

MAIDSTONE BOROUGH COUNCIL

CABINET

14 AUGUST 2013

REPORT OF HEAD OF FINANCE & RESOURCES

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1. BUDGET MONITORING – FIRST QUARTER 2013/14

1.1 Issue for Decision

1.1.1 To consider the capital and revenue budget and expenditure figures for the first quarter of 2013/14 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 Head of Finance & Resources

1.2.1 It is recommended that:

- a) Cabinet note the satisfactory revenue position at the end of the first quarter 2013/14;
- b) Cabinet agree to the use of £0.75m of the Housing Grant capital budget as set out in paragraph 1.7.4;
- c) Cabinet agree in principle to the use of the excess budget from the High Street regeneration on another town centre regeneration scheme and delegate final approval to the Cabinet Member for Economic and Commercial Development subject to the resources being surplus and provision of a suitable economic impact assessment of the proposed replacement scheme;
- d) Cabinet agree to the slippage of other capital resources set out in paragraph 1.7.5.
- e) Cabinet note the detail in the report on the collection fund, general fund balances and treasury management activity.

1.3 Reasons for Recommendation

1.3.1 The Director of Regeneration & Communities is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management. However in practice day to day budgetary control is delegated to service managers, with assistance and advice from their director and the finance section. This report advises and updates Cabinet of the current position with regards to both revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.

1.4 Revenue

1.4.1 The budget used in this report is the agreed estimate for 2013/14 including the carry forward resources agreed by Cabinet in May 2013. Actual expenditure to June 2013 includes all major accruals for goods and services received but not paid for by the end of the quarter.

1.4.2 An analysis that is summarised by Portfolio, of the full year budget, the profiled budget to June 2013 and expenditure to June 2013, is attached as **Appendix A**. The profiled budget shows the total amount expected to be spent by June 2013 after considering the expected pattern of spend throughout the year for each budget head. An indicative projected year end outturn figure is also shown.

1.4.3 **Appendix A** shows actual spend is £21,972 less than the budget at the end of the first quarter. A detailed analysis of the figures at cost centre level shows 106 out of a total of 218 cost centres are currently reporting actual spend less than budget. The projected variance for the full year to March 2014 is £102,120.

1.4.4 As part of a series of changes to the budget monitoring and reporting process the financial analysis in **Appendix A** is based on direct expenditure only. This removes the influence of internal recharges and accounting adjustments upon the variance analysis.

1.4.5 Also shown at **Appendix A** is an analysis by subjective across all services. This identifies that within the net under spend £0.13m relates to employee costs, due to continuing vacancy levels.

1.4.6 The third table at **Appendix A** summarises the position specifically with regard to fees and charges income. At the end of the first quarter income is £31,822 above the target figure. It should be noted that within this variance a number of areas are reporting income below budget. It is anticipated that income will be above target by £42,000 by the end of the year.

1.4.7 Following a recent audit report it was recommended that Cabinet should be updated on budget virements that have been actioned. A virement represents the transfer of a budget between objectives that occurs subsequent to the formal approval of the budget by Council. Consequently these will now be reported as part of this report. Those undertaken in the first quarter are as follows:

- Mote Park – creation of a separate budget from the current Parks & Open Spaces budget. Virement of £420,000.
- Pride of Maidstone – creation of a new budget as part of the Localism initiative. Virement of £54,400.

1.4.8 A number of service areas are reporting positive variances through significantly less spend or additional income than was budgeted for at the end of the first quarter. Brief details on these areas are given below:-

- a) There is a positive variance of £32,106 on Whatman's Arena budget. This relates to the Outdoor Shakespeare events, which this year are being organised by an external company. Therefore no expenses are being incurred, although ticket sales are still being dealt with by the Hazlitt Arts Centre. The outturn position on this variance is projected as neutral as all income will eventually pass to the external company.
- b) The Economic Development budget has a positive variance of £36,337, arising from unspent running costs on a number of specific projects. By outturn this budget is expected to be fully spent.
- c) There has been an increase in cremation fees for the first quarter which has created a positive variance of £42,890. This is due to the temporary closure of other crematoria in the area which has led to an increase in cremations in Maidstone. Indications are that this level of usage is now returning to near normal levels, and the intention is to use the additional income generated to fund work that is required on the cremators that is not currently resourced. The outturn position will report this additional income matched to additional maintenance expenditure.
- d) There has been an increased level of Development Control application fees received in the first quarter, creating a positive variance of £31,318. The Performance Monitoring report elsewhere on this agenda shows that there has been a 42% rise in commercial planning applications. The outturn position is currently reported as a continued positive variance from

application fees.

