

POLICY AND RESOURCES COMMITTEE

15 February 2017

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

Yes

Third Quarter Budget Monitoring 2016/17

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green – Director of Finance and Business Improvement (Lead Officer) Paul Holland - Senior Finance Manager Client Accountancy (Report Author)
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

That the committee:

1. Notes the revenue position at the end of the third quarter and the actions being taken or proposed to improve the position where significant variances have been identified, as set out in table 1, paragraph 2.8;
2. Approves the proposed slippage in the capital programme of £1,802,449 into 2017/18 as detailed in paragraph 2.13;
3. Notes the performance of the collection fund and the estimated level of balances at the year-end; and
4. Notes the performance in relation to the treasury management strategy for the third quarter of 2016/17.

This report relates to the following corporate priorities:

The budget is a statement, in financial terms, of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan. The issues raised in this report identify areas where financial performance is at variance with priority outcomes.

Timetable

Meeting	Date
Policy and Resources Committee	15 February 2017

Third Quarter Budget Monitoring 2016/17

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides the committee with an overview of the capital and revenue budget and outturn for the third quarter of 2016/17, and highlights other financial matters which may have a material impact on the medium term financial strategy or the balance sheet.
 - 1.2 The first section of the report presents the revenue information specific to this committee's services, and the remainder of the report provides an update on strategic and cross-cutting issues since both aspects fall into the remit of this committee.
 - 1.3 Based on the information available to date, the year-end forecast for the revenue budget is an adverse variance of £288,000. The actions being taken to address this overspend and individual variances within each service committee are set out later in the report at paragraph 2.8.
 - 1.4 The capital spending at the quarter ending 31 December 2016 totals £9,524,386 from the annual budget of £15,834,140, which includes an adjustment for slippage previously agreed by this committee.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The Director of Finance & Business Improvement 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.
- 2.2 The medium term financial strategy for 2016/17 onwards was agreed by full Council on 2 March 2016. This report advises and updates the committee on the current position with regards to both revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.

Third Quarter Results and 2016/17 Forecast – Revenue

- 2.3 Attached at Appendix I is a table detailing the current budget and expenditure position in relation to the third quarter of 2016/17, to December 2016. The Appendix details net budget per cost centre for this Committee. Actual expenditure is shown to the end of December 2016 and includes accruals for goods and services received but not yet paid for. The budget figures used are the revised estimate for 2016/17, excluding recharges.
- 2.4 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 December 2016;
- d) The actual spend to that date;
- e) The variance between expected and actual spend;
- f) The forecast spend to year end; and
- g) The expected significant variances at 31 March 2017.

2.5 The figures are analysed in three ways and set out in three tables which show the following levels of detail:

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

2.6 Appendix I shows that of an annual budget of £19,428,410 there was an expectation that £11,947,130 would be spent by the end of the third quarter of the year. At this point in time the budget is reporting an under spend of £521,652. An overspend of £288,000 is projected at present for the year as a whole. However, to the extent that underspends arise, they will be used in the first instance to offset overspends elsewhere.

2.7 Explanations for variances within individual cost centres which exceed or are expected to exceed £30,000 have been provided in accordance with the council's constitution.

2.8 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 variances identified to date and year end forecast variances are set out in summary below:

	Positive Variance Q3 £000	Adverse Variance Q3 £000	Year end Forecast Variance £000
Policy and Resources Committee			
Members Allowances & Facilities – Both these budgets are showing an underspend this year.	31		55
Pensions Backfunding – There is a projected £55,000 shortfall against pensions backfunding.		-41	-55
Council Tax Collection – There is an underspend against the postage budget for the current year.	31		27
Interest & Investment Income/Audit Fee – As detailed later in this report, investment returns have continued to be low and the position is not expected to improve before year end. It is hoped that		-12	-17

