

## Policy & Resources Committee

26 July 2016

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

Yes

## Revenue & Capital Outturn 2015-16

<b>Final Decision-Maker</b>	Policy & Resources
<b>Lead Head of Service</b>	Paul Riley, Head of Finance and Resources
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Public
<b>Wards affected</b>	N/A

### **This report makes the following recommendations to this Committee:**

1. Note the provisional outturn for revenue and capital for the 2015-16 financial year.
2. Note the carry forward of grant funding from 2015-16 to 2016-17, as detailed in Appendix II.
3. Agree the provisional funding of capital expenditure in 2015-16 as set out in paragraph 4.4.5 and note the carry forward of revenue resources set aside to finance the capital programme in future years as detailed in paragraph 4.4.8.

### **This report relates to the following corporate priorities:**

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Resources are allocated and spent in accordance with the council's priorities. The council is committed to maximising value for money in delivering against its priorities and effective financial management is integral to achieving this.

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Committee (Policy & Resources)	26 July 2016

# Revenue & Capital Outturn 2015-16

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1** This report summarises the provisional revenue and capital outturn figures for 2015-16.
- 1.2** The report also provides the committee with provisional figures on council tax and business rates income, treasury management and other balance sheet items.
- 1.3** The council ended 2015-16 with a minor positive variance of £0.1m on the revenue account. This is after taking account of amounts which are being set aside for the deficit on the collection fund (£1.77m), and grants being carried forward to 2016-17 (£0.37m). It should be noted that within the year-end balance, there were a number of services which ended the year with more significant variances. This is discussed in more detail within section 4.2 of this report.
- 1.4** Capital expenditure at 31 March 2016 totalled £4.186m out of an original budget of £10.423m at the beginning of the year. Slippage of £6.454m was identified during the year and reported to the committee. Further detail is provided within section 4.4 of the report.
- 1.5** Retained business rates have not yielded the additional level of income forecast at the beginning of the year due to a significant increase in the provision for appeals against the rateable value of properties. This is detailed further later in the report.
- 1.6** Other balance sheet elements are reporting satisfactory progress although interest on investments has remained lower than expected with an average rate of return of 0.75%.

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## **2. INTRODUCTION AND BACKGROUND**

- 2.1** The purpose of this report is to facilitate good financial management. It provides provisional figures for revenue and capital outturn to provide clarity about the council's financial position and enable the committee to consider any issues or risks arising in the current or future financial years.
- 2.2** If the provisional outturn figures provided in this report should change significantly as a result of the statement of accounts audit then the revised outturn will be reported to the committee at the next possible opportunity.
- 2.3** The medium term financial strategy and the strategic plan will undergo a full review during 2016-17 for the forthcoming five year period 2017-18 to 2021-22. Committee members will be aware that the council has been offered a four year finance settlement by the government. Should the council choose to accept this, then an efficiency plan setting out the plans for delivering the required level of savings over the four years of the

settlement will need to be submitted. Current assumptions are that £6.4m savings will need to be identified over the five year period to 2021-22. Transitional funding of £0.4m is being made available by the government to support the delivery of the savings.

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### **3. AVAILABLE OPTIONS**

- 3.1** Providing the outturn to the Policy and Resources Committee at this time facilitates good financial management and aids consideration of issues and challenges faced by the council. The committee could choose to defer their consideration of this report until the conclusion of the external audit in September 2016.
  - 3.2** This is not recommended as the outturn position will inform future budget strategy and it is therefore considered important for councillors to have early sight of this.
  - 3.3** The committee could decide not to approve the carry forward of revenue resources set aside to finance the capital programme, however, this option is not recommended given that the planned projects are closely aligned with achievement of the council's current priorities.
  - 3.4** There is no alternative option to the carry forward of grant funding as these amounts have been awarded to the council to spend on specific projects and will need to be repaid if they are not used for the intended purpose.
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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1** This report provides the committee with information regarding the council's financial position.

