

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 13 August 2014

BUDGET MONITORING 1ST QUARTER

Issue for Decision

To consider the capital and revenue budget and expenditure figures for the first quarter of 2014/15.

To consider 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 first quarter of 2014/15 be noted.
2. That the proposals for slippage and re-profiling in the capital programme to 2015/16, including the specific allocations for the local growth fund approved schemes as set out in paragraph 1.7.5 of the report of the Director of Regeneration and Communities, be agreed.
3. That increased income from development control applications be utilised to fund additional appeals costs, as set out in paragraph 1.4.10b of the report of the Director of Regeneration and Communities.
4. That £230,000 of the additional income arising from the return of the unused top slice for the business rates safety net (£198,000) and the repayment from HMRC (£42,825) for over declared VAT in relation to car parking overpayments be utilised as follows:

	<u>£</u>
Office accommodation project	90,000
Land charges fee refunds	120,000
Economic Development business database	<u>20,000</u>
	230,000

5. That agreement be given to the temporary virement of £50,000 from the Leader's contingency to employ an Information Manager for 12 months, as detailed in paragraph 1.4.8 of the report of the Director of Regeneration and Communities.

6. That the detail in the report on the collection fund, general fund balances and treasury management activity be noted.

Reasons for Decision

The Director of Regeneration and 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. The report of the Director of Regeneration and Communities advises and updates the Cabinet on the current position with regard to both revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.

The report uses a number of terms that may require definition and a glossary of terms is given in section 1.14.3 of the report.

Revenue

The budget used in the report is the agreed estimate for 2014/15 including the carry forward resources agreed by Cabinet in May 2014. Actual expenditure to June 2014 includes all major accruals for goods and services received but not paid for by the end of the quarter.

An analysis that is summarised by Portfolio of the full year budget, the profiled budget to June 2014 and expenditure to June 2014 is attached as Appendix A to the report. The financial analysis is based on direct expenditure only. This removes the influence of internal recharges and accounting adjustments upon the variance analysis. An indicative projected year end outturn figure is also shown.

Appendix A shows that actual spend is £432,516 less than the budget at the end of the first quarter, including one off receipts of £240,000 as set out in paragraph 1.4.9d of the report. A detailed analysis of the figures at cost centre level shows 135 out of a total of 230 cost centres are currently reporting actual spend less than budget. Subject to the proposed use of the one off income, the projected outturn at 31 March 2015 is currently £392,516.

Also shown at Appendix A is a subjective analysis across all services. This identifies that within the net under spend £114,618 relates to employee costs, due to continuing vacancy levels.

The third table at Appendix A summarises the position specifically with regard to fees and charges income. At the end of the first quarter this income is £69,560 above the target figure. It should be noted that within this total there are some areas reporting income below budget. Further details of service areas where there are major variations from budgeted fees and charges are set out later in this section of the record of decision.

In accordance with best practice, virements are reported to Cabinet as part of quarterly budget monitoring. A virement represents the transfer

of a budget between objectives that occurs subsequent to the formal approval of the budget by Council. There were no virements to report for the first quarter of 2014/15.

Three priority requests for funding have been received from service managers. These relate to future costs which are not reported elsewhere.

- a) The first is £20,000 for a business database to support the work of the Economic Development Service;
- b) The second is £50,000 to employ an Information Manager for 12 months to implement the previously agreed Information Management Plan; and
- c) The third is the need for £90,000 of additional resources in 2014/15 and 2015/16 to progress the current review of office accommodation and prepare the Council for 2023 when the current accommodation comes to the end of its lease period. Further details are contained in a specific report to the meeting of the Cabinet held on 13 August 2014.

It is proposed that the business database and the office accommodation works are funded from the additional income set out in paragraph 1.4.9d of the report and that the Information Manager post is funded from the Leader's contingency.

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 £32,358 on Pay and Display Car Parks which is attributable to an under spend in running costs and higher than expected income. Two car parks, King Street and Lockmeadow, are performing significantly above their income targets. However, this under spend will be substantially off-set by the over spend in off-street parking enforcement.
- b) There is a positive variance of £84,009 from the Refuse and Recycling Service, which is due to the continuation of better than expected receipts from the bulky domestic refuse collection service, wheeled bins, and green waste bin hire. No problems are anticipated at year-end, although Weekend Freighter costs may increase substantially. The weekend freighter does not form part of the contract and any increase would be a direct cost to the Council.
- c) Development Control applications are continuing to show increased income, which has produced a positive variance of £72,143 for the first quarter of 2014/15. This increase is in line with the expectations for increased applications in the second half of the year. Income is continuing to exceed the budgeted figure. However, there are substantial appeals costs being incurred, as detailed elsewhere in this record of decision, and it is therefore proposed that the excess income is utilised to fund these costs.

