

First Quarter Budget Monitoring 2019/20

Policy & Resources Committee

18 September 2019

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Executive Summary

This report is intended to provide Members with an overview of performance against revenue and capital budgets and outturn during the first quarter of 2019/20. It also includes an update on other matters which may have a material impact on the Council's Medium-Term Financial Strategy and Balance Sheet.

Robust budget monitoring is a key part of effective internal financial control, and therefore is one of the elements underpinning good corporate governance.

The aim of reporting financial information to service committees at quarterly intervals is to ensure that underlying trends can be identified at an early stage, and action taken, to combat adverse developments or seize opportunities.

It is advisable for financial reports to be considered in conjunction with quarterly performance monitoring reports, as this may provide the context for variances identified with the budget and general progress towards delivery of the Council's strategic priorities.

Headline messages for Quarter 1 are as follows:

- At the end of the first quarter the revenue budgets are showing an under spend of £0.294m, and the current year-end forecast shows that we will remain with budget.
- Capital expenditure of £1.430m was incurred between 1 April and 30 June, with forecast slippage into 2020/21 of £14.528m.
- The balance on General Fund reserves is forecast to decrease to £13.449 million by 31 March 2020.
- Collection rates for both Council Tax and Business Rates for Quarter 1 were close to target with Council Tax marginally off target and Business Rates exceeding target.
- At the Quarter 1 stage, forecast income retained from the growth in Business Rates is ahead of original expectations.
- The Council held investments totaling £20.955m at 30 June 2019.

Revenue Budget

1st Quarter 2019/20



Revenue Spending

At the end of the first quarter the revenue budgets are showing an under spend of £0.293m, and the current year-end forecast shows that we will remain with budget.

The three tables on page 6 set out the summary position, analysed in three ways:

Table 1: by Committee

Table 2: by Priority

Table 3: by Expenditure Type

The figures are presented on an accruals basis i.e. they include expenditure for goods and services which we have received but not yet paid for.

The charts below show the income and expenditure position for each of the service committees.

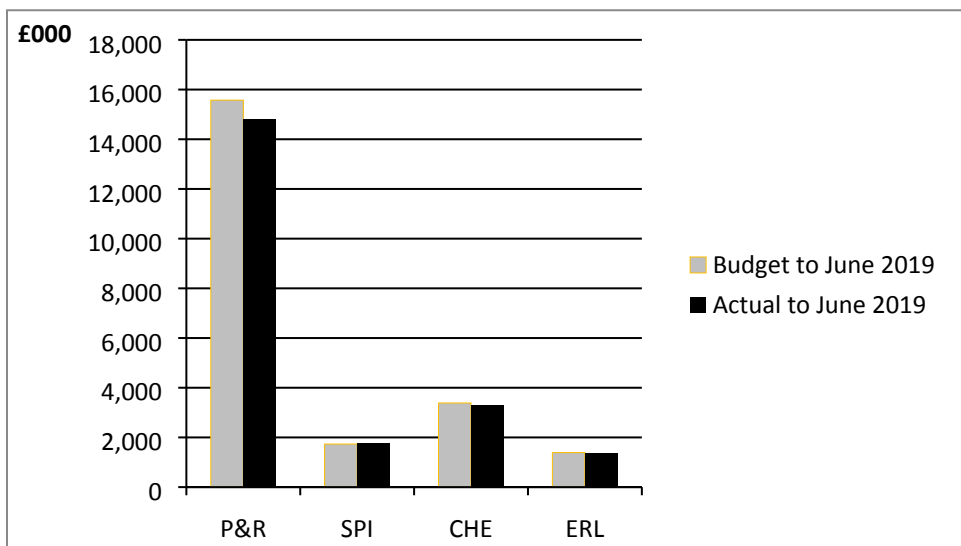


Chart 1 Performance against budget analysed by service committee (Expenditure)

