

**POLICY AND RESOURCES
COMMITTEE**

25 November 2015

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Budget Monitoring 2nd Quarter 2015/16

| | |
|---------------------------------------|--|
| Final Decision-Maker | Policy and Resources Committee |
| Lead Head of Service | Paul Riley, Head of Finance & Resources |
| Lead Officer and Report Author | Janette Gill, Chief Accountant (Interim) |
| Classification | Public |
| Wards affected | N/A |

This report makes the following recommendations to this Committee:

1. To note the Authority's Revenue position at the end of September 2015 i.e. end of Quarter 2 for 2015/16;
2. Agree the slippage position and re-profiling of the Capital Programme for 2015/16;
3. Review the details on the updated progress on the Collection Fund, General Fund Balances and Treasury Management activity.

This report relates to the following corporate priorities:

- Securing a successful economy for Maidstone Borough – The Council is committed to delivery of Value for Money services
- This report outlines its measures in securing that commitment

Timetable

Policy and Resources Committee

25 November 2015

Budget Monitoring 2nd Quarter 2015/16

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The report communicates on the updated progress report of the Capital and Revenue Expenditure as at the end of September 2015, Quarter 2 of 2015/16, against the approved Budgets including the Collection Fund and Treasury Management.
 - 1.2 The report begins by presenting revenue information specifically in relation to this Committee's services. All information on a strategic level across the entire budget is then reported as both perspectives seek to ensure maximum transparency in reporting to this Committee.
 - 1.3 The revenue budget forecast for year end is currently showing a projected underspend of £1,156,000. This figure mainly relates to a variance of approximately £943,000 on the Policy and Resources Committee, details of which are outlined in paragraph 4.2 and 4.3.
 - 1.4 The Capital Programme is forecasted to slippage of approximately £6,000,000 by the year ending 2015/16 and is mainly due to the delay in acquisition of Commercial Assets. The capital expenditure for the quarter ending September 2015 totalled £832,000 from a budget of £10,603,000.
 - 1.5 Other balance sheet elements are reporting satisfactory progress although interest on investments remains lower than expected at 0.78%.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The report intends to provide Members, Senior Officers and stakeholders with an indication of the current position regarding the financial performance of the Council in accordance with the recommendations to the Policy and Resources Committee outlined in the paragraph 3 of this report.
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3. REASONS FOR RECOMMENDATIONS

- 3.1 The Head of Finance and Resources is the Section 151 Officer and Responsible Financial Officer, and has overall responsibility for Budgetary Control and Financial Management. However, in practice the day to day Budgetary Control is delegated to Service Managers, with assistance and advice from their Director and the Finance section. This report provides a progress update report to the Policy and Resources Committee on the current financial performance of the Revenue and Capital Expenditure against the approved budgets, to also include Memorandum Accounts such as the Collection Fund, whilst giving an overview of the performance of Treasury Management.

3.2 This report uses a number of terms that may require definition and a glossary of terms is given in section 7 of the report.

4. REVENUE MONITORING

4.1 The budget used in this report is the agreed and approved estimate for 2015/16 including the carry forward resources as agreed by Policy and Resources Committee on the 11 February 2015. Actual expenditure to the end of September 2015 includes all major accruals for goods and services received but not paid for by the end of the quarter.

Committee Level Outturn 2015/16 - Second Quarter results

The financial information set out in Table 1 is a summary of the expected outturn for the current year.

| Committee | Full Year Budget £ | Forecast £ | Variance £ |
|--|-------------------------------|-----------------------|-----------------------|
| Policy & Resources | 8,794,635 | 8,615,225 | -179,410 |
| Strategic Planning, Sustainability & Transport | -439,700 | -548,700 | -109,000 |
| Communities, Housing & Environment | 8,800,405 | 8,990,405 | 190,000 |
| Heritage, Culture & Leisure | 540,120 | 640,448 | 100,328 |
| Sub-Total | 17,695,460 | 17,697,378 | 1,918 |
| Net transfer to reserves & balances | 2,438,000 | 2,438,000 | 0 |
| Totals | 20,133,460 | 20,135,378 | 1,918 |

Table 1 : Committee level Outturn Summary Quarter 2 – 2015/16

As can clearly be seen from the table, the Policy and Resources Committee reported an overall positive variance of £179,410 against a net budget of £8,794,635. This is a variance of 2.04%.

