

**MAIDSTONE BOROUGH COUNCIL**  
**RECORD OF DECISION OF THE CABINET**

Decision Made: 09 November 2011

**SECOND QUARTER REVENUE & CAPITAL MONITORING**

**Issue for Decision**

To consider the capital and revenue budgeted and actual figures for the second quarter of 2011/12, any problems identified and other financial matters with a material effect on the medium term financial strategy or the balance sheet.

**Decision Made**

1. That the satisfactory revenue position at the end of the second quarter 2011/12 be noted.
2. That the transfer of unbudgeted income received of £82,701 from HM Revenue & Customs to balances be agreed.
3. That the proposals for slippage and re-profiling in the capital programme to 2012/13 be agreed.
4. That the detailed report on treasury management activity be noted.

**Reasons for Decision**

The Director of Regeneration & Communities is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management, in accordance with Maidstone Borough Council's Constitution. However, in practice day to day budgetary control is delegated to individual service managers, with assistance and advice from their director and the finance section. In consideration of this fact, whilst appreciating the need for full awareness of the Council's financial situation, Cabinet agreed to continue to receive these quarterly reports during 2011/12, including a section reporting on treasury management performance.

**Revenue**

The budget used in the report of the Head of Finance and Customer Services is the original estimate for 2011/12 as agreed by Council in March 2011, with the addition of the carry forward budgets agreed by Cabinet in May 2011. Actual expenditure to September 2011 includes all

major accruals for goods and services received but not paid for by the end of the quarter.

Analysis at a summary level of the full year budget, the profiled budget and expenditure to September 2011 is attached at Appendix A to the report of the Head of Finance and Customer Services. The profiled budget shows the total amount expected to be spent by September 2011 after considering the expected pattern of spend throughout the year for each budget head.

The report of the Head of Finance and Customer Services deals with the second quarter of what is a difficult and challenging financial year. There has been major organisational change, and the need to identify significant budget strategy savings of £1.9m. This is an ongoing exercise.

Appendix A to the report of the Head of Finance and Customer Services shows actual spend is £0.44m less than the budget at the end of quarter two which compares to a figure of £0.43m less than budget at the end of quarter one 2011/12.

A detailed analysis of the figures at cost centre level shows 126 out of a total of 220 cost centres are currently reporting actual spend less than budget, which mirrors the position at the end of quarter one 2011/12.

Also shown at Appendix A to the report of the Head of Finance and Customer Services is an analysis of cross service figures, which identifies three specific issues of note:

Employee costs are showing actual spend of £0.192m less than budget after allowance for the cost of temporary and agency staff. The level of vacancy relates to preparations for 2012/13 planned reductions in staff. Holding vacant posts at this time ensures that the cost consequences of the Council's policy on organisational change are minimised.

It is good practice to consider areas of adverse performance against budget reported in previous years in order to identify continued problems. The major area of difficulty in recent financial years has been income recovery. A review of fees and charges across the Council shows performance is down by £0.2m on the budgeted expectation of £3.9m. The significant issues are considered in more detail below.

With regards to income generation, a project is underway the purpose of which is to:

- Identify new sources and improvements to existing income streams for the Council for the period of the Medium Term Financial Plan 2012/13 to 2016/17.
- Prioritise income generating opportunities identified.
- Formulate a robust, deliverable programme of projects for the high priority opportunities.

The Corporate Services Overview & Scrutiny Committee has initiated a piece of work around the Council as a Business. It is important that both these pieces of work are conducted so that the research and analysis is complementary; liaison has, and will continue to take place between officers and the Chair of the Overview and Scrutiny Committee. Cabinet have recently been briefed on the latest position with the project and their views sought as to how it should be progressed.

A number of service areas are reporting significantly less spend or additional income than was budgeted at the end of quarter two and reports on these areas are given below:-

- a) With the Leader's portfolio there is unbudgeted income of £82,701 which is a refund of VAT. This follows a successful claim made by the Council against HM Revenue & Customs. A further report will be made to Cabinet at a later date outlining proposals to use this income. At this time Council are requested to approve the transfer of this resource to balances.
- b) At present the interest being generated on the investment of the Council's surplus funds is exceeding the targeted figure by £34,183. A recent global downgrade in ratings from the Council's treasury management advisors has led to change in levels of investments in higher rate paying institutions, and this level of income is expected to decrease for the remainder of the year.
- c) Land Charges have received a one-off grant of £34,355 from the government to cover potential claims against a change in legislation on personal searches. Currently there is one organisation taking action against multiple local authorities and it is expected that others will follow suit. At this stage land charges income is in line with the budgeted figure, but it is likely that income will fall during the course of the remainder of the year. Officers are currently assessing the options for addressing this shortfall from 2012/13 onwards.