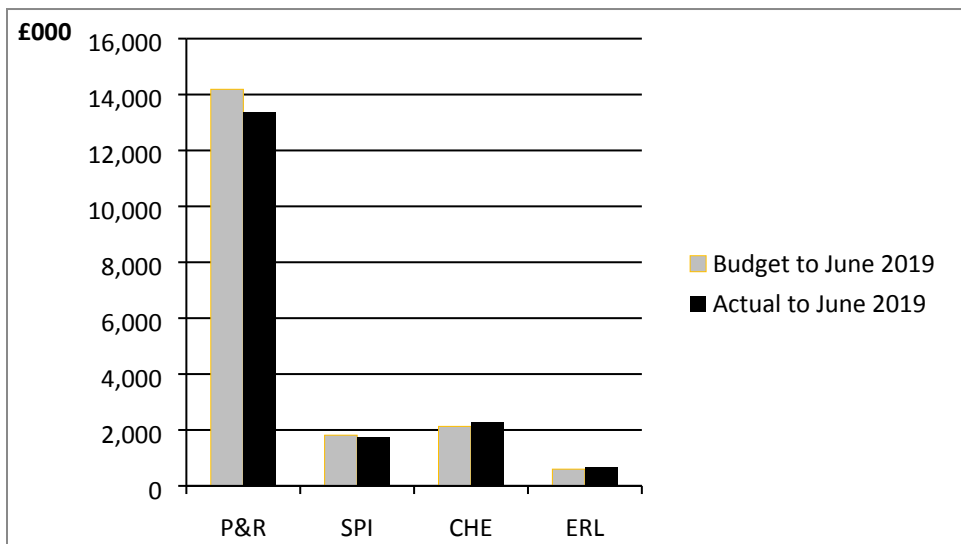


Chart 2 Performance against budget analysed by service committee (Income)

Within these headline figures, there are a number of adverse and favourable variances for individual service areas. This report draws attention to the most significant variances, i.e. those exceeding £30,000 or expected to do so by the end of the year. Pages 7-10 provide further detail regarding these variances, and the actions being taken to address them.

The variances are grouped by service committee, and each committee has been given an opportunity to consider and respond to the matters arising within their respective areas. Where applicable, the response of the committee has been provided.

It is important that the potential implications of variances are considered at this stage, so that contingency plans can be put in place and if necessary, this can be used to inform future financial planning.

Revenue Budget Summary Q1 2019/20

ANALYSIS BY COMMITTEE

Committee	Full Year Budget £000	To 30 June 2019 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance ¹ £000
Policy & Resources	12,067	1,567	1,464	103	11,648	419
Strategic Planning and Infrastructure	-1,253	-80	28	-108	-793	-459
Communities, Housing & Environment	8,855	1,657	1,423	234	8,740	115
Economic Regeneration & Leisure	1,268	367	301	65	1,322	-54
Net Revenue Expenditure	20,938	3,511	3,216	294	20,917	20

Table 1 - Analysis by Committee

ANALYSIS BY PRIORITY

Priority	Full Year Budget £000	To 30 June 2019 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance ¹ £000
Safe, Clean and Green	6,283	1,848	1,901	-52	6,230	52
Homes and Communities	2,200	-233	-417	184	2,191	9
Thriving Place	1,544	442	273	169	1,544	0
Embracing Growth and Enabling Infrastructure	-1,090	-39	12	-51	-629	-461
Central & Democratic	12,000	1,493	1,448	45	11,580	420
Net Revenue Expenditure	20,938	3,511	3,216	294	20,917	20

Table 2 - Analysis by Priority

ANALYSIS BY SUBJECTIVE SPEND

Subjective	Full Year Budget £000	To 30 June 2019 £000	Actual £000	Variance £000	Year End Forecast £000	Year End Variance ¹ £000
Employees	21,450	5,443	5,393	50	21,225	224
Premises	4,747	2,205	2,295	-90	4,777	-30
Transport	863	259	245	14	863	0
Supplies & Services	18,617	2,577	2,459	118	18,260	357
Agency	6,300	1,588	1,577	12	6,300	0
Transfer Payments	49,215	10,168	9,280	888	49,215	0
Asset Rents	1,001	0	0	0	1,001	0
Income	-81,255	-18,730	-18,032	-698	-80,724	-531
Net Revenue Expenditure	20,938	3,511	3,216	294	20,917	20

Table 3 - Analysis by Subjective Spend

¹A positive figure represents a favourable variance. A negative figure (ie -£X,XXX) represents an adverse variance.

