

**MAIDSTONE BOROUGH COUNCIL**

**CABINET**

**12 FEBRUARY 2014**

**REPORT OF HEAD OF FINANCE & RESOURCES**

**Report prepared by Paul Holland**  
**Senior Accountant (Client)**

**1. BUDGET MONITORING – THIRD QUARTER 2013/14**

1.1 Issue for Decision

1.1.1 To consider the capital and revenue budget and expenditure figures for the third quarter of 2013/14.

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 Cabinet:

- a) Note the details set out in the report.
- b) Agree to set aside £0.2m to sustain the proposed increase in staffing in the major applications team as set out in paragraph 1.4.8 (g).
- c) Agree to utilise £50,000 of the projected under spend immediately on activity relating to the recent floods as set out in paragraph 1.4.9 (e)
- d) Agree to the proposed criteria for the use of revenue under spends at year end as set out in paragraph 1.4.10 and instruct officers to develop proposals for prioritisation by the Leader of the Council in March 2014.

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.

- 1.3.2 The report uses a number of terms that require definition and a glossary of terms is given in section 1.14.4 of the report. This has been included at the request of the Cabinet Member for Corporate Services following the recent peer review.

#### 1.4 Revenue

- 1.4.1 The budget used in this report is the revised estimate for 2013/14 as detailed elsewhere on this agenda. Actual expenditure to December 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 December 2013 and expenditure to December 2013 is attached as **Appendix A**. An indicative projected year end outturn figure is also shown.
- 1.4.3 **Appendix A** shows actual spend is £867,383 (£116,085; Q2 2013/14) less than the budget at the end of the third quarter. A detailed analysis of the figures at cost centre level shows 102 out of a total of 232 cost centres are currently reporting actual spend less than budget. The projected outturn following the proposals in this report is an under spend of approximately £584,000 after allowance for the normal carry forward procedures.
- 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 a subjective analysis across all services. This identifies that within the net under spend £652,940 (£410,000; Q2 2013/14) 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 third quarter this income is £265,524 (£130,570; Q2

2013/14) above the target figure. It should be noted that within this sum a number of areas are reporting income below budget. Further details of service areas where major variations from budgeted fees and charges are given later in this section of the report. It is forecast that the outturn for the year will show income in excess of budget in the region of £400,000.

1.4.7 Following an audit report earlier this year it was recommended that Cabinet should be updated on budget virements that have been actioned. Those undertaken in the third quarter total £78,900 (£251,000; Q2 2013/14) and are as follows:

- a) Active Maidstone Awards - £15,000
- b) Redundancy costs at the Museum - £18,900
- c) Redundancy costs following a senior management restructure - £45,000

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 second quarter. Brief details on these areas are given below:-

- a) Leisure Services (Other Activities) is reporting a positive variance of £39,704 (£2,264; Q2 2013/14). This mainly relates to the budget for the 'Make Maidstone Smile' fund. The first request for funding from this budget yielded very little response, and as a consequence officers are currently reviewing the details of the fund with a view to re-launching it with a more positive response.
- b) The Community Development budget is reporting a positive variance of £39,733 (£9,781; Q2 2013/14) which has arisen due to various under spends on a number of community based projects. The budget manager has been reviewing the position with regard to these schemes and it is anticipated that this variance will reduce by the end of the financial year.
- c) There is a positive variance of £35,655 (£19,683; Q2 2013/14) on the Civic Occasions budget. This is funding set aside for repair and maintenance of war memorials, however it has not been possible to undertake the work within the current financial year and it has now been scheduled to take place early in the 2014/15 financial year and the funding will be returned to balances for use in 2014/15.