#### **Impact on future financial planning**

- 4.1.1 The council has ended 2015-16 with a minor positive variance on the revenue account of £0.01m. A small number of service areas have ended the year with more significant variances, and have therefore been subject to careful monitoring throughout the year. Actions taken in these service areas will mean a reduced or removed pressure on 2016-17 budgets.
- 4.1.2 The capital programme has remained within the expected levels detailed within quarterly monitoring reports during 2015-16 and is fully funded.
- 4.1.3 By the end of 2016-17 general balances are expected to be £4.05m which is £2.05m above the working limit previously set by Council in March 2016.
- 4.1.4 The level of collection of Council Tax and Non-Domestic Rates is considered to be at an acceptable level. An adequate provision exists to

cover bad debt and the predicted level of current and future appeals in relation to business rates for 2015-16 and prior years.

4.1.5 There are significant financial challenges to be faced by the council during 2016-17 and subsequent years, and options for the most appropriate actions to ensure an effective Medium Term Financial Strategy for the period 2017-18 to 2021-22 will need to be considered carefully.

## **4.2 Revenue**

4.2.1 A summary of the most significant variances in each area is provided below for each service committee. These trends have been reported to service committees throughout 2015-16 as part of quarterly budget monitoring:

### Policy and Resources

Policy and resources ended 2015-16 with a net positive variance of £2.8m. It should be noted that within this variance, £1.7m will need to be earmarked in order to fund the deficit on the collection fund. This is discussed within section 4.5.2 of this report. Other significant variances in this area are detailed below:

- There is a positive variance of £0.1m within the Customer Services section arising from vacant posts;
- An underspend for attendance allowance has given rise to a favourable variance of £0.07m within the budget for Members Allowances;
- Higher than budgeted income for Maidstone House gave rise to a favourable variance of £0.06m;
- Legal costs for NNDR collection were lower than budgeted, which contributed to a favourable variance of £0.08m in this area;
- There was an underspend of £0.05m within the Corporate Management budget, the principal cause for which was the reduction in fee for external audit services as reported previously;
- Unspent contingency funding of £0.6m contributed towards the overall positive variance. This was reported to the committee in the previous quarter and amounts have now been set aside to finance future borrowing for the capital programme;
- Unmet income targets at Chillington House created an adverse variance of £0.04m;
- An adverse variance of £0.07m within the procurement section arose due to unmet income targets. This variance was reported to the committee in the previous quarter.

### Strategic Planning, Sustainability and Transport

Strategic planning, sustainability and transport is showing an overall underspend of £0.1m as at 31 March 2016.

Within this variance total, the following points should be noted:

- There is an adverse variance of £0.4m relating to development control appeals, which is primarily due to a high level of appeals costs to date. Staff costs in this section are also higher than budgeted, however, these variances are offset to a large extent by significantly more planning fee income than was initially forecast due to the increased volume of applications;
- Income from on street parking, residents parking and pay and display is higher than budgeted, with an overall positive variance of £0.4m.

### Communities, Housing and Environment

There is a minor adverse variance of £0.2m within the Communities, Housing and Environment outturn, although within this there are some areas showing significant over and underspends, most notably:

- £0.5m overspend against the temporary accommodation budget. The committee will be aware of ongoing projects aimed at reducing the cost to the council of providing temporary accommodation. The properties which the council have purchased have enabled the council to avoid additional costs of circa £0.3m during 2015-16.
- Higher than budgeted income for garden bins, resulting in a favourable variance of £0.1m;
- An overspend of £0.2m within the street cleansing section arising from a combination of increased expenditure on temporary staff and equipment, and a shortfall against the income target;
- The contract cost for CCTV was higher than budgeted, resulting in an overspend of £0.1m;
- Unexpected repairs and maintenance costs at Marden caravan site, giving rise to an overspend of £0.05m.

### Heritage, Culture and Leisure

Overall Heritage, Culture and Leisure has ended 2015/16 with a net adverse variance of £0.3m. The most significant contributing factors were as follows:

- An overspend against the Mote Park budget of £0.1m, arising from unbudgeted costs for equipment and repairs, and lower than anticipated income due to car parking charges being brought in later than planned;

- Higher than budgeted service charge and an income shortfall in the market, giving rise to an overspend of £0.1m against this cost centre;
- Unbudgeted maintenance costs for cremation equipment, resulting in an overspend of £0.05m for the crematorium;

4.2.2 A summary outturn by committee, priority and subjective heading are also provided in Appendix I.

### **4.3 Grants carried forward to 2016-17**

4.3.1 Appendix II provides a list of grants which were not spent during 2015-16 and have consequently been carried forward into 2016-17. It should be noted that these amounts were all awarded to the council for a specific purpose and in some cases intended to fund programmes which extend beyond one year. The grants will need to be repaid if the money is not used for the intended purpose, and the council therefore does not have any scope to otherwise influence how the money is used.