Significant Variances

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
Economic Regeneration & Leisure Committee	£000		
Mote Park Adventure Zone- This facility is now open. However the contract awarded allows for an initial rent free period for the first three months and the final contract value was less then originally forecast. This issue will be addressed as part of the upcoming budget cycle. The income expectation consists of fixed regular payments and a profit share element.		-28	-54

Table 4 Significant Variances – Economic Regeneration & Leisure Committee

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
Strategic Planning & Infrastructure Committee	£000		
PLANNING SERVICES			
Development Control Majors & Other – This year has seen a significant drop in income from Planning Applications compared to original budget expectations. This is particularly the case for Major Applications (10 residential units and above). Planning officers are now working in partnership with the Finance team both in an attempt to identify mitigating budget savings elsewhere within the service and also undertaking analyses on Planning Applications patterns, including future expectations in particular, for both the remainder of 2019/20 and beyond (2020/21 to 2024/25). This will enable the production of more accurate revised estimates for this financial year and a robust updated Medium-Term Financial Plan for the purposes of future financial planning and budget setting.		-58	-351
Mid-Kent Planning Support - The current variance has arisen due to a number of posts that are being held vacant.	33		108
PARKING SERVICES			

Pay & Display Car Parks – The adverse variance is due underachieved income. Pay and Display income levels are on a par with last year for most car parks however the closure of Brunswick Street and the loss of spaces from Union Street (reducing capacity by around a half) has impacted on income levels. The situation is exacerbated slightly by an assumed increase of £50,000 in income from Pay & Display Car Parks in the budget for 2019/20, which has not been achieved (original assumption implicitly based on increased volumes as there were no fee increases this year).		-78	-180
Park & Ride - The adverse variance is due to underachieved income. As the service has now been outsourced the variance is not expected to significantly worsen during the remainder of the year, although there will be some further minor costs incurred in respect of site maintenance		-34	-38

Table 5 Significant Variances – Strategic Planning & Infrastructure Committee

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
Communities, Housing & Environment Committee	£000		
Parks and Open Spaces - There is an unrealised Medium Term Financial Strategy savings target, which relates a previous restructure exercise. This has been partly offset by staffing vacancies. Spend is ahead of budget but spend tends to be seasonal and return to with budget by the third quarter.		-29	-35
Strategic Housing Role - The underspend in this cost centre is due to unallocated grants, however these should be spent by the end of the year.	30		9
Homelessness Prevention -The underspend in this cost centre is due to unspent grants, although these should be spent by the end of the financial year.	102		0
Community Partnerships & Resilience Section - The adverse variance is because of a number of redundancies and associated costs. However the restructure of the section and subsequent lower costs should result in a positive variance by year end.		-27	48
Grounds Maintenance Commercial - Additional income has been generated in this area from section 106 funded works, and other external works.	35		93

Table 6 Significant Variances – Communities, Housing & Environment Committee

	Positive Variance Q1	Adverse Variance Q1	Year End Forecast Variance
Policy & Resources Committee	£000		
Contingency – This budget is held to deal with unexpected funding issues and it is proposed that the year-end forecast variance would be used to deal with the projected shortfall in planning income referred to earlier in this section.	50		150
Unapportionable Central Overheads – Pension payments to Kent County Council are lower than was anticipated when the budget was set.	23		40
External Interest Payable – This budget is related to the need to borrow to finance the capital programme. However, to date there has been no borrowing therefore there will be an under spend on this budget by year-end.	0		200
Interest & Investment Income – Given the reduced level of borrowing forecast for the year and slippage in the capital programme it is anticipated that there will be additional income generated during the year.	25		50
Sundry Corporate Properties - The budget assumed income from the purchase of further commercial properties, but there have been none to date this year, so the income target is unlikely to be realised.		-60	-60
Non-Service Related Government Grants – The Brexit Preparation Grant received from the government is being held in this account but will be transferred to the necessary budget heads when relevant expenditure has been incurred.	43		0
Mid-Kent Audit Partnership – The positive variance reflects a number of vacancies in the team that have now been filled.	40		39
MBC HR Services Section – This variance reflects vacancies within the team.	29		30
Museum Buildings – As a result of a revaluation there was an increase in the non-domestic rates bill for the Museum. Options for dealing with this are currently being assessed and it is hoped that the variance can be reduced by the end of the year.		-46	-30