- d) Unapportionable Central Overheads is showing a positive variance in relation to unused resources for redundancy costs. The current outturn projection suggests a small amount of this budget will be used before 31 March 2014 but the majority will be required in 2014/15 and a carry forward will be requested at year end.
- e) The Learning & Development budget is showing a positive variance of £37,405 (£17,031; Q2 2013/14). This is due to an under spend on the central training budget, however there a plans in place to spend the majority of the remaining budget during the final quarter, so it is anticipated that this variance will be reduced by the end of the financial year.
- f) There is a positive variance of £284,693 (£146,495; Q2 2013/14) from the Refuse and Recycling Service, which is due to the continuation of better than expected receipts from bulky domestic refuse collection service, wheeled bins, and green waste bin hire. As previously reported weekend freighter costs are expected to increase substantially as service demand changes. Contract costs are also forecast to increase in 2014/15 as there will be an uplift to the contract value above the inflation increase covered by the medium term financial strategy, this is based on actual increases in property/customer numbers.
- g) Development Control Applications are continuing to show increased income which has increased the positive variance that has previously been reported. This currently stands at £472,610 (£124,046; Q2 2013/14). This increase is in line with the expectations for increased applications in the second half of the year. To manage the increased workload the Head of Planning intends to appoint additional planning staff to create a resource specifically to manage the major applications. In order to achieve this with some stability in the level of staffing it is recommended that cabinet agree to the set aside £0.2m of the additional income to provide 24 months funding for the increase in staffing so that fluctuations in income levels over the coming years can be managed.

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 second quarter, and these are reported below:-

- a) The Homeless Temporary Accommodation budget continues to show expenditure greater than budget, with the variance now standing at £315,493 (£199,215; Q2 2013/14) which reflects the position reported in the first two quarters of this year. A project has now commenced that is targeting reductions in the cost of temporary accommodation and whilst this is not expected to reduce the pressure on this budget in the current financial year a property has now been purchased for use as temporary accommodation, and a further potential purchase has been identified and is being progressed. As these properties will not be operational until sometime in 2014/15 it is expected that the over spend for the final quarter is forecast to reach £400,000. However actions to control other housing service budgets mean that the service as a whole is predicted to report a £200,000 adverse variance at outturn.
- b) The Procurement Section is under achieving its income target and this has created a variance of £39,574 (£31,462; Q2 2013/14). The service has successfully supported some of the major procurement exercises of recent years and does achieve a moderate level of external income mainly from the Council's MKIP partners. As part of the work on the strategic plan and budget strategy for 2015/16 the service pressure will be reviewed.
- c) The Hazlitt Arts Centre has a variance of £130,618 from delays to the commencement of the contract. This delay has meant that the budget strategy savings expected by 2013/14 have not been fully delivered. The Budget Strategy report elsewhere on this agenda assume the final savings from this service will not occur until 2015/16 this will allow for the slippage in the timing of the start of the contract.
- d) There is a variance of £57,542 (£18,518; Q2 2013/14) on the Crematorium budget. Income is still over-achieving due to extra cremations caused by the temporary closure of other crematoria in the area however indications are that this level of usage is now reducing to near normal levels. The cremators require a three yearly maintenance cycle and the major maintenance occurred this year. This is an unbudgeted cost that it is hoped will be provisioned through annual contributions in future years.

- e) Following on from the recent floods the Council will be incurring significant unbudgeted expenditure from the various activities that were undertaken in the immediate aftermath of the incident and from the on-going clean-up activities. A claim will be submitted to the Government under the Bellwin Scheme, but the Council will be liable for the first £39,000 expenditure incurred, with 85% of the remaining spend claimed back. At this early stage it is not possible to quantify the likely total costs, but Members will be kept advised. The Council has an opportunity to engage with the National Flood Forum to support residents in the region and to support feasibility work on defences in some flood hit areas. This would require funding of £50,000 to be made available and this can be achieved from under spend in-year. It is recommended that Cabinet agree the virement of £50,000 from central services budgets that are projected to under spend at outturn in order to implement these schemes as soon as possible.