4.2 The report detailed the major issues that contributed to the positive variance for this Committee as follows:

- a) The main variance relates to additional grant received from central government of £493,000 to compensate the council for lost business rates following specific discounts allowances agreed in year by central government. There was a consequential loss of business rates that are not reported in the details above and the funding does not create a usable variance;
- b) Learning and Development – there is an underspend of £37,000 against this budget which relates to reduced expenditure on central training offset by additional training income received;

- c) Improvement Section – the underspend of £48,000 is mainly due to vacant posts that exist within this section;
- d) Mid-Kent ICT Services – The shared services have benefited from an underspend of £37,000 due to vacant posts. This will be distributed between the shared service partners;
- e) Customer Services – The underspend of £41,000 is due to vacant posts, of which some will be offered up as savings for 2016/17;
- f) Maidstone House – Additional income streams due to agreements with outsourced partners has resulted in an underspend of £52,000;
- g) In addition there is a balance available from the contingency budget that enables the re-use of budgets that have been identified as savings earlier than needed by the medium term financial strategy of £199,410. This budget will be automatically removed in 2015/16 as part of the normal cycle of budget savings.

4.3 There were no significant adverse variances

Committee Level Second Quarter Results and Forecast 2015/16

4.4 Attached at **Appendix A** is a table detailing the current budget and expenditure position for this Committee's services in relation to the second quarter of 2015/16, to September 2015. The appendix details net budget per cost centre for this Committee. The budget used is the budget approved by Council in February 2015 adjusted to allow for the approved carried forwards agreed by Policy and Resources Committee in July 2015. Actual expenditure is shown to the end of September 2015 and includes accruals for goods and services received but not yet paid for.

4.5 The columns of the table in the Appendix show the following detail:

- a) The cost centre description;
- b) The value of the total budget for the year;
- c) The amount of the budget expected to be spent by the end of September
- d) The actual spend to that date;
- e) The variance between expected and actual spend;
- f) The forecasted spend to year end; and
- g) The expected significant variances at 31 March 2016.

4.6 Appendix A shows that of an annual budget of £8,794,635, the expectation is that £5,488,283 would be spent at the end of the second quarter of the year and £8,615,225 would be the projected outturn by the end of 31 March 2016. At this point in time the budget is reporting an under spend of £971,345 and the forecast for year-end shows a projected variance of £179,410 to reflect the likely outcome at 31 March 2016.

4.7 This variance is a continued consequence of the same government grant for loss of business rates that affected the outturn for 2014/15 and the unused element of the contingency budget.

Strategic Level Second Quarter Results and Forecast 2015/16

4.8 Given at **Appendix B** is a summary of the second quarter's budget performance at the level of the strategic budget. The budget and actual figures are provided at the same level as set out in paragraph 4.5. The figures are analysed in three ways and set out in three tables which show the following levels of detail:

- Table 1: Subjectively by Committee;
- Table 2: Subjectively by Priority;
- Table 3: Subjectively by Expenditure Type.

4.9 *Each Committee has considered the major adverse and positive variances reported within their service areas. In each case they have chosen to either: develop plans to act further in resolving the issue; or to continue to monitor the position and act if necessary at a later date. The full year forecasted variances are set out in summary below:*

