

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

Decision Made: 08 February 2012

**THIRD QUARTER REVENUE & CAPITAL MONITORING**

**Issue for Decision**

To consider the Capital and Revenue budget and expenditure figures for the third 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 third quarter 2011/12 be noted.
2. That the slippage and re-profiling in the capital programme to 2012/13, as set out below, be agreed.
  - a. Renovation Grants budget - £100,000 re-profiled into 2012/13
  - b. High Street Budget - £347,840 re-profiled into 2012/13
  - c. CCTV Control Room - £250,000 to be utilised to fund works needed at the Medway CCTV Control Room; £50,000 required in current financial year with the remaining £200,000 re-profiled into 2012/13.
  - d. Gypsy Site Improvements - £100,000 re-profiled into 2012/13
  - e. Green Spaces Strategy budget - £10,000 anticipated to slip into 2012/13
  - f. Maidstone Museum – an overspend is anticipated, but resources to fund this have been identified from balances.

**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 the 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 Cabinet to remain fully aware 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 this report is the revised estimate for 2011/12 as detailed elsewhere in the Budget Strategy report on this agenda. Actual expenditure to December 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, and the profiled budget and expenditure to December 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 December 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 third 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.

Appendix A to the report of the Head of Finance and Customer Services shows actual spend is £0.35m less than the budget at the end of quarter three which compares to a figure of £0.44m less than budget at the end of quarter two 2011/12.

A detailed analysis of the figures at cost centre level shows 127 out of a total of 215 cost centres are currently reporting actual spend less than budget, which mirrors the position at the end of quarter two 2011/12.

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

- a) Employee costs are showing actual spend is £0.35m less than budget after allowance for the cost of temporary and agency staff. This is a consequence of posts which are currently being held as vacant following a number of redundancies.
- b) 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 generation. A review of fees and charges across the Council shows performance is down by £0.2m on the budgeted expectation of £5.7m. The most significant shortfalls are in Pay & Display Car Parks, Park & Ride and Building Control. In all cases management are aware of the position and are taking appropriate action to deal with it.
- c) With regards to income generation a project is underway the purpose of which is to:
  - Identify new sources of income and improvements to existing income streams for the Council for the period of the

## Medium Term Financial Plan 2012/13 to 2016/17.

- Prioritise the 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 O&S Committee. Cabinet have been briefed on the 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 three and reports on these areas are given below:-

- a) At present the interest being generated on the investment of the Council's surplus funds is exceeding the targeted figure by £50,152. Based on current projections it is likely that this performance will be sustained for the remainder of the year. Treasury Management performance is dealt with later in this report.
- b) Council Tax have only spent a small portion of their Professional Services Court Case budget, meaning that there is currently an underspend of £40,215 on the budget. There has been no committal action to date this year, as the Council Tax team has been concentrating on introducing new procedures, dealing with outstanding committal work and structuring recovery procedures, which in part is a consequence of the new partnership arrangement. Actions will be commenced from February, so there will be spend against this budget before the end of the year, and it is anticipated that actions will be back to the normal level in 2012/13.
- c) Civic Wardens and Environmental Enforcement have generated additional income of £38,416 for Fixed Penalty Notice Litter Fines. More tickets have been issued than were initially assumed in the budget for the year, which in part is due to this being a new service so there was some uncertainty around what the actual numbers of tickets issued would be. Part of this additional income is being utilised to purchase and install new litter bins for the High Street.
- d) The On-Street Car Parking budget is showing an underspend of £33,154, which is a consequence of less than anticipated spend on the Repair & Maintenance of Grounds budget. This was increased in 2011/12 to ensure that on-street markings such as yellow lines could be re-painted, as some are no longer as visible as they should be. It is anticipated that these works will be complete by

the end of the financial year and that the budget will be substantially spent.

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

- a) The Homeless Temporary Accommodation budget is showing expenditure greater than budget of £112,226. 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) Park & Ride is also showing a shortfall against the projected budget of £80,885, which is mainly due to less income than expected for season tickets and at the Sittingbourne Road site. The management arrangements for Park & Ride have changed with the departure of the Public Transport Officer, and the officers now responsible for this service have been assessing the options for dealing with the future of the service.
- c) There is a currently a shortfall in income of £96,142 at Parkwood Industrial Estate. This is mainly as a consequence of the resolution of a long standing issue regarding an outstanding debt, whereby the Council accepted a settlement of £100,000 against a sum due of £208,618. An occupant of a unit had entered into bankruptcy and this settlement was subsequently negotiated with the parties dealing with the affairs of the occupant.