1.4.9 A number of areas are showing significantly more spend or a shortfall in income than was actually budgeted at the end of the first quarter, and these are reported below:-

- a) There is a continuing problem with the Homeless Temporary Accommodation budget showing expenditure greater than budget, with the variance now standing at £80,185, which reflects the position reported in previous years. The Performance Monitoring report elsewhere on this agenda reflects the fact that a high level of people continue to present themselves as homeless. Action has commenced on a proposal that will reduce the cost of temporary accommodation and the team continue to carry out a full range of homeless prevention measure. However the projected outturn shows a year end variance of £120,000.
- b) The new budget for the IT Shared Services partnership with Swale BC and Tunbridge Wells BC is currently showing an adverse variance. This is a consequence of the set up of new working practices and is being monitored closely by all three authorities. The outturn is projected to be on target for this authority's share of the service costs.
- c) Parking Services is reporting an adverse variance of £35,883. There are two factors that have contributed to this – firstly the closure of King Street Multi-Storey Car Park means that no further income was generated whilst it was empty pending demolition, and secondly the car parks around the Archbishop's Palace area have seen a downturn in income which can possibly be linked to the ongoing road works that have been taking place on Hayle Road. As the Performance Monitoring report elsewhere on this agenda also indicates there has also been a decline in on-board Park & Ride transactions.

1.4.10 The report identifies no risks that require action by Cabinet at this time. Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2013/14 is a favourable variance of £0.10m.

1.4.11 Through the budget strategy for 2013/14, savings and efficiencies were identified totalling £1.0m. These savings are being monitored corporately and it is anticipated that the target will be met in year.

1.5 Balances

- 1.5.1 Balances as at 1st April 2013 were £12.6m. The current medium term financial strategy assumes balances of £5.5m by 31st March 2014 of which £3.3m remains unallocated. Following the introduction of local council tax support and the retention of business rates from 1st April 2013, enhanced monitoring of the collection fund has been put in place to provide adequate assurance around developments effecting the assumptions made in the current year's budget.
- 1.5.2 The major reason for the movement in balances during 2013/14 relates to the use of carry forwards approved by Cabinet in May 2013. In addition the balance at 31st March 2014 includes the use of the 2011/12 under spend of £0.83m.
- 1.5.3 The position set out above allows for the minimum level of balances of £2.3m, as previously agreed by Cabinet, to be maintained.

1.6 Collection Fund

- 1.6.1 Following the introduction of local council tax support and the retention of business rates from 1st April 2013, enhanced monitoring of the collection fund has been put in place to provide adequate assurance around developments effecting the assumptions made in the current year's budget.
- 1.6.2 The collection rates achieved for the first quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2013/14. Both collection rates are slightly below target at this time and this is reflected in the performance monitoring report elsewhere on this agenda.

	Target %	Actual %
NNDR	34.3	33.5
Council Tax	30.1	29.9

- 1.6.3 **Council Tax Support** - the level of local council tax support recorded in the first quarter shows a caseload of 10,797 claimants compared to the estimated caseload of 11,903 used to calculate the budget. For Maidstone Borough Council the support provided is £1.46m compared to an estimated support of £1.48m. This must however be matched to government funding of £1.38m. It should be noted that while there is a significant reduction in caseload it does not directly compare with the reduction in the value of support. This is because the value of support granted reflects each claimant's circumstances individually.

The non-collection rates of the residual 8.5% charge made to claimants of council tax support is at the tolerances set within budget at this time.

- 1.6.4 **Retained business rates** – the current collectable business rates is £54.8m compared to an initial estimate of £54.9m a net reduction of £100,000 as a consequence of appeal decisions made by the Valuation Office and normal growth/reductions in current business premises. The major risk from appeals has been provisioned at £2.7m for 2013/14 and remains adequate when compared to the level of change due to appeals decisions witnessed to date. If current projections continue to year end there is expected to be sufficient resources to provide growth of £150,000 for the year. While this is not a significant sum it does mean the budgeted value of business rates retained is within the currently projected outturn.

1.7 Capital Expenditure

- 1.7.1 Attached as **Appendix B** is a summary of the approved capital programme for 2013/14. This includes the initial capital programme for the financial year plus amounts carried forward from 2013/14 and amounts approved from the revenue underspend 2011/12. It also reflects the slippage that was identified in the monitoring reports throughout 2012/13.

- 1.7.2 The table in **Appendix B** gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2013/14 after the adjustments detailed above.
3.	Actual spend to the end of June 2013.
4.	Balance of budget available for 2013/14.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2013/14.
8.	Balance of budget that will slip into 2014/15.
9.	Budget no longer required.

- 1.7.3 Capital expenditure to the end of the first quarter of 2013/14 is shown as £0.49m. The budget for the year is £6.2m, although this includes £1.4m for phase 2 of the High Street Regeneration project for which the significant expenditure has yet to be incurred, and £2.0m for Housing Grants. Both schemes are reporting expected slippage which is considered below.