Table 7 Significant Variances – Policy & Resources Committee

Reportable Virements

In accordance with best practice, and in order to be transparent about alterations made to the agreed budget during the course of the year, virements are reported to Policy and Resources committee as part of the budget monitoring process. A virement represents the transfer of a budget between objectives that occurs after the budget for the year has been formally approved by Council. Generally this will be linked to decisions with a financial impact which have been taken outside of the budget setting process, or for projects where funding spans more than one financial year.

Virements may be temporary, meaning that there has been a one-off transfer of budget to fund a discrete project or purchase, or permanent, meaning that the base budget has been altered and the change will continue to be reflected in the budget for subsequent years.

The table below details the reportable virements which were made during Quarter 1 of 2019/20:

Reason	Value	Perm/Temp*
Fund CPI Costs	£91,940	Permanent
Adjust Parking and Park & Ride Contract Budget - Overfunding Removed	£23,210	Permanent
Budget Transferred from Parks & Open Spaces to Fund Public Conveniences	£10,300	Permanent
Reinstate Grant Carry Forwards 19/20	£365,190	Temporary
Reinstate Business Rates Retention Pilot Projects	£302,870	Temporary
Fund 10 months of the HCL Officer in Museum	£30,220	Temporary
1st Quarter Business Rates Pilot Projects Funding for Economic Development	£16,060	Temporary
Fund 50% Purchase of Air Quality Station in Upper Stone Street	£10,500	Temporary

Table 8 Reportable Virements, Q1 2019/20

Capital Budget

1st Quarter 2019/20



Capital Spending

The five-year Capital Programme for 2019/20 onwards was approved by Council on 27th February 2019. Funding for the Programme remains consistent with previous Council decisions in that the majority of capital resources will now come from prudential borrowing as other sources of funding are not sufficient to cover the costs of the programme, although funding does continue to be available from New Homes Bonus. At the time of preparing this report, there has been no need to borrow, but it is still anticipated that borrowing will be needed later in 2019/20.

Progress made towards the delivery of planned projects for 2019/20 is set out in the table below. The budget figure is the approved estimate for 2019/20 and includes resources which have been brought forward from 2018/19 that have been added to the agreed budget for the current year.

To date, expenditure of £1.430m has been incurred against a budget of £51.754m. At this stage, it is anticipated that there will be slippage of £14.528m, although this position will be reviewed at the end of the year when the Committee will be asked to approve/note the carry forward of resources into the next financial year.