- d) An additional grant payment of £198,000 relating to the return of the unused top slice for the business rates safety net has been received together with a £42,825 repayment from HMRC for over declared VAT in relation to car parking overpayments. It is proposed that these amounts are utilised as follows:

	<u>£</u>
Office accommodation project	90,000
Land charges fee refunds	120,000
Economic Development business database	<u>20,000</u>
	230,000

The Cabinet is aware of the proposals regarding office accommodation. Additional costs in respect of land charges fee refunds are detailed within paragraph 1.4.10c of the report and further detail relating to the Economic Development business database is set out at paragraph 1.4.7 of the report.

- e) The budgets for new shared service arrangements with partner authorities are in the process of being finalised. This has resulted in a positive variance of £41,853 for the Development Management Business Support Section and adverse variances detailed elsewhere in the report. It is expected that these variances will be resolved through budget transfers upon agreement of the budgetary arrangements for these services with partner authorities. However, it should be noted that due to the additional set up costs incurred in establishing these shared services, the year end projection for these budgets is an overall adverse variance.

A number of service 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) The Homeless Temporary Accommodation budget has continued to show expenditure greater than budget, with a variance of £99,166 for the first quarter of 2014/15. Cabinet is aware that a project has commenced to target reductions in the cost of temporary accommodation and two properties have now been purchased for this purpose. These properties are expected to be operational later in 2014/15 and it is anticipated that this will result in a reduction in future expenditure on temporary accommodation.
- b) There are substantial unbudgeted costs being incurred in respect of development control appeals which has resulted in an over spend of £115,561 at the end of the first quarter. This over spend could be funded by excess planning fee income noted elsewhere in this decision.
- c) There is an adverse variance of £49,392 against the land charges budget due to payments being made to refund fees paid following legal action by a group of property search companies. In addition to these, further payments amounting to £70,000 will need to be made during the next quarter. It is proposed that these additional costs are

funded from additional grant income as set out in paragraph 1.4.9d of the report.

- d) As noted above, the budgets for new shared service arrangements with partner authorities are in the process of being finalised. This has resulted in an adverse variance of £114,234 for the Mid-Kent Planning Support Service as well as the favourable variances detailed elsewhere in the report. These variances will be resolved through budget transfers upon agreement of the budgetary arrangements for these services with partner authorities. However, as previously noted, the year end outturn projection for these service budgets is an overall adverse variance due to the additional resources required to set up the shared service.

The report identifies a number of areas requiring action by Cabinet at this time and the decisions set out above reflect this. Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2014/15 is an under spend of £392,516. 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, the Cabinet's agreement to the proposals listed at paragraph 1.2.1 of the report at this time will enable the eventual under spend to be used to influence the future budget need.

The budget strategy for 2014/15 identified savings and efficiencies totalling £1.254m. These savings are being monitored corporately and it is anticipated that the target will be met in year.

Balances

Balances as at 1st April 2014 were £15.4m. The current medium term financial strategy assumes balances of £3.6m by 31st March 2015.

The major reason for the movement in balances during 2014/15 relates to the use of carry forwards approved by Cabinet in May 2014.

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

Collection Fund

Following the introduction of local Council Tax support from 1st April 2013 and the approval of the Business Rates pooling arrangement with Kent County Council, 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.

The collection rates achieved at the first quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2014/15.

	Target %	Actual %
Council Tax	30.10	29.80
NNDR	34.32	33.64

Both have marginally missed their respective targets and this reflects the experience at other billing authorities in Kent, although it should be noted that Maidstone's collection rate for the year to date is in line with the other Kent districts.

Whilst the percentage variances are small, the gross values of Council Tax and Business Rates collected each year are significant. The Head of Revenues and Benefits Shared Service follows a recovery timetable and action will be taken before year end to attempt to bring collection rates back to target.