4.3.2 Explanations as to why the grants were not spent during 2015-16 have been provided within Appendix II.

### **4.4 Capital**

4.4.1 Attached at Appendix III is a summary of capital spend against the revised estimate. The current estimate reflects slippage totalling £6.454m agreed during the year. A large proportion of the slippage relates to unspent grants for housing and play areas, and acquisition of commercial assets scheduled to take place in 2016-17 or later.

4.4.2 The total capital spend for the year was £4.186m. This total excludes £0.350m spent on schemes funded from external sources such as s106 or external contributions and not from the Council's own capital resources.

4.4.3 Appendix III details the total spend against the budget for 2015-16. In a small number of cases, works have taken place earlier than anticipated and have therefore been funded from the 2016-17 budget.

4.4.4 There was one area where spending was higher than the amount budgeted. This is the commercial project relating to the installation of solar panels, where costs were higher than originally anticipated giving rise to an overspend of £0.05m. The solar panels are expected to generate a revenue return for the council, and this will be monitored over the coming year.

4.4.5 Expenditure of £4.186m outlined in Appendix IV can be funded entirely from available capital resources. Proposed funding is summarised in the following table:

<b>Resources</b>	<b>£m</b>
Capital Receipts	0.690
Capital Grants & Contributions (incl. s106)	0.604
Support from revenue budgets	2.892
<b>TOTAL</b>	<b>4.186</b>

- 4.4.6 This proposal is based on the principle of using the most flexible resources last, meaning that grants and capital receipts are used in preference to revenue support.
- 4.4.7 For 2015-16 the Council approved prudential borrowing of up to £6m for the acquisition of commercial assets but not for general capital expenditure. This facility was not utilised during the year as the value of borrowing was outweighed by the benefit of using the Council's own resources due to the variance between borrowing and lending rates of interest.
- 4.4.8 It is recommended that the committee consider and approve the provisional financing of the capital programme as set out in the table at 4.3.5. The consequence of the recommended financing is detailed in paragraph 4.3.9 below.
- 4.4.9 In line with the policy of using capital resources first, some of the resources identified from revenue budgets to finance capital expenditure will not be required until 2016-17 or later years, creating a revenue variance. This represents a resource that is essential to the financing of the future capital programme. It is recommended that this money is carried forward for this use in 2016-17 or later years, in order for the capital programme to remain affordable.

## **4.5 Balance Sheet**

- 4.5.1 The provisional outturn figures have an impact on various elements of the Balance Sheet and these are summarised as follows:

### Collection Fund

- 4.5.2 At the end of the financial year the target collection rate was exceeded for NNDR and narrowly missed for council tax. At this time it is predicted that there will be deficit of £6.4m on the collection fund for 2015-16, which is largely a consequence of higher than anticipated levels of business rate appeals notified during the year. A provision has been created in order to minimise the impact of future losses on the council's financial position. This deficit will be formally shared between preceptors during 2017-18.
- 4.5.3 The collection rates, compared to target, are as follows:

<b>Collection Rates</b>	<b>Target %</b>	<b>Actual %</b>
NNDR	97.90	97.91
Council Tax	98.40	98.2

4.5.4 During 2015-16, the council was part of the Kent Business Rates Pool along with 9 other district councils, the county council and fire authority. Membership of the pool enables the council to minimise the levy payment due to central government and thereby maximise local retention of business rates growth. For 2015-16, the amounts expected to be retained locally as a result of being in the pool will be shared as follows:

Kent County Council share – 30%	£30,941
Maidstone Borough Council share – 30%	£30,941
Kent Pool Growth Fund – 30%	£30,941
Unspent contingency	£241
<b>Total</b>	<b>£93,064</b>

Maidstone Borough Council's share of the retained levy will be used by the economic development team towards promoting future growth in the local business rates base.