this will be partially offset by the underspend against the audit fee.			
Commercial Property - A net positive variance of £21,000 is forecast for the year. Within this total, there are a number of rental issues and empty property rates which will be offset by rentals from new acquisitions and one-off additional income from units located at Parkwood Industrial Estate.		-117	21
Legal Services - There is additional income generated this year due to the high volume of Section 106 agreements and planning applications during the year.	35		76
Property & Procurement - There is an unrealised budget strategy saving that is more than offset by an unused professional services budget.	30		29
The Gateway - The variance relates to loss of income from KCC vacating the Gateway at the end of September. The new tenant is due to move into the Gateway in February following completion of the refit, so this will not present a problem in future years.		-18	-69
Mid Kent ICT Software - There has been additional spend above the approved budget this year.		-31	-42
Internal Printing - The printing section is not currently recovering its costs.		-49	-84
Salary slippage - Arises primarily from Democratic Services Manager vacancy and MBC share of vacancies in Revenues and Benefits.	128		165
Policy and Resources total			106
Heritage, Culture & Leisure Committee			
Cultural Development Sports - There has been very little expenditure in this service area this year.	30		40
Leisure Centre - There is an unrealised budget strategy saving relating to the installation of solar panels at the leisure centre.		-28	-37
Parks & Open Spaces - There is an underspend on the arboricultural works budget which is offset by additional running costs.	40		13
Mote Park Café - This variance has arisen due to higher than budgeted staff costs and lower than expected income.		-152	-197

The budget variance has highlighted an urgent need for a review of the café's operating model. A report will be considered by Heritage, Culture and Leisure Committee at its next meeting setting out a range of options for the café.			
Bereavement Services – This service is currently generating income above budget due to in part to increased memorial sales.	25		16
Market – There is a shortfall against the income budget.		-18	-22
Heritage, Culture & Leisure total			-187
Strategic Planning, Sustainability and Transport Committee			
Pay & Display Car Parks –Lockmeadow and King Street car parks have significantly outperformed against their income targets, despite the increased income budgets which were set for 2016/17. This trend is expected to continue through to the end of 2016/17. It should be noted that the forecast incorporates a shortfall of £73,000 for Mote Park car park. This has been offset against the overall underspend in the forecast outturn.	201		246
On-Street Parking – the surplus position in this area is expected to be maintained through to the year end. It should be noted that this surplus is ring-fenced to parking.	72		84
Development Management – there has been an overspend on agency staff costs which was not met by actual income received. The Head of Service has been aware of the problem and has taken steps to address the issue, which has reduced the variance that was forecast at the end of the 2 nd quarter.		-215	-212
Building Regulations – income continues to be above budget in this area, and the underspend is expected to continue through to the end of the year. It should be noted that this service is required to break even on a rolling three year basis.	68		94
Street Naming and Numbering – The service has been generating additional income above and beyond projected	13		20

levels.			
Strategic Planning, Sustainability and Transport total			232
Communities, Housing and Environment Committee			
CCTV – There is an unrealised budget strategy in this service, as well as income targets that will not be achieved this year.		-35	-38
Commercial Waste Services – There are additional vehicle and running costs as which have not been offset by any additional income.		-23	-32
Grounds Maintenance - This service is currently generating additional income from external work.	20		26
Homeless Temporary Accommodation - The level of demand for this service has continued to increase. A number of actions have been taken to reduce the cost of providing temporary accommodation, and this has initially seen the forecast overspend reduce from £500,000 at the end of the second quarter.		-327	-350
Licensing Statutory - Although this is below the variance limit there will be a saving in this area.	16		20
MBS Support Crew – Income recharged internally is not currently sufficient to cover the costs of the service.		-27	-30
Street Cleansing - An overspend of £50,000 is anticipated due to a previously agreed saving which will not be delivered this year.		-38	-50
Switch Café – Although this is below the variance limit there will be a saving in this area as no grant is payable in 2016/17.	14		15
Communities, Housing and Environment total			-439
GRAND TOTAL			-288

Table 1: Summary of significant variances by committee

2.9 The overall forecast for the council at the end of the third quarter shows a decrease in the overspend projected at the end of the second quarter. Increased control in the following areas of spending were introduced across the council at the end of the second in order to improve the position:

1. Recruitment;
2. Temporary staff;
3. Discretionary spending; and

4. Contractual commitments.

2.10 Finance officers are also working closely with budget managers in order to address the forecast overspend and return to a balanced position by the year end.