| Full Year Forecasted Variances: | Positive Variance £ | Adverse Variance £ |
|---|------------------------------------|-----------------------------------|
| Heritage Culture & Leisure Committee: | | |
| Museum: The museum is making a one-off recovery due to the recent Lego event during the year and has negated some of the overspend for this financial year only. | | 9,000 |
| Crematorium: The crematorium did not achieve its income target in 2014/15. This is reflected, along with additional expenditure assumptions, in the forecast. | | 85,000 |
| Strategic Planning, Sustainability and Transport Committee: | | |
| Development Management: The variance across this area is primarily due to a high level of appeals costs to date and increased staffing costs, as additional resources were required to meet the increased number of planning applications. However the increase in applications has meant there is significantly more planning fee income than was initially forecast, therefore it is anticipated this will meet all the additional costs by year end. | 110,000 | |
| Car Parking: Early predictions of year end forecast are notoriously difficult for parking income as weather and other trends have a direct impact. In addition the resources are partially ring-fenced to transport services by statute. The committee will continue to monitor this service. | 100,000 | |
| Planning Support Shared Service: The outcome of the work currently underway on this | | 31,000 |

| Full Year Forecasted Variances: | Positive Variance £ | Adverse Variance £ |
|---|--------------------------------|-------------------------------|
| shared service is not yet confirmed. Additional costs are currently being incurred and may increase over this figure. The long term budget pressures from this service will be considered by Policy & Resources Committee. | | |
| Communities, Housing and Environment Committee | | |
| Waste and Recycling: A positive variance arising mainly from the green waste scheme. This will be used to support the set up costs within Street Cleansing following the recent restructure. | 160,000 | |
| Temporary Accommodation: The level of demand for this service continues to grow. Despite a number of actions being taken over the past two years there is expected to be a further adverse variance this year. The committee will consider options in a specific report on further possible actions. | | 270,000 |
| | 370,000 | 453,000 |

Table 2: Summary of significant variances by committee

- 4.10 In addition to the issues considered by the other service committees, this committee is reporting a positive variance as detailed in paragraph 4.9 above.
- 4.11 In accordance with best practice, virements are reported to Policy and Resources Committee 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 second quarter of 2015/16.

Strategic Level Capital Programme 2015/16

- 4.12 The capital programme was approved by Council on 25 February 2015.
- 4.13 Funding for the programme remains consistent with previous decisions of Council in that the majority of resources come from New Homes Bonus along with a small grants budget and a small number of capital receipts from asset sales. Previous decisions of Council and Policy and Resources Committee have focused the use of New Homes Bonus on infrastructure projects where these are required by the infrastructure delivery plan that forms part of the Local Plan.
- 4.14 The current programme is set out in **Appendix C** and shows the approved budget and actual expenditure to date. The Appendix details the profile of expenditure that is forecast for the remainder of the year and identifies £6,184,034 that will require carry forward approval into 2016/17. The major schemes that have incurred slippage are:

- a) **Housing Grants** – based on the current and average spend over the last 3 years, we will need to slip £880,000 into 2016/17.
- b) **Flood Defences** – there is no planned expenditure for 2015/16 so this budget will be slipped into 2016/17.
- c) **Continued Improvements to Play Areas** – the planned programme of works is on schedule with a view to the works commencing in early Spring 2016, therefore there will only be minor expenditure incurred during 2015/16 so the majority of the budget will be slipped into 2016/17.
- d) **High Street Regeneration** – this is the unspent balance from phase 2 of the project. Future plans for the town centre are yet to be fully developed so this budget will slip into 2016/17.
- e) **Enterprise Hub** – this is the unspent balance from the development of the Business Terrace, and will slip into 2016/17.
- f) **Acquisition of Commercial Assets** – this budget will be utilised to fund economic development initiatives and the majority of the expenditure will be incurred in 2016/17.
- g) **Commercial Projects** – these projects relate to the Pet Crematorium, Brunswick Street and Mote Park Adventure Zone – these schemes are being developed, but there will be no significant expenditure until 2016/17.

4.15 The Council has the necessary resources to manage the programme in 2015/16 with the majority of funding arising from New Homes Bonus. There are a small number of minor asset sales and government grant in relation to disabled facilities grants also funding the programme.

Reserves and Balances

4.16 The total of reserves and balances as at 1st April 2015 was £15.3m. The current medium term financial strategy assumes balances of £14.4m by 31st March 2016.