Capital Programme Heading	Estimate 2019/20. £000	Actual to June 2019 £000	Budget Remaining £000	Q2 Profile £000	Q3 Profile £000	Q4 Profile £000	Projected Total Expenditu re £000	Projected Slippage to 2020/21 £000
Communities, Housing & Environment								
Brunswick Street - Net Cost of Scheme	3,441	413	3,028	920	1,050	1,058	3,441	-0
Union Street - Net Cost of Scheme	2,085	22	2,062	640	760	662	2,084	0
Indicative Schemes	4,124	76	4,048	2,900			2,976	1,148
Housing - Disabled Facilities Grants Funding	1,570	44	1,526	125	175	250	594	976
Temporary Accommodation	3,236		3,236	3,236			3,236	0
Housing Incentives	1,040	6	1,034	50	50	50	156	884
Gypsy Site Improvement Works	42	9	34	34			43	-0
CCTV Upgrade and Relocation	150		150		150		150	
Commercial Waste	180		180	180			180	
Street Scene Investment	147		147		25	25	50	97
Flood Action Plan	1,000		1,000	50	50	100	200	800
Continued Improvements to Play Areas	422	13	410	15	15	15	58	365
Commercial Projects - Crematorium Projects	40	1	39	39			40	0
Commercial Projects - Cemetery Chapel Repairs	100		100		25	75	100	
Other Parks Improvements	100		100		50	50	100	
Total	17,677	583	17,094	8,189	2,350	2,285	13,407	4,270
Economic Regeneration & Leisure								
Commercial Projects - Mote Park Adventure Zone		378	-378				378	
Mote Park Centre & Estate Services Building	2,496	15	2,482	25	75	100	215	2,282
Mote Park Lake - Dam Works	267		267		167	100	267	0
Museum Development Plan	11	4	7	4	3		11	0
Total	2,775	396	2,378	29	245	200	870	2,282
Policy & Resources								
High Street Regeneration	547	215	332	332			547	-0
Asset Management / Corporate Property	1,417	227	1,190	200	200	200	827	590
Feasibility Studies	113	1	112	35	35	42	113	-0
Infrastructure Delivery	1,200		1,200					1,200
Software / PC Replacement	124		124	40	40	44	124	
Digital Projects	20		20	10		10	20	
Acquisition of Commercial Assets	24,850		24,850		20,000		20,000	4,850
Kent Medical Campus - Innovation Scheme	649		649	50	150	449	649	0
Maidstone East/Sessions Square	520	1	518			518	519	0
Total	29,440	445	28,995	667	20,425	1,263	22,800	6,640
Strategic Planning & Infrastructure								
Mall Bus Station Redevelopment	1,540	4	1,536	50	75	75	204	1,336
Bridges Gyratory Scheme	121	2	119	39	40	40	121	0
Total	1,661	5	1,655	89	115	115	324	1,336
Section 106 Contributions	201							
TOTAL	51,754	1,430	50,123	8,974	23,135	3,863	37,402	14,528

Table 9 Capital Expenditure Q1 2019/20

Capital Budget Variances Q1 2019/20

Communities, Housing & Environment Committee

- The Indicative Schemes budget included provision for the purchase of a property initially valued at £1.2m. However this purchase is not now proceeding so assuming no other purchase opportunities are identified this budget will be carried forward to 2020/21.
- The Housing Incentives budgets has been historically under-utilised. The proposal with regard to the Housing Incentives budget is to use the forecast under spend to undertake major refurbishment works at the Council owned gypsy sites in order to modernize the facilities and bring both sites up to a good standard, and initial survey works have started The use of the Housing Incentive budget will be reviewed as part of the upcoming review of the Housing Strategy, due to be completed for 2020.
- The Disabled Facilities Budget appears to be under spent but it is a feature of this grant that adaptations to peoples' homes does not complete neatly within each financial year. The budget is committed against approved grants, which complete on a rolling basis. In addition, part of this grant is used for various initiatives - such as Helping You Home scheme operated in conjunction with Maidstone and Pembury Hospitals.
- The Flood Action Plan work is being developed with the Environment Agency. At this stage the timing of the works have not been confirmed, so it has been assumed at this stage that the majority of the budget will be carried forward to 2020/21.
- The play area improvements scheme has been completed, but the budget does include funding for ongoing maintenance and replacements which will only be partly utilised this year so there will be a balance to be slipped into 2020/21.

Economic Regeneration & Leisure Committee

- The overspend on the Mote Park Adventure Zone relates to the additional costs incurred as a result of the sewage leak in the park that significantly delayed the completion of the project. These costs are the subject of a legal claim that is currently ongoing, so the overspend will be funded temporarily until the outcome of the claim is known.
- The budgets for the Mote Park Centre and the Estates Services Building have now been combined as the construction of this facility will be let as one contract. At this stage the timing of the building works has not been determined, and this forecast assumes they will not begin until April 2020.

