

MAIDSTONE BOROUGH COUNCIL
RECORD OF DECISION OF THE CABINET

Decision Made: 12 November 2014

BUDGET MONITORING 2ND QUARTER 2014/15

Issue for Decision

- (a) To consider the capital and revenue budget and expenditure figures for the second quarter of 2014/15; and
- (b) To consider other financial matters with a material effect on the medium term financial strategy or the balance sheet.

Decision Made

- (a) That the satisfactory revenue position at the end of the second quarter of 2014/15 be noted;
- (b) That the proposals for slippage and re-profiling in the capital programme to 2015/16, as set out in Appendix 'B' to the Report of the Director of Regeneration and Communities be agreed; and
- (c) That the detail in the report on the collection fund, general fund balances and treasury management activity is noted.

Reasons for Decision

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 advised and updated Cabinet on the current position with regards to both revenue and capital expenditure against the approved budgets, and also included sections on Collection Fund performance and Treasury Management performance.

Revenue

The budget used in the report of the Director of the Director of Regeneration and Communities was the agreed estimate for 2014/15 and included the carry forward resources agreed by Cabinet in May 2014. Actual expenditure to September 2014 included all major accruals for goods and services received but not paid for by the end of the quarter.

An analysis that was summarised by portfolio, of the full year budget, the profiled budget to September 2014 and expenditure to September 2014 was attached as Appendix A to the report of the Director of the Director of Regeneration and Communities. The financial analysis was

based on direct expenditure only. This removed the influence of internal recharges and accounting adjustments upon the variance analysis. An indicative projected year end outturn figure was also shown.

Appendix A to the report showed that actual spend was £461,040 less than the budget at the end of the second quarter. A detailed analysis of the figures at cost centre level showed 139 out of a total of 233 cost centres were currently reporting actual spend less than budget. The projected outturn at 31 March 2015 is currently £361,040.

Also shown at Appendix A to the report was a subjective analysis across all services. This identified that within the net underspend £189,248 (Q1 2014/15 £114,618) related to employee costs, due to continuing vacancy levels.

The third table at Appendix A to the report summarised the position specifically with regard to fees and charges income. At the end of the second quarter this income is £18,564 above the target figure. It was noted that within this total there were a number of areas reporting income below budget. Further details of service areas where major variations from budgeted fees and charges were given later in this section of the report.

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. Four virements totalling £402,410 were undertaken in the second quarter relating to:

- a) £120,000 temporary funding for development control appeals, as agreed by Cabinet when considering the Q1 budget monitoring report;
- b) £51,410 funding for Information Manager post, as agreed by Cabinet in August 2014; and
- c) £230,000 funding for various schemes, as agreed by Cabinet in August 2014.

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:-

- d) There was a positive variance of £52,122 (Q1 2014/15 £32,358) on pay and display car parks which is attributable to a combination of an underspend on running costs and higher than expected income. Two car parks, King Street and Lockmeadow are performing significantly above their income targets. However, income from season tickets has continued to decline and the underspend will be substantially off-set by the overspend in off-street parking enforcement.
- e) On-street parking was showing an underspend of £37,514 (Q1 2015/14 £10,391) which is largely due to lower than expected running costs. Income is £7,000 above target

overall, although it was noted that within this total, income from PCNs is £8,000 below target. However, this income is ringfenced so this does not represent a general underspend.

- f) The benefits section was showing an underspend of £39,067 (Q1 2015/14 £15,681) which was mainly due to vacant posts.
- g) There was a positive variance of £81,207 (Q1 £84,009) which mainly related to lower than expected expenditure on wheeled bins and continued receipts from the bulky domestic refuse collection service 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.
- h) Recycling collection was underspent by £96,953 at the end of the second quarter (Q1 2014/15 £46,964) as a result of higher than expected income levels and a small positive variance on controlled running costs.
- i) The environmental enforcement section was showing an underspend of £38,608. This was due to a combination of smaller underspends in the controlled running costs for this service and is a continuation of the position at the end of the first quarter.

A number of areas showed significantly more spend or a shortfall in income compared to the amounts actually budgeted at the end of the second quarter, and these are reported below:-

- j) The Homeless Temporary Accommodation budget has continued to show expenditure greater than budget, with an adverse variance of £289,711 at the end of the second quarter of 2014/15 (Q1 2014/15 £99,166). Cabinet was made aware that a project was underway to target reductions in the cost of temporary accommodation and one of the new properties became operational during the second quarter. It is anticipated that this will result in a reduction in future expenditure on temporary accommodation, although at this stage it is too early to identify any significant impact.
- k) There is an adverse variance of £78,667 (Q1 2014/15 £15,028) against the crematorium budget due to lower than expected income. There has been a recent upturn in bookings which will help to address this variance, and the situation is being monitored closely by the service manager. However, it was noted that the income levels achieved in 2013/14 were exceptional due to the closure of Medway crematorium for refurbishment during the year.
- l) The procurement section is showing an adverse variance of £31,276 (Q1 2014/15 £13,402) which was a result of income targets not being achieved during the first half of the year. This

is a continuation of the trend observed for the past two financial years.