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

Attached at Appendix B to the report of the Director of Regeneration and Communities is a summary of the current capital programme for 2014/15, as agreed by Council. This includes the initial capital programme for the financial year plus amounts carried forward from 2013/14. It also reflects the slippage that was identified in the monitoring reports throughout 2013/14.

The table in Appendix B gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2014/15 after the adjustments detailed above.
3.	Actual spend to the end of June 2014.
4.	Balance of budget available for 2014/15.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2014/15.
8.	Balance of budget that will slip into 2015/16.
9.	Budget no longer required.

Capital expenditure to the end of the first quarter of 2014/15 is shown as £360,000. The budget for the year is £14.4m although this includes £5.4m for acquisition of commercial assets and £2.2m for transport and highways projects for which significant expenditure has yet to be incurred.

The capital programme for 2014/15 identifies funding for transport and infrastructure schemes of £2.2m in 2014/15 and annual figures in future years between £2m and £2.6m. The Council has recently been notified of the Government's award from the local growth fund to the SELEP. Included within the awards were the two schemes to which the Council is now required to commit match funding and it is proposed that funding be made available from the infrastructure resources to the schemes as set out below.

The two schemes that were awarded funding are as follows:-

- a) The bridges' gyratory – this scheme is to improve traffic flow and direction around the gyratory system at the River Medway that connects the A20, A26 and A229 at the west end of the High Street. Total scheme cost as per the bid is £5.75m of which the Council's contribution will be £1.14m.
- b) Sustainable access to Maidstone employment areas – this scheme will provide a cycle route from East Farleigh to Aylesford along the River Medway. The scheme cost as per the bid is £3m of which between £0.5m and £1m will be required from the Council or other contributors. Should the Council's contribution to this scheme reduce as a result of funding from other contributors, then the additional resources will be reallocated to other capital schemes in order of priority.

Following the first quarter monitoring, Officers anticipate that £7.1m will need to be re-profiled into 2015/16. This is detailed in column 8 of Appendix B to the report. These are items where the programmed works have been rescheduled to now take place during 2015/16.

Capital Financing

The agreed capital programme for the period 2014/15 to 2018/19, as approved by Council in March 2014, identifies sufficient resources to finance the 2014/15 programme.

Resources that can currently be confirmed are:

<u>Funding Source:</u>	<u>£m</u>
Grants & Contributions	0.5
Revenue Support	10.2
Prudential Borrowing	6.0
Capital receipts	<u>0.2</u>
	16.9

The slippage and re-profiling proposed will mean that net expenditure of £9.8m will be re-profiled into 2015/16.

Treasury Management

The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In March 2014, the Council approved a Treasury Management Strategy for 2014/15 that was based on this Code. The strategy requires that Cabinet should formally be informed of treasury management activities quarterly as part of budget monitoring.

During the Quarter ended 30th June 2014:-

- There has been a sharp fall in inflation (CPI) reaching 1.5% in May. This is the lowest it has been since 2009.

- Strong growth has resulted in unemployment falling much faster through the threshold of 7% set by Monetary Policy Committee (MPC) back in August 2013.

The Council's Treasury Management advisors, Capita Asset Services, provide the following forecast:-

- Growth is likely to continue through 2014.
- The markets are expecting the first bank rise around the end of 2014 or early 2015.
- The latest interest rate and PWLB rate forecast is listed below:-

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%
5yr PWLB rate	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%
10yr PWLB rate	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.40%	4.40%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%
50yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.80%	4.90%	4.90%	4.90%	5.00%

At 30th June 2014 the Council held investments totalling £26.53m. A full list of investments held is given in Appendix C to the report of the Director of Regeneration and Communities. £21.53m of investments are in accounts which can be called upon immediately or for a short notice period due to the shorter term rates being more appealing than longer term.

Investment income is slightly below target with a balance of £47,000 compared to a budget of £57,000. The average interest rate for this period is 0.68%. The low interest rates are a consequence of Government support for lending schemes which has prompted a reduction in need for additional cash by financial institutions.

£1.5m was borrowed for one week at a rate of 0.28% during the period from 20th June 2014 to 27th June 2014. This was to cover an unplanned shortfall until Council Tax income was received on 27th June 2014.

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 the leadership team would have a reduced financial awareness. This could restrict their ability to meet service requirements and achieve the Council's corporate objectives.

Background Papers

None

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 Policy and Communications by: 22 August 2014.
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