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

- a) The Homeless Temporary Accommodation budget is showing expenditure greater than budget of £35,607. This budget experienced similar problems during the last financial year, with expenditure on providing bed and breakfast accommodation being significantly higher than the budgeted figure. Officers are currently working on a forecast projection for the full year and options for dealing with this issue in the future.
- b) The Community Safety Co-ordinator section budget is showing expenditure greater than budget of £45,135. This budget includes costs relating to CCTV monitoring, and in the

estimate for 2011/12 it has been assumed that by this time the future of the control centre would have been resolved and new contractual arrangements would be in place. The tenders for the monitoring contract have been evaluated and the expenditure level does not present a risk for future years. At this time it is expected to resource the 2011/12 overspend from the salary variance identified in paragraph 1.4.6.

- c) There is currently a shortfall in income of £34,044 at Parkwood Industrial Estate. This is due to vacant units. Negotiations with the leaseholder have been ongoing, and a meeting was recently held between their management and the Council's Chief Executive. It is anticipated that a solution will be found before the end of the financial year to resolve the underlying issues, allowing a more flexible approach to identifying tenants.
- d) Park & Ride is also showing a shortfall against the projected budget of £48,672, which is mainly due to less income than expected for season tickets and at the Sittingbourne Road site. Due to the retirement of the Public Transport Officer, new management arrangements have been put in place. The bus contract is due for renewal in 2012 and a report on costs and other issues will be brought to the Cabinet Member in the near future.

At this stage the report of the Head of Finance and Customer Services identifies no major risks that require action. The issues identified below are expected to be resolved by appropriate management action during the year.

The budget strategy identified savings and efficiencies totalling £1.9m. At this time £1.75m of this sum was delivered as planned and management action has been identified to deliver the balance of these savings. In the case of the expected savings from CCTV these are discussed above.

### Balances

Balances as at 1<sup>st</sup> April 2011 were £9.9m. The current medium term financial strategy assumes balances of £3.9m by 31<sup>st</sup> March 2012. The major reasons for the movement in balances during 2011/12 relate to the use of carry forwards approved by Cabinet in May 2011 and slippage in the capital programme in 2010/11.

During 2011/12 Cabinet has made two decisions that affect the use of balances. The first to fund capital works to the heating system at the Hazlitt Theatre. The second to set aside a provision for a potential future claim from the Maidstone Museum extension contractor.

The position set out above sufficiently allows for the minimum level of balances of £2.3m as previously agreed by Cabinet.

## Collection Fund

The collection rates achieved for the second quarter, and the targets set, are reported below. The rate is given as a percentage of the amount targeted for collection in 2011/12.

	<b>Target %</b>	<b>Actual %</b>
NNDR	62.6	61.6
Council Tax	58.8	58.7

Both are marginally below their collection targets. This performance has been achieved whilst the revenues section has been going through the establishment of the shared Revenues & Benefits partnership arrangement with Tunbridge Wells BC. To put this performance into context 1% of NNDR collectable is £0.5m and 1% of Council Tax collectable is £0.9m.

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

## Capital Expenditure

Attached at Appendix B to the report of the Head of Finance and Customer Services is a summary of the current capital programme for 2011/12, as agreed by Cabinet in August 2011. This includes the initial capital programme for the financial year plus amounts carried forward from 2010/11, adjusted for any changes agreed by Cabinet.

The table at Appendix B to the report of the Head of Finance and Customer Services gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2011/12 after the adjustments detailed in 1.7.1.
3.	Actual spend to the end of September 2011.
4.	Balance of budget available for 2011/12.
5 - 7.	Quarterly analysis of expected spend for the remainder of 2011/12.
8.	Balance of budget that will slip into 2012/13.
9.	Budget no longer required.

Capital expenditure to the end of the second quarter of 2011/12 is shown as £1.9m. £5.9m of the total budgeted spend of £7.3m is in relation to a small number of major projects.

