

POLICY AND RESOURCES COMMITTEE

20 September
2017

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

Yes

First Quarter Budget Monitoring 2017/18

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:

1. That the revenue position at the end of the first 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 are noted;
2. That the proposed slippage in the capital programme of £5,295,397 into 2018/19 as detailed in paragraph 2.11 is approved;
3. That the performance of the collection fund and the estimated level of balances at the year-end is noted;
4. That the write-off of unpaid business rates as set out in Appendix III is approved; and
5. That the performance in relation to the treasury management strategy for the first quarter of 2017/18 is noted.

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	20 September 2017

First Quarter Budget Monitoring 2017/18

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 first quarter of 2017/18, 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 and the other 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 a negative variance of £132,000. The actions being taken to address 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 30 June 2017 totals £2,514,872 from the annual budget of £17,939,680, which includes unused budgets brought forward from 2016/17.
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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 2017/18 onwards was agreed by full Council on 1 March 2017. 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.

First Quarter Results and 2017/18 Forecast – Revenue

- 2.3 Attached at Appendix I is a table detailing the current budget and expenditure position in relation to the first quarter of 2017/18, to June 2017. The Appendix details net budget for all Service Committees including this one. Actual expenditure is shown to the end of June 2017 and includes accruals for goods and services received but not yet paid for.
- 2.4 The columns of the table in the Appendix show the following detail:
 - a) The Service Committee;
 - b) The value of the total budget for the year;

- c) The amount of the budget expected to be spent by the end of June 2017;
- 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 variance at 31 March 2018.

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 £20,562,830 there was an expectation that £6,337,200 would be spent by the end of the first quarter of the year. At this point in time the budget is reporting an under spend of £1,542,014. However, an over spend of £132,000 is projected at present for the year as a whole. Budgets across all Committees will be reviewed as part of the upcoming budget process with a view to identifying savings to cover any possible over spend.

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			
Customer Services Section - This relates to delays in recruiting to a number of vacancies due to a shortage of candidates with the appropriate skills. This includes a number of maternity leave vacancies which have not been covered since the end of the financial year. The vacancies have now been filled and it does not seem like there will be a significant variance by year end.	32		0
Interest & Investment Income - Interest rates continue to be lower than forecast, and in line with the Treasury Management Strategy investments are		-31	-140

kept to shorter time periods, and rates for these are particularly low.			
Mid Kent ICT Services - This section currently has a number of posts vacant, the Head of ICT is currently reviewing the structure.	52		70
Non HRA Rent Rebates – This variance is due to the timing of income receipts and will be resolved by the end of the year.	51		0
Rent Allowances – The current position is based partly on the proportionate costs up until the end of the first quarter and partly on the estimate claim form, so the position will change by the end of the year.	797		105
Commercial Investments – The purchase of a new commercial property is now generating additional rental income.			157
Contracts – This is additional income that has arisen following the realignment of a contract.			10
Policy and Resources total			202
Heritage, Culture & Leisure Committee			
Bereavement Services – Income is currently ahead of budget, but there are likely to be additional repairs and maintenance costs incurred during the remainder of the year that will reduce the current variance.	46		30
Heritage, Culture & Leisure total			30
Strategic Planning, Sustainability and Transport Committee			
Development Control Applications - The current positive variance reflects fees that have been received earlier than anticipated, which is a consequence of the forthcoming rise in planning fees and the introduction of the Community Infrastructure Levy. This means that the forecast is for the income to be back on target by the end of the year.	156		0
Development Control Appeals - There are several inquiries that are expected to take place this year which will lead to the authority incurring significant costs. At this stage unbudgeted costs of £200,000 are projected in relation to these inquiries and the necessary preparatory work.	17		-200

Parking Services – Pay and Display car parking is continuing to perform well in excess of the target income budget overall, but both the Mote Park and Sandling Road Car Parks are forecast to generate less income than budgeted. Charges have now increased at Mote Park and over a full year the income budget is expected to be achievable. The shortfall at Sandling Road arises from a delay in opening the car park for business. The income budget here is also expected to be achievable in a full year. There is also a payment potentially due of £61,000 to HMRC in respect of overpaid VAT following a recent court ruling in their favour.	108		144
Strategic Planning, Sustainability and Transport total			-56
Communities, Housing and Environment Committee			
Homeless Temporary Accommodation - An additional budget has been provided for temporary accommodation this year, but an overspend is still expected because (a) it has taken longer to bring into use Council owned properties for homeless families and (b) current trends indicate an increase in the numbers we will have to accommodate.		-50	-200
Pollution Control – General - The variance is as a result of an unspent £206,000 Defra Air Quality Grant. Any unspent grant at year end will be carried forward to the following financial year.	56		0
Recycling Collection - The variance is due to increased contract costs, resulting from higher indexation increase than budgeted for. The Head of Service has plans to address this shortfall.		-35	0
Street Cleansing - The variance is a result of several reasons including savings projections which have not been met, , increased overtime and agency costs exacerbated by premium rates for shift work to cover staff sickness and increased refuse disposal costs		-61	-100
Communities, Housing and Environment total			-55