2.11 In accordance with best practice, virements are reported to this 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. The following reportable virements were made during the third quarter of 2016/17:

Reason	Value £	Temp/Perm*
Savings from waste collection contract	124,360	Permanent
Establish budgets for Granada House	61,900	Temporary
Establish surplus from new property company	41,100	Temporary
Funding for project at Penenden Heath	30,000	Temporary

Table 2: Reportable virements

* Temporary virements represent one-off budget transfers to fund a discrete project or purchase. Permanent virements reflect alterations to the base budget which will be carried forward into subsequent years.

Strategic Level Capital Programme 2016/17

2.12 The capital programme was approved by Council on 2 March 2016. 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. Previous decisions of Council, Cabinet and this 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.

2.13 The current programme is set out in Appendix II 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 £1,802,449 that will require carry forward approval into 2017/18. The major schemes that have incurred slippage relate to the Housing Investments programme, the Pet Crematorium project, Mote Park Essential Improvements project and the Town Centre Regeneration project. The committee is asked to approve the slippage at this stage.

2.14 The Council has the necessary resources to manage the programme in 2016/17, with the majority of funding coming from New Homes Bonus. There is also a government grant in relation to disabled facilities grants funding the programme.

Reserves and Balances

2.15 The total of reserves and balances as at 1st April 2016 was £14.3m. The current medium term financial strategy assumes balances and earmarked reserves totalling £6.7m by 31st March 2017.

2.16 The below table summarises the activity which has impacted on reserves during the third quarter of the year, and the forecast position as at 31st March 2017:

	£m
Opening balance	14.30
Capital funding to 31 December 2016	-5.01
Transfer of Individual Electoral Registration Grant	-0.05
Parks strategy - salaries	-0.04
Balance as at 30 September 2016	9.20

Table 3: Balances at 31 December 2016

2.17 The position set out above allows for the minimum level of general balances of £2.3m, as agreed by Council in March 2016, to be maintained.

Collection Fund

2.18 The council is increasingly reliant on income generated through council tax and business rates, which is accounted for through the collection fund. Due to the risks in this area, including the risk of non-collection and the pooling arrangements in place for business rates growth, the Council monitors the collection fund carefully.

2.19 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 2016/17:

	Target %	Actual %	Amount collected
Council Tax	86.23	85.22	£81,631,519
Business Rates	80.37	82.55	£51,059,749

Table 4 : Collection Rates for Council Tax and Business Rates to December 2016

2.20 Although collection rates for business rates have exceeded the target, for council tax the target has not been met. This is believed to be a consequence of some tax payers opting to spread payments over twelve months, rather than ten. This has meant that the amount collected each month is reducing, although officers are monitoring this closely and anticipate that the overall collection rate will recover during February and March. The target figure for council tax has not yet been adjusted to reflect this change.

2.21 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. Officers will continue to pursue payment of any developing arrears along with the arrears from prior years.

2.22 Income from retained business rates growth is currently higher than forecast, as detailed in the table below:

		£m	
(a)	Growth against baseline	1.01	
(b)	Maidstone BC share of growth	0.55	(a)*50%
(c)	Levy payable at 50% rate	0.55	(a)*50%
(d)	Actual levy payable at 9.351%	0.10	(a)*9.351%
(e)	Pool benefit	0.45	(c) - (d)
	MBC share of pool benefit	0.13	(e)*30%
	KCC share of pool benefit	0.13	(e)*30%
	Growth fund share of pool benefit	0.13	(e)*30%
	Contingency	0.05	(e)*10%

Table 5: Business rates growth

2.23 The current benefit from membership in the Kent Business Rates Pool is £0.45m, which represents the difference between the levy of 50% which would have been payable on business rates growth if the council were not part of the pool, compared with the 9.351% payable as a pool member. It should be noted that £0.05m of the retained levy will be set aside as contingency to cover pool members who require safety net payments.

2.24 As agreed previously the 30% share of the pool benefit will be used to fund the delivery of the Economic Development Strategy, alongside the 30% growth fund share which is spent in consultation with KCC.

2.25 It should be noted that the above figures are forecasts only. This is a highly volatile area and there is a significant degree of risk of fluctuations in the rates base arising from appeals and other factors. This is therefore being carefully monitored in collaboration with pool members throughout the year.