- m) The museum budget is overspent by £35,449 at the end of the second quarter (Q1 2014/15 £22,853). This was a result of lower than expected income and reactive building maintenance during the first half of the year.
- n) Cobtree Manor Park is currently showing an overspend of £31,540 due to extra staff costs from MBS to cover weekend supervision and necessary works due to a substantial increase in visitor numbers. These costs will be recharged to the Trust at year end which will bring expenditure back in line with the budget.
- o) There was an adverse variance of £100,941 (Q1 2014/15 £114,234) arising from the Mid Kent Planning Support Service. This additional cost will be shared across the three authorities involved in the partnership, and the requirement for additional resources is anticipated to continue through to the end of the financial year. Budgetary arrangements for this service are currently being agreed with partner authorities and the council's share of this variance will be addressed once these measures are finalised.

Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2014/15 is an underspend of £361,040.

The budget strategy for 2014/15 identified savings and efficiencies totalling £1,254,000. These savings are being monitored corporately and it is anticipated that this target will be met by the end of the 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 related 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 1 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 end of the second 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	58.21	58.10
NNDR	59.12	59.23

The target collection rate has been marginally missed for Council Tax and marginally exceeded for NNDR. It was noted that Maidstone's collection rate for the year to date was 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 the Revenues and Benefits Partnership follows a recovery timetable and action is currently being taken to attempt to bring collection rates for Council Tax back to target.

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

Council Tax Support – The actual collection rate is 52.8% (44.77%; Q2 2013/14).

The level of local council tax support recorded at mid-year shows a caseload of 10,196 claimants (10,602; Q2 2013/14). For Maidstone Borough Council the support provided is £1.49m (£1.42m; Q2 2013/14) compared to an estimated support of £1.60 used to calculate the budget.

While there are a significant proportion of pensionable age claimants the overall reduction in claimants showed 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.

Retained business rates – the current collectable business rates is £53.9m compared to an initial estimate of £53.7m, representing a minor net increase of £0.2m.

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.

Capital

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

monitoring report for the first quarter of 2014/15.

The table in Appendix B to the report 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 September 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 second quarter of 2014/15 was shown as £0.7m. The budget for the year, adjusted for slippage detailed in the first quarter budget monitoring report was £7.2m. This comprised of a number of planned projects for which significant expenditure is yet to be incurred, including £1.5m for acquisition of commercial assets, £1.0m for continued improvements to play areas and £1.6m housing grants.

Following the second quarter monitoring, officers anticipate that £1.3m will need to be reprofiled 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, identified 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 for approval elsewhere in the report would mean that a net expenditure of £1.3m would be re-profiled into 2015/16 subject to this recommendation being agreed.

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 30 September 2014:

- Inflation (CPI) has remained at 1.5%. This is the lowest it has been since 2009 and is expected to fall further later in the year.
- GDP has grown by 3.2%.

The Council's Treasury Management advisors, Capita Asset Services, have provided the following forecast:

- The markets are now expecting to see an increase in the Bank Rate during the third quarter of 2015.
- The Governor of the Bank of England has repeatedly stated that these increases will be slow and gradual due to concerns over the impact on consumers with lower than inflation pay increases.
- Economic growth is expected to continue through to 2016.
- The fall in unemployment is expected to continue and average pay is expected to increase.

The latest interest rates and PWLB rate forecasts are listed below.

	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%	0.75%	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%	3.40%	3.50%	3.50%
10yr PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%
25yr PWLB rate	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%
50yr PWLB rate	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.80%	4.90%	4.90%

At 30 September 2014 the council held investments totalling £29.83m (Q1 2014/15 £26.53m). A full list of investments held was included at Appendix C to the report of the Director of Regeneration and Communities. £21.83m (Q1 2014/15 £21.53m) of investments are in accounts which can be called upon immediately or for a short notice period. This is due to the shorter term rates being more appealing than longer term.

Investment income is below target with a balance of £101,000 (Q1 2014/15 £47,000) compared to a budget of £125,000 (Q1 2014/15

£57,000). The average interest rate for this period is 0.69% (Q1 2014/15 0.68%). The low interest rates are a consequence of Government support for lending schemes which have prompted a reduction in need for additional cash by financial institutions.

Treasury management performance is regularly benchmarked against similar councils and this has shown that these results are in line with the benchmark group.

There has been no borrowing during the second quarter of 2014/15.

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.

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: 21 November 2014