Table 1: Summary of significant variances by committee

- 2.9 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 first quarter of 2017/18:

Reason	Value £	Temp/Perm*
Parks Restructure - transfer of posts from Regeneration & Economic Development to Environment & Public Realm	133,110	Permanent
Change in Service Delivery (Housing) - transfer of post from Housing to Economic Development.	54,820	Permanent
Change in Service Delivery (Communications) - transfer of posts from Marketing & Museum to Communications.	76,480	Permanent
Reduction in budget for Grants to Outside Bodies as per Medium Term Financial Strategy.	11,000	Permanent
Funding for Homelessness Prevention Officer posts from growth as per Medium Term Financial Strategy.	93,040	Permanent
Cleaning Contract savings as per Medium Term Financial Strategy & reduction in budget from a difference in Indexation.	36,300	Permanent
Repairs – Closed Churchyards	11,500	Permanent
Business Rates pool funding for bridge lighting, public arts & Business Enterprise.	35,390	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 2017/18

- 2.10 The capital programme was approved by Council on 1 March 2017. 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.
- 2.11 The current programme is set out in Appendix II and shows the current budget and actual expenditure to date. The current budget includes the approved budget plus any unused resources brought forward from 2016/17. The Appendix details the profile of expenditure that is forecast for the remainder of the year and identifies £5,292,397 that will require carry forward approval into 2017/18. The major schemes that have incurred slippage relate to housing grants, housing investments, play areas, projects in Mote Park and Public Realm Phase 3. The committee is asked to approve

the slippage at this stage.

2.12 In April 2017 this Committee approved the purchase of a new commercial property at a cost that was above the allocated budget. Within the overall programme there are the resources to fund the additional cost of £0.581m and these will be identified as part of the upcoming review of the capital programme which will take place as part of the budget setting process.

2.13 The Council has the necessary resources to manage the programme in 2017/18, with the majority of funding coming from New Homes Bonus. However it is projected that the balance of that funding will be used during the course of the year, therefore it may be necessary to borrow to fund any further expenditure. Approval for borrowing has previously been agreed and factored into the programme funding. There is also a government grant in relation to disabled facilities grants funding the programme.

Reserves and Balances

2.14 The total of earmarked reserves and general fund balances as at 31st March 2017 was £17.3 million. The makeup of this balance, and movements in the first quarter of 2017/18 are set out in the table below:

	1 April 2017 £m	30 June 2017 £m	31 March 2018 (forecast) £m
General Fund			
Asset Replacement	0.2	0.2	0.1
Planning Management	0.1	0.1	0.0
Commercialisation – contingency	0.5	0.5	0.5
Invest to Save projects	0.5	0.5	0.5
2016/17 underspend earmarked for Action Areas	0.1	0.1	0.0
2016/17 grants carried forward to 2017/18	0.8	0.8	0.0
Amounts set aside for collection fund deficit	2.9	2.9	0.0
Forecast revenue over spend	0.0	0.0	(0.1)
Unallocated balance	4.2	4.2	4.2
Sub-total	9.3	9.3	5.2
Earmarked Reserves			
New Homes Bonus funding for capital projects	7.2	6.2	0.0
Local Plan	0.3	0.3	0.0
Neighbourhood Plans	0.1	0.1	0.1
Accumulated Surplus on Trading Accounts	0.3	0.3	0.3
Business Rates Growth Fund	0.1	0.1	0.1
Sub-total	8.0	7.0	0.5
Total General Fund balances	17.3	16.3	5.7

Table 3: General Fund & Earmarked Balances

2.15 The closing position allows for the minimum level of general balances of £2m, as agreed by Council in March 2017, to be maintained.

Collection Fund

2.16 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.

2.17 The collection rates achieved are reported below, alongside the target for the year, and the actual amount collected. The rates are given as a percentage of the debt targeted for collection in the first quarter of 2017/18:

	Target %	Actual %	Amount collected
Council Tax	29.4%	29.2%	£29,579,493.74
Business Rates	32.2%	32.2%	£19,728,773.34

Table 4 : Collection Rates for Council Tax and Business Rates, First Quarter 2017-18

2.18 The target was met for business rates, but narrowly missed for council tax. Although as a percentage of the overall total, the variance appears small, the sums involved are significant and officers are therefore monitoring this closely.