4.17 The movement in balances during 2015/16 relates to the use of carry forwards approved by Policy and Resources Committee in July 2015 and the use of resources from earmarked reserves in relation to the local plan.

The position set out above allows for the minimum level of general balances of £2.3m, as agreed by Council in February 2015, to be maintained.

Collection Fund

4.18 Due to the risks that surround the pooling arrangements in place for business rates growth and the local council tax discount scheme, the Council monitors the collection fund carefully.

- 4.19 The collection rates achieved during the second quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2015/16.

| | Target % | Actual % |
|----------------|-----------------|-----------------|
| Business Rates | 59.3 | 60.4 |
| Council Tax | 58.1 | 57.6 |

Table 3: Collection Rates for Council Tax and Business Rates to September 2015

- 4.20 Council Tax has marginally missed the target. This sum equates to approximately £453,000 out of a collectable debt for the year of £90,668,206.
- 4.21 As shown above, while the percentage variances are small, the gross value of Council Tax collected each year is significant. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken before year end to attempt to bring the collection rate back to target.
- 4.22 Officers will continue to pursue payment of any developing arrears along with the arrears from prior years which is on target and.
- 4.23 **Council Tax Support** – The actual collection rate is 52.91% against a target of 53.03%.
- 4.24 The level of local council tax support recorded at the end of Quarter 2 shows a caseload of 9,723 claimants (10,196 as at Q2 - 2014/15). For Maidstone Borough Council the support provided is £1.56m (£1.49m at Q2 - 2014/15) compared to an estimated support of £1.5m used to calculate the budget.
- 4.25 Whilst 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.
- 4.26 **Retained Business Rates** – the current collectable business rates is £58,696,000 against a target of £58,525,000 showing a minor net increase of £0.170 m against the original estimate.

Treasury Management

- 4.27 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 February 2015, the Council approved a Treasury Management Strategy for 2015/16 that was based on this code. The Strategy requires that the Committee should formally be informed of Treasury Management activities on a quarterly basis as part of budget monitoring.

During the Quarter ended 30th September 2015:

- CPI has now fallen further to -0.1% in September which was mainly due to lower fuel prices.
- Growth has increased by 0.7%

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

- The latest forecast still shows that the first Bank Rate change is projected to be in June 2016. This is due to the fact that CPI inflation being at such a low, it will be difficult for the Bank of England to increase within 2015.
- The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in the Bank Rate will be slow and gradual.

The latest interest rate and PWLB rate forecast is listed below.

| | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank rate | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| 5yr PWLB rate | 2.40% | 2.50% | 2.60% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% |
| 10yr PWLB rate | 3.00% | 3.20% | 3.30% | 3.40% | 3.50% | 3.70% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% |
| 25yr PWLB rate | 3.60% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |
| 50yr PWLB rate | 3.60% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |

Current Investments as at 30th September 2015

The council held investments totalling £34.55m. A full list of investments held is given in Appendix D. £9.55m of investments are in accounts which can be called upon immediately or for a short notice period for daily cash flow purposes. The majority of investments are fixed between 6 months and 2 years to maximise yield.

Investment income is below target with a balance of £116,000
Average interest rate for this period is 0.78%.

Borrowing

The Council had to borrow for short term liquidity reasons on the following occasion:

| Amount of Borrowing | Date | Duration | Interest Charged |
|----------------------------|-------------------|-----------------|-------------------------|
| £1.5m | 22 September 2015 | 1 day | £32.88 |