At this stage the report identifies no major risks that require action. The issues identified above are expected to be resolved by appropriate management action during the year.

Through the budget strategy savings and efficiencies were identified totalling £1.9m. It is anticipated that these will all be met by year end and reflected in the outturn position.

### 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.

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

The estimated funding requirement for the Olympics celebration events is in excess of £0.18m. At this time the report suggests that there are costs such as road closures still to be quantified. It is recommended that

Cabinet agree the use of balances to fund the required needs of the scheme up to a maximum spend of £0.2m. After allowing for the resources currently identified in the 2011/12 budget, the maximum need for balances will be £0.17m.

If this proposal is agreed then general fund balances will reduce by a maximum of £0.17m.

### Collection Fund

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

	<b>Target %</b>	<b>Actual %</b>
NNDR	89.8	87.4
Council Tax	87.8	87.3

Both are marginally below the collection targets, although performance is stable and comparable to this point in previous years. 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.

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 above.
3.	Actual spend to the end of December 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 third quarter of 2011/12 is shown as £3.5m. £6.1m of the total budgeted spend of £7.5m is in relation to a small number of major projects and schemes.

Following the enhanced monitoring process instigated to enhance control of the programme officers anticipate that £0.6m will need to be re-profiled into 2012/13. This is detailed at 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) There has been some slippage within the Renovation Grants budget, and it is now projected that £100,000 will not be spent during 2011/12, so this unused budget will be re-profiled into 2012/13.
- b) The cashflow projection for the High Street budget has been revised and updated in consultation with the project manager, and it is now anticipated that £347,840 of expenditure previously expected to be spent in 2011/12 can now be re-profiled into 2012/13.
- c) The £250,000 budget for the CCTV Control Room will be utilised to fund works needed at the Medway CCTV Control Room following the recent award of the contract. At this stage only £50,000 will be required in the current financial year, with the remaining £200,000 re-profiled into 2012/13.
- d) The £100,000 budget for gypsy site improvements is not required in 2011/12 and will need to be re-profiled into 2012/13 when it is now anticipated to be spent.
- e) £10,000 of the Green Spaces Strategy budget is also anticipated to slip into 2012/13.
- f) An overspend is anticipated for the Museum project, but resources to fund this have been identified from balances.

#### Capital Financing

The agreed capital programme 2011/12 to 2014/15, as approved by Council in March 2011, and subsequently amended by Cabinet identifies sufficient resources of £7.5m to finance the 2011/12 programme.

The financing of this programme requires £5.0m in capital receipts £5.0m in grants and contributions and £6.0m in revenue support.

Resources that can currently be confirmed are:

<u>Funding Source:</u>	<u>£.m</u>
Grants & Contributions	5.1
Capital Receipts	2.2
Revenue Support	4.5
	<b>11.8</b>

The capital receipts figures include 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 £0.25m has been

received from Golding Homes in respect of Right To Buy sales and the VAT shelter scheme.

Based on the current projected expenditure shown 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 £0.8m will be re-profiled into 2011/12 if Cabinet agree this recommendation.

At its meeting on 21<sup>st</sup> December 2011 Cabinet agreed amendments to the funding profile for capital and included the use of the 2012/13 New Homes Bonus in the programme. This reduced the pressure on sale of assets and removed the need to borrow during the period of the current programme.

### Treasury Management

The Council has adopted, and will incorporate 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 greater 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 third quarter of 2011/12 saw:

- UK GDP grow 0.5%.
- PWLB rates increase on the back of the UK Comprehensive Spending Review.

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

- The first base rate increase is still expected to be in September 2013.
- Rates are expected to rise steadily reaching 2.5% by mid 2015.
- CPI inflation had reached 5.2% in August 2011 but is expected to gradually fall to 1.89% by the end of 2014.

Due to lack of movement in interest rates it is still recommended that investments are kept short term (less than 1 year). As at 31<sup>st</sup> December 2012 the Council held £33.6m in investments. This is detailed at Appendix C to the report of the Head of Finance and Customer Services. £14.6m of investments in the appendix are within call accounts which can

be called upon immediately or for a short notice period.

At the end of the third quarter of 2011/12 the Council had investment income totalling £0.23m compared to a budget of £0.19m. This is due to additional funds from slippage and slightly higher than expected investment rates. The average rate of investments to 31st December 2011 is 1.1%.

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

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.

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.

### **Background Papers**

Electronic budget monitoring and performance reports within financial systems.

<p>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>17 February 2012</b></p>
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