Following the enhanced monitoring process instigated to enhance control of the capital programme officers anticipate that £0.5m will need to be re-profiled into 2012/13. This is detailed in column 8 of Appendix B to the report of the Head of Finance and Customer Services. Given below is an individual report on the major items:

- a) The main phase of the Mote Park scheme is now underway, with completion scheduled for June 2012. The Capital Programme approved by the Council in March assumed that all payments would be made within 2011/12, but given the scheduled completion date it is now anticipated that a further £0.5m of the expenditure will slip into 2012/13, as there will be stage payments made as the scheme progresses. £0.9m of expenditure was slipped into 2012/13 following the first quarter monitoring report. As this is a scheme that is 75% funded by the Heritage Lottery Fund (HLF) there will be regular claims made to HLF to reclaim expenditure as the works progress.
- b) A small proportion of the Support for Social Housing budget is also anticipated to slip into 2012/13.

In addition to the items above, the budget for the High Street project has been re-profiled. The original forecast estimated expenditure of £1.2m in 2011/12, with a further £1.0m in 2012/13. However, with the contract now underway and a forecast completion date of April 2012 it is now the case that expenditure for 2011/12 will be £1.9m, with the estimate for 2012/13 now being reduced to £0.3m. Given the slippage already identified and additional capital receipts identified it is not anticipated that this will cause any issues funding the programme for 2011/12.

#### Capital Financing

The agreed capital programme 2011/12 to 2014/15, as approved by Council in March 2011, identifies sufficient resources to finance the 2011/12 programme. It also identifies potential future need for prudential borrowing of £0.3m.

The financing of this programme requires £7.1m in capital receipts £4.9m in grants and contributions and £3.3m in revenue support.

Resources that can currently be confirmed are:

<u>Funding Source:</u>	<u>£.m</u>
Grants & Contributions	5.5
Capital Receipts	2.1
Revenue Support	4.5
	<b>12.1</b>

The confirmed capital receipts figures includes the disposal of Raigersfeld Lodge and Cemetery Lodge for £0.45m, which took place in July. Progress is also being made on a number of other potential disposals, which could realise further receipts during the year. In addition a further £0.2m has been received from Golding Homes in respect of Right To Buy sales and the VAT shelter scheme.

Based on the current projected expenditure set out at Appendix B to the report of the Head of Finance and Customer Services, there are now sufficient resources to fund the programme for the current year without the need to borrow.

The slippage and re-profiling proposed for approval elsewhere in this report will mean that net expenditure of £0.2m will be added to the approved budget.

The identified changes do not reduce the overall pressure on the capital programme over the current three year period. Anticipated funding is still required in full and there continues to be a minimum potential expectation of £0.3m in prudential borrowing.

### Treasury Management

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 2011 the Council approved a Treasury Management Strategy for 2011/12 that was based on this code. This required that Cabinet should be informed of Treasury Management activities quarterly as part of budget monitoring.

Cabinet has previously agreed to receive an enhanced report on Treasury Management to cover levels of activity and current market conditions in more detail on a quarterly basis.

The second quarter of 2011/12 saw:

- Slow growth of 0.1% so far this year.
- Public sector borrowing has increased.
- CPI inflation rising heading for a peak of around 5%.

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

- The first base rate increase is expected to be in September 2013, which has slipped from June 2012 as previously forecasted.
- Rates are expected to steadily rise reaching 2.5% by mid 2015.
- The Monetary Policy Committee announcement of second round of quantitative easing of £75bn has emphasised how seriously the recession is being viewed.

The projected movement in the base rate means that the council will not benefit from any significant additional investment income in the medium term. However, continued low rates would be beneficial should the Council decide it needs to borrow to fund the capital programme in the near future.

As referred previously in the report of the Head of Finance and Customer Services, there have been changes in the levels of investments in higher rate paying institutions due to the recent global downgrade in ratings. This is likely to lead to a reduced level of investment income if these ratings are not upgraded in the near future.

As at 30<sup>th</sup> September 2011 the Council held £26.3m in investments. This is detailed at Appendix C to the report of the Head of Finance and Customer Services. £6.3m of investments in the appendix are in call accounts which can be called upon immediately or within a short notice period.

During the first half of 2011/12, investment income has been above target. Income of £150,000 received compared to a budget of £125,000 with an average rate of 1.18%.

### **Alternatives considered and why rejected**

The budget monitoring process could be left to officers. The Maidstone Borough Council 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.

If such an approach were taken, Cabinet Members and Cabinet would have a reduced awareness of the council's financial position which would limit Cabinet's ability and effectiveness in achieving the council's strategic priorities and objectives.

### **Background Papers**

Electronic budget monitoring and performance reports within financial systems

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Change and Scrutiny by: <b>18 November 2011</b>
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