1.4.10 The report identifies a proposal for Cabinet to support the planning service by the provision of resources to ensure stability. Allowing for the continuation of the issues detailed as budget pressures above the projected outturn will produce an under spend in excess of £500,000. This projection is sufficiently robust at this time to enable consideration of the under spend in a similar way to previous years. As the Council faces significant further cuts it is recommended that Cabinet agree at this time to use the eventual under spend to influence the future budget need. In considering the current activities of the Council and the impending revision to the strategic plan and budget strategy the following criteria are recommended:

- a) Funding for the use of consultants or research in the development of the Strategic Plan and Budget Strategy 2015 – 2020;
- b) Additional project management resources for activities such as information management and upcoming major projects;
- c) Further capital investment in projects that are supported by the current programme and strategy;
- d) Long payback (10+ years) invest to save proposals; and
- e) Other short term budget pressures.

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 as Members will be aware there have been issues with the theatre, IT and the senior management restructure. As a result it is anticipated that the target will not be met in year. These issues have been incorporated into the figures set out in Appendix A and built in to the forecast outturn given in this report. In each case the delivery of the required saving is delayed and the savings are expected to be delivered in 2014/15 so there is no long term effect upon the medium term financial strategy.

## 1.5 Balances

1.5.1 Balances as at 1<sup>st</sup> April 2013 were £12.6m. The current medium term financial strategy assumes balances of £5.0m by 31<sup>st</sup> March 2014 of which £2.8m remains unallocated. Following the introduction of local council tax support and the retention of business rates from 1<sup>st</sup> April 2013, enhanced monitoring of the collection fund has been put in place to provide adequate assurance around developments affecting 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 31<sup>st</sup> 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 1<sup>st</sup> April 2013, enhanced monitoring of the collection fund has been put in place to provide adequate assurance around developments affecting the assumptions made in the current year's budget.

1.6.2 The collection rates achieved at mid year, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2013/14. Quarter 2 figures are given in brackets.

	<b>Target %</b>	<b>Actual %</b>
Council Tax	87.0 (58.4)	86.7 (58.2)
NNDR	86.5 (60.1)	87.8 (61.1)

- 1.6.3 **Council Tax Support** – The actual collection rate is 0.3% below target. This represents the late collection of £240,000 from £83m.
- 1.6.4 The level of local council tax support recorded at mid-year shows a caseload of 10,471 (10,602; Q2 2013/14) claimants compared to the estimated caseload of 11,903 used to calculate the budget. For Maidstone Borough Council the support provided is £1.42m (£1.42m; Q2 2013/14) compared to an estimated support of £1.48m. This must however be matched to government funding of £1.38m.
- 1.6.5 While there is a significant proportion of pensionable age claimants the overall reduction in claimants shows a positive correlation between reductions in those claiming job seekers allowance in the borough and the reduction in caseload. Members should note that as the year progresses, changes in caseload have a proportionately reduced effect on the full year cost.
- 1.6.6 **Retained business rates** – the current collectable business rates is £52.8m (£54.2m; Q2 2013/14) compared to an initial estimate of £54.9m a net reduction of £2.1m. This reduction is as a consequence of a number of factors the major changes are:
- a) A 22% (£0.4m) increase in small business rate relief granted during the year;
  - b) An increase in vacant business premises exemptions granted (£0.3m); and
  - c) Backdated refunds made following successful appeals (£1m).
- 1.6.7 The major risk from appeals has been provisioned and this remains adequate when compared to the level of change due to appeals decisions witnessed to date.
- 1.6.8 If current projections continue to year end the business rates account will be in deficit. Due to the Government's intention to reimburse the cost of extending the small business rates relief



enhancements this will be partially covered by a government grant and the year end shortfall attributable to this council is estimated to be £12,700.

## 1.7 Capital

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 2012/13 and amounts approved from the revenue under spend 2012/13. It also reflects the slippage that was identified in the monitoring report for the second quarter.

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 December 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 third quarter of 2013/14 is shown as £2.98m. The budget for the year is £7.88m, although this includes £1.8m for the Acquisition of Commercial Assets for which no expenditure has been incurred to date.