5. AVAILABLE OPTIONS

- 5.1 This report covers a series of issues all of which require consideration. Each issue and the options are set out below:
- 5.2 In considering the strategic position on the revenue budget at the end of September 2015 the committee has been provided with details of the actions each service committee plans to take on significant variances.
- 5.3 The committee can chose to note those actions and reconsider the outcomes at the end of the second quarter or it could chose to take further action.
- 5.4 The capital programme is reporting approximate slippage of £6,184,000 and expenditure of £832,000. Details of the programmes where major slippage occurs have been detailed in Appendix C. The committee could agree the slippage as proposed or take an alternative action such as removal of the budget or transfer of the budget to other schemes. If such alternative action is taken the councillors should be aware that the medium term financial strategy sets a hierarchy of priorities for the capital programme and any alternative scheme should be the highest priority unfunded scheme currently proposed.
- 5.5 Details of the performance of the collection fund and the level of available balances are both as expected and the committee need only note this information at this time.
- 5.6 Treasury Management is for information only as the Audit, Governance & Standards Committee takes responsibility for considering changes that may be required, for reference on to Council. The committee could make reference to the Audit, Governance and Standards Committee of any issues that it may wish to be considered at a future meeting.

6. PREFERRED OPTIONS AND RECOMMENDATIONS

- 6.1 The report is for advice in relation to the actions being taken by officers and other service committees and it is recommended that the committee note the current situation and to approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.

7. GLOSSARY OF TERMS

| Term | Definition |
|-------------|---|
| 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 Policy and Resources Committee. |
| 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 1st April 2013. |
| 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 1st 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. |
| SELEP | South East Local Enterprise Partnership |

| | |
|---------------------|---|
| 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. |

8. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|--|-----------------------------|
| Impact on Corporate Priorities | Delivery of Value of Money Services – 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 which is linked to the strategic plan and corporate priorities. | Head of Finance & Resources |
| Risk Management | The Council has produced a balanced budget for both capital and revenue expenditure and income for 2015/16. This budget is set against a backdrop of limited resources and in a difficult economic climate. Regular and comprehensive performance monitoring of the type included in this report ensures early warning of significant issues that may place the Council at financial risk. This gives this committee the best opportunity to take actions to mitigate such risks. Retrofits one of the five risks outlined in the Finance Risk Register – Maximise the Council's capability to make informed strategic decisions, | Head of Finance & Resources |

| Issue | Implications | Sign-off |
|--|--|------------------------------|
| | <p>manage budgets, commit and measure resources.</p> <p>The issues set out in this report do not exhibit the level of potential risk identified in previous years.</p> | |
| Financial | <p>Forms a key part of the process of budget monitoring and ensures that the Authority can react quickly to potential service problems. Financial implications are the focus of this report through high level budget monitoring. The process ensures that the Council is not faced with corporate financial problems that may prejudice the delivery of the Council's strategic priorities.</p> | Head of Finance & Resources |
| Staffing | <p>The budget for staffing represents approximately 50% of the direct spend of the council and is carefully monitored. Any issues in relation to employee costs will be raised in this and future monitoring reports.</p> | Head of HR |
| Legal | <p>The Council has a statutory obligation to maintain a balanced budget this monitoring process enables the committee to remain aware of issues and the process to be taken to maintain a balanced budget for the year.</p> | Mid-Kent Legal Services |
| Equality Impact Needs Assessment | <p>The budget ensures the focus of resources into areas of need as identified in the Council's strategic priorities. This monitoring report ensures that the budget is delivering services as set in the budget to meet those needs.</p> | Policy & Information Manager |
| Environmental/Sustainable Development | <p>No specific issues arise</p> | Head of Service or Manager |

| Issue | Implications | Sign-off |
|-------------------------|---|-----------------------------|
| Community Safety | No specific issues arise | Head of Service or Manager |
| Human Rights Act | No specific issues arise | Mid-Kent Legal Services |
| Procurement | No specific issues arise | Head of Finance & Resources |
| Asset Management | Resources available for asset management are contained within both revenue and capital budgets and do not represent a significant problem at this time. | Head of Service & Manager |

9. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Revenue Budget Monitoring – 2nd Quarter 2015/16 (Committee Level)
- Appendix B: Revenue Budget Monitoring – 2nd Quarter 2015/16 (Strategic Level)
- Appendix C: Capital Programme Monitoring – 2nd Quarter 2015/16
- Appendix D: Treasury Management – Budget Monitoring, Investments 2nd Quarter 2015/16

10. BACKGROUND PAPERS

None.