- 1.7.4 Following the first quarters monitoring, officers anticipate that £1.45m will need to be reprofiled into 2014/15. This is detailed in column 8 of **Appendix B**. Two of the schemes that are reporting

slippage are expected to report an under spend on completion. In both cases there are available options to utilise the under spend on related schemes that enhance delivery of the relevant service and it is recommended that Cabinet approve the alternative uses as set out below:

- a) Housing Grants – This budget will not be spent in 2013/14 and additional funding is already available for future years.
 - i) It is recommended that part of the sum be used to reduce the level of prudential borrowing in relation to the scheme approved by the Property Investment Cabinet Committee on 10th July 2013. Funding of £0.25m could be used to carry out the agreed renovation work following acquisition of the asset which would reduce the annual running costs of the proposal and consequently the homelessness budget pressure.
 - ii) It is also recommended that up to £0.5m be used to enhance the work on bringing derelict property into use. The current grant for this work from the Homes and Communities Agency allows only short leasehold acquisition of property. The HCA has confirmed their grant can be used for renovation of property acquired freehold by the Council but cannot be used to acquire the freehold. Freehold purchase creates a sustainable business case as freehold acquisition costs can be recouped from resale whereas leasehold acquisition is not fully recouped from the maximum affordable rent over such a short period.
- b) High Street Regeneration Phase 2 – The contract sum for this phase is under the budgeted sum by approximately £0.3m. Other parts of the town centre may benefit from similar regeneration work and Kent County Council has indicated their willingness to consider financial support. Assessments of a number of areas are being prepared to enable the best schemes to be identified. As work is not yet complete on the High Street regeneration, this is a provisional sum and cannot be guaranteed. It is recommended that Cabinet agreed the use of the resource in principle and delegate a final decision to the Cabinet Member for Economic and Commercial Development subject to the resources actually being surplus to requirements.

1.7.5 Subject to approval to the proposals set out above the balance of slippage into 2014/15 as given in Appendix B would be amended to £0.36m and it is recommended that Cabinet approve the slippage of

this sum for Housing Grants and Support for Social Housing to 2014/15.

1.8 Capital Financing

1.8.1 The agreed capital programme 2013/14 to 2017/18, as approved by Council in March 2013, identifies sufficient resources to finance the 2013/14 programme.

1.8.2 Resources that can currently be confirmed are sufficient to fund the programme for the current year and are:

<u>Funding Source:</u>	<u>£.m</u>
Grants & Contributions	0.7
Capital Receipts	1.0
Revenue Support	<u>6.5</u>
	8.2

1.9 Treasury Management

1.9.1 The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management 2009 (Revised) in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In February 2012 the Council approved a Treasury Management Strategy for 2012/13 that was based on this code. The strategy requires that Cabinet should be informed of Treasury Management activities quarterly as part of budget monitoring.

1.9.2 During the quarter ended 30th June 2013:

- Indicators suggest the return of economic growth
- Stronger household spending both on and off the High Street
- Inflation has remained above the MPC's 2% target.
- Growth has been confirmed for the first quarter at +0.3%.

1.9.3 The Council's Treasury Management Advisors, Sector Treasury Management, provide the following forecast:

- Estimated growth in the next quarter looks likely to be higher than previous quarter at around +0.5%.
- Consumer confidence, consumer borrowing and house prices are increasing
- Mark Carney starts as new Governor of the Bank of England on 1st July 2013. This may lead to changes in MPC announcements and decision making in the future.

- 1.9.4 The Council held investments totalling £25.4m at 30th June 2013. A full list of the investments is shown at **Appendix C**. £16.4m of investments are in accounts which can be called upon immediately or following a short notice period.
- 1.9.5 Investment income is slightly above budget with a balance of £59,340 compared to a budget of £57,000. This is with a background of investment rates falling due to the financial institutions not needing any additional funding due to funding for lending cash from Government.
- 1.9.6 The Council has opened two enhanced cash funds as agreed within the 2013/14 Strategy. These were recommended by the council's treasury advisors, Sector, as being AAA credit rated and offering a slightly higher yield than the Money Market Funds that the Council has been using. Balances on these collectively are totalling £7.9m.
- 1.9.7 There has been no need for any short term borrowing within the first quarter of 2013/14.
- 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 requirements 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 2013/14. 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 The current revenue budget does not exhibit the level of risk identified in previous years and a small contingency exists for any significant budget pressures that may yet develop.
- 1.12.3 The capital programme is reporting slippage. Funding for the current programme has been secured.
- 1.12.4 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 in addition to the capital programme and revenue budget. No significant risks are identified in any of these areas.

1.13 Other Implications

1.13.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs 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. 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 The first quarter monitoring report shows a positive evaluation of the period. Revenue expenditure, balances, treasury management and council tax and NNDR collection are all satisfactory.

1.14.2 Capital expenditure reports from officers show an expectation to re-profile £0.65m into 2014/15. Funding of the current programme is fully identified.

1.14.3 All other items monitored are at or above target for the first quarter.

1.15 Relevant Documents

1.15.1 Appendices

- Appendix A – Revenue Budget Report
- Appendix B – Capital Programme 2013/14
- Appendix C – List of Investments as at 30th June 2013

<u>IS THIS A KEY DECISION REPORT?</u>			
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan?			
This is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			