carry forward from 2008/09	7.5
Adjustment at Cabinet in May 2009	0.5
	16.3

1.7.2 The table in Appendix B gives the following detail:

	Detail
1.	Description of schemes, listed in portfolio order.
2.	Approved budget for 2009/10 after adjustments detailed above.
3.	Actual spend to the end of June 2009.
4.	Balance of budget available for 2009/10.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2009/10.
8.	Balance of budget that will slip into or from 2010/11.
9.	Budget no longer required.

1.7.3 It is now anticipated that £1.1m will slip between 2009/10 and 2010/11, this is analysed in column 8 of Appendix B. Individual details on the reasons for these movements are as follows:

a) Leisure Centre – delays to the completion of the contract arrangements for this work at the Leisure Centre means that this resource will be utilised later in the year than expected. It is possible that only 50% of the current resource for 2009/10 will be required in 2009/10;

b) Leisure Centre roof – officers have considered a number of alternative arrangements for financing the necessary work. Best value for money can be achieved by financing the cost of the work directly. This will require additional resources over and above those available in the current years programme. The shortfall could be found from the late commencement of the main Leisure Centre works contract;

c) Museum – slippage into 2009/10 to complete some preliminary work for the stage 2 HLF bid is required;

d) Mote Park regeneration – slippage into 2009/10 to complete some preliminary work for the stage 2 HLF bid is required;

e) Office accommodation – final costs of the office accommodation works are still being incurred these can be part financed from contributions from third parties that remain due. The balance of this additional cost will be the subject of a separate report to Cabinet;

f) Corporate Leasing; Land & Property Acquisitions; Gypsy Site Improvements – officers currently expect no expenditure on these schemes in 2009/10. As they are all funded from specific resources this will have no impact on the remainder of the Capital Programme.

1.7.4 Members will note that the movements between 2009/10 and 2010/11 have no consequence to the overall funding of the agreed programme, just the profile of individual schemes.

1.8 Capital Financing

1.8.1 The agreed capital programme identifies funding from financial resources available to the Council without recourse to borrowing in 2009/10. The resources are grant aid, revenue contribution and capital receipts. The programme identifies the need for £1.3m of additional receipts during the year.

1.8.2 At this early stage in the year the activity relating to assets identified as surplus for sale is fluid. A significant level of interest in these assets exist but caution in the current economic climate has slowed the expected speed of transition from active interest through to sale and, apart from small scale receipts, only a refundable deposit has so far been received.

1.8.3 The recent pledge by the government to fund an extra 20,000 affordable homes across the country is expected to have a direct effect on the Council's capital programme for 2010/11. Recent information suggests the resources in the programme from the Government's growth fund grant are under threat. At present the Minister for Housing & Planning is consulting on a cut in the indicative figure for 2010/11 grant aid. The current indicative figure is £2.565m and the consultation figure is £1.452m, a reduction of £1.113m. The fact that the consultation considers changes for 2010/11 would suggest that the Council's assumptions regarding grant in years after 2010/11 are also at risk. In addition to this consultation the government has shifted the emphasis of the grant from general use to a specific prescription of use for housing and infrastructure.

1.8.4 The currently agreed financial projection for 2010/11 onwards assumes a need to borrow to complete the financing of this capital programme. If this became necessary in 2009/10 the first revenue consequence of the borrowing would occur in 2010/11, it is therefore considered prudent to prepare for this eventuality in the budget strategy 2010/11 onward rather than in the current financial year.

1.8.5 Cabinet will need to consider carefully the consequences of the funding problems facing the Council's capital programme and it is recommended that Cabinet receive a specific report considering this issue.

1.9 Treasury Management

1.9.1 The level of investment income for the first quarter of 2009/10 is £17,000 in excess of the profiled budget. The full year budget is £0.7m compared to £1.8m achieved in 2008/09. Predicted rates for the remainder of the year are expected to average around 1.5% rather than the 2% achieved so far by the council's recent investments.

1.9.2 The 2009/10 investment income estimate is based on an average level of investment of £22.75m for the year. The first quarter average was estimated as £18.87m and the actual average investment was £22.65m for the quarter.

1.9.3 The £17,000 additional income from interest is generated by the additional balances invested and the success at gaining an average rate on recent investments of near 2%. The current projections for income and expenditure plus the collection rates for council tax and non domestic rates all suggest that this level of interest generation will not be maintained throughout the year however the full year budget is expected to be achieved.

1.10 Alternative Action and why not Recommended

1.10.1 The budget monitoring process could be left to officers. The Constitution already requires officers to report budget variances to the relevant Cabinet Member in specific circumstances. The absence of any such reports would then suggest that no specific items have been identified for consideration.

1.10.2 If such an approach were taken Cabinet Members would have a reduced financial awareness. This could restrict Cabinet's ability to meet service requirement and achieve the Council's corporate objectives.

1.11 Impact on Corporate Objectives

1.11.1 This report monitors actual activity against the revenue and capital budgets and other financial matters set by Council for the financial year. The budget is set in accordance with the council's medium term financial strategy and is therefore focused on the strategic plan and corporate objectives.

1.11.2 Regular monitoring by Cabinet ensures that actual activity is in accordance with the plan set out in the budget and that the council is able to achieve its objectives.

1.12 Risk Management

1.12.1 The council has produced a balanced budget for both capital and revenue expenditure and income for 2009/10. This budget is set against a backdrop of limited resources and an economic climate that is still in difficulty. Regular and comprehensive monitoring of the type included in this report ensures early warning of significant issues that may place the council at financial risk. This gives Cabinet the best opportunity to take actions to mitigate such risks.

1.12.2 Reporting on other issues such as council tax and non-domestic rates collection and treasury management activity ensure that the report covers all major balance sheet items that would not be controlled by the monitoring of the capital programme and revenue budget alone.

1.13 Other Implications

1.13.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Needs Impact Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	

9. Asset Management

1.13.2 Financial implications are the focus of this report through high level budget monitoring. The process of budget monitoring ensures that services can react quickly to potential resource problems. At the high level of this report the process ensures that the council is not faced by corporate financial problems that may prejudice the delivery of corporate objectives.

1.14 Conclusions

1.14.1 This report provides a comprehensive analysis of the areas of financial activity that may affect the council's strategic objectives. The consideration of all aspects ensures that cabinet is fully aware of potential financial problems that may influence the delivery of corporate objectives.

1.14.2 The revenue budget for the first quarter reports a minor favourable variance. Some services continue to be affected by the economic situation and individual reports should be provided to the relevant Cabinet Members in accordance with the Constitution.

1.14.3 Balances in general are stable and at a level that is satisfactory for the policy outlined in the current medium term financial strategy. There is a need to consider the realignment of the resources set aside for the work required by KIG and the LDF.

1.14.4 The capital programme has been approved on the basis of the need to use prudential borrowing by 2011/12. The implications of current resourcing issues relating to grant aid and capital receipts mean that there may be a need to either prudentially borrow early or realign the spending profile of the programme.

1.14.5 Council tax and non-domestic rates collection is below target as at the end of June. This may be resolved, in part, as the year progresses but requires careful monitoring.

1.14.6 Treasury management activity remains stable with a slight positive variance in income generation. There are no actions to be considered at this stage.

1.15 Background Documents

1.15.1 Electronic budget monitoring and performance reports within financial systems.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes ☐ No ☒

If yes, when did it appear in the Forward Plan? ______________________

Is this an Urgent Key Decision? Yes ☐ No ☐

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]