1.7.4 The report for this quarter has identified a number of budgets that need to be treated as slippage into 2014/15. The most significant of these are £1.2m for the Acquisition of Commercial Assets, £0.10m for Play Area Improvements, £0.18m for Gypsy Site Improvements, £0.14m for Housing Grants and £0.27m for Support for Social Housing.

## 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	0.5
Capital Receipts	2.4
Prudential Borrowing	1.9
Revenue Support	<u>8.0</u>
	<b>12.8</b>

## 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 March 2013 the Council approved a Treasury Management Strategy for 2013/14 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 31<sup>st</sup> December 2013:
- There has been a sharp fall in inflation (CPI) to 2.1%.
  - Unemployment approached the MPC's 7% threshold with a rate of 7.4%
  - House prices rose by 8.4% and 6.4% according to Halifax and Nationwide respectively.
- 1.9.3 The Council's Treasury Management Advisors, Capita Asset Services, provide the following forecast:
- Capita has revised its bank rate forecast with the first rise to 0.75% in Qtr.2 2016, previously Qtr.3.
  - PWLB long term rates are expected to reach 5.2% by March 2017
- 1.9.4 The council held investments totalling £28.6m. A full list of investments held is given in Appendix C. £23.6m of investments are in accounts which can be called upon immediately or for a short notice period.
- 1.9.5 Investment income is still below target with a balance of £0.174m compared to a budget of £0.187m. This is due to investment rates falling because financial institutions do not require additional funding as additional cash is being made available by Government to assist small and medium enterprises.

1.9.6 There has been no need for any borrowing within the third 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 Funding for the capital programme has been secured for 2013/14.

1.12.4 Reporting on other issues such as council tax and non-domestic rates collection and treasury management activity ensures 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 third 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 that the budget for 2013/14 is anticipated to be fully spent within the financial year. Funding of the current programme is fully identified.

1.14.3 All other items monitored are at or above target for mid year.

1.14.4 Glossary of terms:

<b>Term</b>	<b>Definition</b>
Accrual	The inclusion in the financial report of a money value to represent the receipt of goods or services within the report period, if actual payment has not yet been made.
Adverse variance	The difference between expected (budgeted) cost and actual cost where the actual value is a higher cost than expected.
Capital expenditure	Spending on the creation, purchase or enhancement of the Council's assets
Capital Receipts	Income from the sale of assets. This income can only be used for the creation, purchase or enhancement of other Council assets.
Carry forwards	A budget for works or services that remained unused at year end, has a purpose that still requires completion and has been moved into the following year with the approval of Cabinet.
Collection Fund	The collection fund is a statutory fund that the Council maintains for the collection and distribution of council tax and business rates.
Cost centre	An accounting location or service as set out in the annual budget report i.e. The Museum or the Leisure Centre.
Local council tax support	The local system of discount applied to council tax that replaced the national council tax benefit system on 1 <sup>st</sup> April 2013.
Portfolio	A grouping of council services that are all the responsibility of one Cabinet Member as set out

in the annual budget report.

Positive variance	The difference between expected (budgeted) cost and actual cost where the actual value is a lower cost than expected.
Profiled budget	The total amount expected to be spent (from the budget) by the period end, after considering the expected pattern of spend throughout the year and past trends.
Retained business rates	The system of localised business rates in operation since 1 <sup>st</sup> April 2013. The system allows the Council to retain a proportion of business rates collected rather than pay the total amount to central government.
Revenue expenditure	Expenditure on the day to day running costs of the Council's services.
Revenue Support	Revenue funding that has been set aside to finance goods and service of a capital nature.
Subjective analysis	An accounting type used to define costs i.e. salaries, vehicle hire, premises rents.
Treasury Management	The management of the organisation's investments, cash flows and banking along with control of the risks associated with those activities.
Virement	A virement represents the transfer of a budget between services (cost centres) that happens after the formal approval of the budget by Council. The authority to make certain types of virement is set out in the Council's constitution.

## 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 31<sup>st</sup> December 2013

**IS THIS A KEY DECISION REPORT?**

Yes

No

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

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This is a Key Decision because: .....

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Wards/Parishes affected: .....

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