Policy & Resources Committee

- There is at present a forecast under spend of £0.590m on the Asset Management/Corporate Property which will be carried forward to 2020/21, although this total may change during the year if any unexpected urgent works are required to be undertaken.

- No projects have been identified to date this year for the Infrastructure Delivery and so these budgets will be carried forward into 2020/21.
- One significant acquisition is scheduled for the 3rd quarter, and at this stage there are no further acquisitions planned, so the remainder of the budget will be rolled forward to 2020/21.

Strategic Planning & Infrastructure Committee

- The Bus Station redevelopment project is progressing, but at this stage it is anticipated that the construction phase will not commence until Spring 2020, so £1.336m of the current budget will need to be carried forward.

Reserves & Balances

1st Quarter 2019/20

Reserves & Balances

The total of earmarked reserves and general fund balances as at 31st March 2019 was £15.1 million. The makeup of this balance, and movements in the first quarter of 2019/20 are set out in the table below.

The projected closing balance allows for the minimum level of general balances of £2m to be maintained (as agreed by Council in February 2019).

	£000		
General Fund			
Unallocated balance	9,228	9,522	9,248
Sub-total	9,228	9,522	9,248
Earmarked Reserves			
New Homes Bonus funding for capital projects	0	970	0
Local Plan	200	200	200
Neighbourhood Plans	64	64	24
Planning Appeals	300	300	170
Civil Parking Enforcement	419	419	159
Housing Prevention & Temporary Accommodation	700	700	512
Business Rates Growth Fund	3,682	3,666	2,674
Other	462	462	462
Sub-total	5,827	6,781	4,201
Total General Fund balances	15,055	16,303	13,449

Table 10 Reserves & Balances, Q1 2019/20

Council Tax & Business Rates 1st Quarter 2019/20

Collection Fund

The Council is increasingly reliant on income generated through local taxation (Council Tax and Business Rates), which is accounted for through the Collection Fund.

Due to the risk 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 very carefully.

Collection Rates

The collection rates achieved for local taxation are reported in the table below, alongside the target for the year, and the actual amount collected at the Quarter 1 stage.

2019/20 Local Taxation Collection Rates (@ Qtr. 1)		
Description	Target	Actual
	%	%
Council Tax	30.0	29.8
Business Rates	31.2	32.1

Table 11 Local Tax Collection Rates, Q1 2019/20

Collection rates for both Council Tax and Business Rates for Quarter 1 were close to target with Council Tax marginally off target and Business Rates exceeding target.

Billing and recovery timetables have progressed as planned so far in 2019/20.

Business Rates Retention (BRR)

Following the Council's successful participation in the 2018/19 (100%) BRR Pilot, along with all other authorities in Kent and Medway, the Council has reverted to participating in the original (50%) Kent BBR Pool for 2019/20.

At the Quarter 1 stage, forecast income retained from the growth in Business Rates is ahead of original expectations.

The overall growth in Business Rates measured against the Council's baseline was £2.517 million (original forecast £2.284 million), with a projected overall Pooling benefit of £1.157 million achieved. This includes an allocation of £0.347 million to Kent County Council, with the balance – of £0.810 million – accruing to Maidstone (original forecast £0.735 million), as summarised in the table below.

MBC Business Rates Pooling Benefit 2019/20 (@ Qtr. 1)		
Description	Amounts	Allocation of Pooling Benefit
	£'s	
Billing Authority Basic Share	347,125	Economic Development
Billing Authority Pool Growth Fund	347,125	Maidstone East (joint project with KCC)
Pool Safety Net Redistribution	115,708	Carry Forward to 2020/21
Total Benefit	809,958*	

**Excludes Kent County Council allocation of £347,125*

Table 12 Business Rates Pooling, Q1 2019/20

Treasury Management 1st Quarter 2019/20



Treasury Management

The Council has adopted and incorporated into its Financial Regulations, the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code covers the principles and guidelines relating to borrowing and investment operations. In February 2019 the Council approved a Treasury Management Strategy for 2019/20 that was based on the Code. The strategy requires that Policy & Resources Committee should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