Treasury Management

2.26 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 2016, the Council approved a Treasury Management Strategy for 2016/17 that was based on this code. The strategy requires that this committee should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

2.27 During the Quarter ended 31st December 2016:

- GDP has grown 0.5% from the previous quarter to quarter, down only slightly from 0.7% in Q2 and year/year growth running at a healthy pace of 2.3%.

- CPI fell to 0.9% in October but rose to 1.2% in November which is predominately driven by clothing, fuel and hotel prices.
- Unemployment has risen slightly by 10,000 and average earnings have dipped slightly to 2.3%.

Date	Bank of England Base Rate	PWL B Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)					
		4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
	%	%	%	%	%	%	%
01/4/2016	0.50	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	0.50	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	0.50	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	0.50	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	0.50	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	0.25	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	0.25	1.05	1.22	1.72	2.13	2.36	2.44
31/10/2016	0.25	1.36	1.49	1.69	2.02	2.68	2.93
30/11/2016	0.25	1.25	1.42	1.69	2.12	2.83	3.03
31/12/2016	0.25	1.19	1.34	1.59	1.99	2.69	2.91

Table 7: PWLB borrowing rates to December 2016

2.28 In August, it was expected that the Bank of England's Monetary Policy Committee (MPC) would further cut interest rates, however in the final calendar quarter of 2016 the MPC kept Bank Rate unchanged at 0.25% and asset purchases at £435 bn. PWLB rates have dropped slightly at the end of December 2016 which reflects the movement within gilt yields.

Current Investments as at 31st December 2016

2.29 The council held investments totalling £29.04m. A full list of investments held is provided at Appendix IV. All investments are held in short term instruments (less than one year), with £12.00m available to be recalled instantly if required. Investment income for this period is £148,000 against a budget of £202,500 and the average interest rate was 0.68%.

Borrowing

2.30 As at 31st December 2016, no requirement for short or long term borrowing had arisen.

3 AVAILABLE OPTIONS

- 3.1 In considering the strategic position on the revenue budget at the end of December 2016 the committee has been provided with details of the actions each service committee plans to take on significant variances. 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.
- 3.2 The capital programme is reporting slippage of £1,802,449 and expenditure of £9,524,386. Details of the programmes where major slippage occurs have been detailed at paragraph 2.13. 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.
- 3.3 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.
- 3.4 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.
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4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The committee is requested to note the content of the report and approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.
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5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The second quarter's budget monitoring report will be considered by each of the other three service committees. The key issues and their consideration is set out in table 1 at paragraph 2.8.
- 5.2 This report will not lead to further consultation.
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6 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The third quarter's budget monitoring report will be considered by the service committees in February and March 2016, culminating in a full report to this committee.

6.2 There are no significant issues arising from this report that require action from this committee. The success of actions by the other service committees to manage the pressures in their budgets will be regularly reported to this committee through later versions of this report.

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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.	Director of Finance & Business Improvement
Risk Management	The Council has produced a balanced budget for both capital and revenue expenditure and income for 2016/17 This budget is set against a backdrop of limited resources and an difficult economic climate. Regular and comprehensive 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. The issues set out in this report do not exhibit the level of potential risk identified in previous years.	Director of Finance & Business Improvement
Financial	Financial implications are the focus of this report through high level budget monitoring. The process of budget monitoring ensures that services can react quickly to potential resource problems. The process ensures that the	Director of Finance & Business Improvement

	Council is not faced by corporate financial problems that may prejudice the delivery of strategic priorities.	
Staffing	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.	Director of Finance & Business Improvement
Legal	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.	[Legal Team]
Equality Impact Needs Assessment	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 to meet those needs.	Director of Finance & Business Improvement
Environmental/Sustainable Development	No specific issues arise.	Director of Finance & Business Improvement
Community Safety	No specific issues arise.	Director of Finance & Business Improvement
Human Rights Act	No specific issues arise.	Director of Finance & Business Improvement
Procurement	No specific issues arise.	Director of Finance & Business Improvement
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.	Director of Finance & Business Improvement

8 REPORT APPENDICES

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

- Appendix I: Third Quarter 2016/17 Revenue Monitoring – Strategic Level
 - Appendix II: Third Quarter 2016/17 Capital Monitoring
 - Appendix III: List of investments as at 31 December 2016
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9 BACKGROUND PAPERS

None