2.19 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.

2.20 Income from retained business rates growth is lower than anticipated, due to a significant number of reductions arising from businesses successfully appealing against their rateable value. This is a volatile area of income which can be difficult to predict. The council maintains a prudent provision to minimise the impact of appeals on the Council's income.

2.21 Forecast growth in business rates against the Council's baseline is at the end of the first quarter is £1.7m against a forecast of £2.0m. The benefit from membership in the Kent Business Rates Pool for 2017-18 is currently predicted at £0.8 million, 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 3.63% payable as a pool member.

2.22 As agreed previously the 30% share of the pool benefit retained by the council 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.

Irrecoverable business rates

- 2.23 The committee are asked to approve the write off of £221,999.20 unpaid business rates debt identified within Appendix III. Please note that information relating to individuals is restricted under the Data Protection Act and has therefore been redacted from the attached Appendix III
- 2.24 As noted above, the council takes a robust approach to recovery of business rates. This involves progressive action which would typically include:
- Reminder for non-payment
 - Final notice for non-payment
 - Summons for non-payment
 - Application to the Magistrates Court for a liability order
 - Instruction of an enforcement agent to recover
 - Bankruptcy or liquidation, where appropriate
 - Proceeding to seek committal to prison (individuals)
- 2.25 Throughout the process the Council actively encourages contact from any business experiencing difficulty in order to negotiate arrangement for payment.
- 2.26 The Council could continue to hold these debts as outstanding, but this option is not recommended as there is no prospect of recovery and this would distort the financial position of the Council.
- 2.27 For the businesses listed within Appendix III, the Council has exhausted all of the recovery processes in trying to collect the unpaid amounts. It is therefore suggested that these amounts are written off and the council's accounts are amended to reflect the fact that the payments identified are not expected to be recovered. The council maintains a provision for bad debts, and there is sufficient resource available within this balance to cover the value of the proposed write offs.

Treasury Management

- 2.28 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 2017, the Council approved a Treasury Management Strategy for 2017/18 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.
- 2.29 During the quarter ended 30 June 2017:
- Consumer Price Inflation (CPI) rose over the quarter and the CPI for May was at 2.9%, the highest it has been since June 2013.

- The most recent labour market data for April 2017 showed the unemployment rate at 4.6%. This has remained at its lowest since July 1975, however the pressure on real wages (after inflation) is resulting in negative real wage growth.
- Quarter 1 GDP revised in May 2017 showed economic activity growing at a much slower pace of 0.2%. However, our treasury management advisors consider that this may be an anomaly and that GDP could rebound later in the year. There was no change by the Bank of England in its monetary policy at its meeting on 15 June.
- The bank rate has remained at 0.25%. Due to uncertainty in the economy, the Council's Treasury Advisors, Arlingclose, expect the Bank of England to look through periods of high inflation and maintain its policy of keeping interest rates low for an extended period.

Current Investments as at 30 June 2017

- 2.30 The council held investments totalling £20.6m. A full list of investments held at this time is given in Appendix IV. £11.6m of investments are in money market funds & cash enhanced funds which can be called upon immediately or for a short notice period for daily cash flow purposes which are also AAA rated funds. The remainder of investments have less than 6 months to mature due to the increase spending in the capital programme, which in turn, helps reduce counterparty risk.
- 2.31 Investment income for this period is £24,000.
- 2.32 Average interest rate for this period is 0.46%. The benchmark for investments is 3 month LIBOR plus 10 basis points. 3 Month LIBOR at the end on June was 0.31%, which means the benchmarked figure is 0.41%. The Council is therefore 12.2% above target.

Borrowing

- 2.33 As at 30 June 2017, 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 June 2017 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 £4,975,317 and expenditure of £2,514,872. 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 first 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 first quarter's budget monitoring report will be considered by the service committees in September 2017, 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.
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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 2017/18 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 Council is not faced by corporate financial problems that may prejudice the delivery of strategic priorities.	Director of Finance & Business Improvement
Staffing	The budget for staffing represents approximately 50%	Director of

	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.	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: First Quarter 2017/18 Revenue Monitoring – Strategic Level
- Appendix II: First Quarter 2017/18 Capital Monitoring

- Appendix III: Written-off Business Rates First Quarter 2017/18
 - Appendix IV: List of investments as at 30 June 2017
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9 BACKGROUND PAPERS

None