It should be noted that these amounts are lower than forecast, due to a significant number of appeals made by business against the rateable value of their properties for which a provision has been created. If appeals are unsuccessful, then the provision may be reversed and the council will see the benefits of business rates growth in future years.

#### Investments & Borrowing

4.5.5 The Council held investments totalling £18.682m as at 31st March 2016, with an investment income total of £0.252m. The investment income is below the budget of £0.27m due to the fact that an interest rate rise has, yet again, been pushed back to possibly early 2017.

4.5.6 A list of the investments held at year end has been provided at Appendix IV. It should be noted that the council's counterparty list and associated limits changed when the council appointed Arlingclose as its treasury management advisor in January 2016. There are therefore a number of historical investments which do not comply with the current strategy. These amounts have been reviewed individually and the level of risk posed by retaining the investments is considered to be low. A decision was therefore taken to retain the investments until they mature at which point the sums may be reinvested in line with the current strategy. The credit worthiness of these institutions will be kept under review over the remaining duration of the investments.

4.5.7 The average rate of return for the year is 0.75%. This is lower than anticipated and reflects the Bank of England base rate having remained at 0.5% throughout 2015/16.



4.5.8 There was no borrowing other than for short term liquidity purposes during the year.

4.5.9 Daily monitoring of cash-flow throughout the year has confirmed that the prudential indicators that council set for 2015-16 were all complied with.

#### Fixed Assets

4.5.10 The capital investment achieved in 2015-16 resulted in investment in the Council's property portfolio of £1.99m. Other spending in this area has been in areas such as support for social housing and renovation grants, which do not contribute to the Authority's asset base and have been written off, through the revenue account, as revenue expenditure funded from capital under statute.

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## **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

**5.1** Not applicable.

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## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

**6.1** Once the outturn has been finalised, this will be used as the basis for preparing the 2017-18 budget.

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## **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The financial resources spent in 2015-16 and reported here reflect a focus on corporate priorities. Any under spend will be carried forward in accordance with those corporate priorities and previous commitments.	Head of Finance & Resources
<b>Risk Management</b>	At this stage the financial analysis is provisional and contains some estimated values. Monthly financial monitoring by officers and quarterly by the Policy and Resources committee and will	Head of Finance & Resources

	improve the accuracy of the provisional figures. These figures are produced to a timetable for the completion of the Statement of Accounts and all essential work is complete at this stage.	
<b>Financial</b>	This report relates to overall financial position of the council. Specific implications are detailed within the body of the report.	Section 151 Officer, Head of Finance & Resources
<b>Staffing</b>	N/A	N/A
<b>Legal</b>	Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. This report is considered support the council in fulfilling this obligation.	Mid Kent Legal Services
<b>Equality Impact Needs Assessment</b>	N/A	Policy & Information Manager
<b>Environmental/Sustainable Development</b>	N/A	N/A
<b>Community Safety</b>	N/A	N/A
<b>Human Rights Act</b>	N/A	N/A
<b>Procurement</b>	N/A	N/A
<b>Asset Management</b>	N/A	N/A

## 8. REPORT APPENDICES

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

- Appendix I: Detailed revenue outturn 2015-16
- Appendix II: Schedule of grants to be carried forward from 2015-16 to 2016-17
- Appendix III: Summary provisional capital outturn 2015-16
- Appendix IV: Treasury management outturn 2015-16

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## 9. BACKGROUND PAPERS

Report of the Head of Finance and Resources held on 23 September 2015 – First Quarter Budget Monitoring:

<https://services.maidstone.gov.uk/meetings/documents/s44465/First%20Quarter%20Budget%20Monitoring%20201516.pdf>

Report of the Head of Finance and Resources held on 25 November 2015 –  
Second Quarter Budget Monitoring:

<https://services.maidstone.gov.uk/meetings/documents/s45481/Budget%20Monitoring%202nd%20Quarter%20201516.pdf>

Report of the Head of Finance and Resources held on 17 February 2016 – Third  
Quarter Budget Monitoring:

<https://services.maidstone.gov.uk/meetings/documents/s47125/Third%20Quarter%20Budget%20Monitoring%202015-16.pdf>