During the Quarter ended 30 June 2019:

- Quarter 1 growth in the UK was unexpectedly strong at 0.5%, however this was boosted by stock building ahead of the original March 2019 Brexit deadline so Quarter 2 is expected to be either zero or negative.
- CPI Inflation rose slightly to 2.1% in April 2019 before falling back to 2.0% in May 2019 and is likely to remain at that level for the next two years. However, with the uncertainty of a Brexit Deal, this may increase.
- There have been no Bank Rate rises since increasing from 0.5% to 0.75% in August 2018 and it is unlikely there will be any further movements until the uncertainties over Brexit are clear. If there were a No Deal exit, it is likely that Bank Rate would be cut in order to support growth.
- Unemployment rate remained at 3.8 percent, its lowest rate since 1975.

The Council held investments totalling £20.955m. A full list of investments held at this time is shown in the table below. Many investments are fixed term deposits with other Local Authorities which are deemed to be secure investments. There are some exceptions, including some short-term cash in notice accounts and Money Market Funds.

Investment income for this Quarter 1 is £50,000 against a budget of £25,000 with an average rate of 0.83%. Investments in the period were made prior to investment rates falling which has produced a slightly higher than expected yield, however the variance is expected to fall as pace of the Capital Programme increases and there is the possibility of rates falling further through the year.

Investments

Counterparty	Type of Investment	Principal £000	Start Date	Maturity Date	Rate of Return	MBC Credit Limits	
						Suggested Term	Maximum Deposit £000
Thurrock Borough Council	Fixed Term Deposit	2,000	07/06/2019	09/09/2019	0.75%	5 Years	5,000
Cherwell District Council	Fixed Term Deposit	2,000	15/10/2018	15/07/2019	1.05%	5 Years	5,000
London Borough of Croydon	Fixed Term Deposit	2,000	01/05/2018	01/05/2020	1.05%	5 Years	5,000
Goldman Sachs International Bank	Notice Account Deposit	2,000			0.93%	6 months	3,000
Aberdeen Asset Management	Money Market Fund	6,270			0.75%	2 Years	8,000
Federated Investors LLP	Money Market Fund	6,685			0.76%	2 Years	3,000

20,955

Table 13 Short Term Investments, 1st Quarter 2019/20

Borrowing

There have been no borrowing requirements in the last quarter.

Maidstone Property Holdings Ltd

1st Quarter 2019/20



Maidstone Property Holdings

Maidstone Property Holdings Ltd. was incorporated on 30th September 2016 and is used by the Council as a vehicle for letting residential properties on assured short hold tenancies. The company, which is a wholly owned subsidiary of the Council, currently holds two properties, one of which consists of 20 flats on a 22 year lease from the Council, the other consisting of 14 apartments on assured short-hold tenancies.

An Internal Audit review identified that there should be a mechanism in place to enable the company to formally report to the Council. Given that the current level of activity within the company is relatively low, it was decided that this would be done via the quarterly budget monitoring process. This section of the report intends to provide the Committee with an overview of the activity and performance of the company for the year to date.

The company's financial year end was changed to 31st March, in order to align with the Council's financial reporting period. The 2018/19 accounts have now been audited by the company's external auditors, UHY Hacker Young. A board meeting will be convened shortly in order to formally approve the accounts, and the Company Secretary will ensure that these are filed with Companies House by the deadline of 31st December 2019.

During the first quarter of 2019/20, the net rental income totalled £41,000. This compares with £21,815 over the same period in 2018/19 and represents rent charged to tenants, less costs recharged by the managing agent. As at 30th June 2019, there were no rent arrears. At this point in time there are no vacancies in either building.

The Council generates income from the company through charges made for the services provided, and the property lease. For the 2018/19 financial year these charges totaled £76,107. After these charges have been taken into account, it is anticipated that the company will end 2019/20 in a break-even position.

As the activity of the company increases over time, we will keep the governance and reporting arrangements under review to ensure that they remain appropriate and commensurate with the scope of activity and associated risks.