MAIDSTONE BOROUGH COUNCIL

CABINET

14 NOVEMBER 2012

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

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1. BUDGET MONITORING – SECOND QUARTER 2012/13

1.1 Issue for Decision

1.1.1 To consider the capital and revenue budget and expenditure figures for the second quarter of 2012/13 and any problems identified.

1.1.2 To consider other financial matters with a material effect on the medium term financial strategy or the balance sheet.

1.2 Recommendation of Head of Finance & Customer Services

1.2.1 It is recommended that:

a) Cabinet note the satisfactory revenue position at the end of the second quarter 2012/13;

b) Cabinet agree the proposals for slippage and re-profiling in the capital programme to 2013/14;

c) Cabinet note the detail in the report on the collection fund, general fund balances and treasury management activity.

1.3 Reasons for Recommendation

1.3.1 The Director of Regeneration & Communities is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management, in accordance with the constitution. However in practice day to day budgetary control is delegated to service managers, with assistance and advice from their director and the finance section. In consideration of this fact, whilst appreciating the need for Cabinet to remain fully aware of the Council's financial situation, Cabinet agreed to receive these quarterly reports, including a section reporting on treasury management performance.

1.4 Revenue

1.4.1 The budget used in this report is the agreed estimate for 2012/13 including the carry forward resources agreed by Cabinet in May 2012. Actual expenditure to September 2012 includes all major accruals for goods and services received but not paid for by the end of the quarter.

1.4.2 An analysis that is summarised by Portfolio, of the full year budget, the profiled budget to September 2012 and expenditure to September 2012, is attached as **Appendix A**. The profiled budget shows the total amount expected to be spent by September 2012 after considering the expected pattern of spend throughout the year for each budget head.

1.4.3 **Appendix A** shows actual spend is £0.33m less than the budget at the end of quarter two, compared to a figure of £0.38m less than the budget at the end of quarter one. A detailed analysis of the figures at cost centre level shows 123 out of a total of 221 cost centres are currently reporting actual spend less than budget, which mirrors the position at the end of quarter one.

1.4.4 As part of a series of changes to the budget monitoring and reporting process the financial analysis in **Appendix A** is based on direct expenditure only. This removes the influence of internal recharges and accounting adjustments upon the variance analysis. At this time it is expected that final outturn will report an under spend, after adjustment for resources to be carried forward into 2013/14, of approximately £400,000.

1.4.5 Also shown at **Appendix A** is an analysis by subjective across all services. This identifies that £350,000 of the under spend relates to employee costs, due to continuing vacancy levels primarily held to deliver planned savings in 2013/14.

1.4.6 In addition to the under spend in employee costs the subjective analysis shows that income receipts are creating an adverse variance against expected budget to date. The third table at **Appendix A** summarises the position specifically with regard to fees and charges income. This was the subject of a separate report to Cabinet in December 2011 as this has been an area that has been adversely affected by the economic downturn. At the end of the second quarter income is £126,000 under the target figure and this is expected to end the year at an under recovery of £200,000.

1.4.7 In some cases there is a relationship between the shortfall in income and the high level of vacancies as some managers are controlling their employee levels in direct relationship to the reduced levels of income. An example of this is the development management budget where the level of income from planning applications is below expectation but the budget pressure has been removed by the service manager through the maintenance of vacancies on a short term basis. This situation is borne out by the performance monitoring report elsewhere on this agenda which shows a reduction in the level of planning applications over the period.

1.4.8 In addition the continued need in future years for staff reductions influences some managers to temporarily maintain vacancies, when they arise, until the medium term financial strategy (MTFS) requires the saving to be made. An example of this is within the Finance Section where changes to the structure were possible and vacancies are now being retained until the new financial year when the savings are required by the MTFS.

1.4.9 A number of service areas are reporting positive variances through significantly less spend or additional income than was budgeted for at the end of quarter two. Brief details on these areas are given below:-

a) The trading account for the Internal Print Unit is currently showing net income in excess of budget of £36,756. The majority of this sum is additional recharges of £20,462. This income is partially due to external work carried out by the unit.

b) The Environmental Enforcement budget is showing greater than anticipated income of £42,916 from Fixed Penalty Fines for litter. Officers are investigating options for utilising this excess income within the Street Scene operational area during the remainder of the financial year in line with the commitments made when the service commenced.

c) On-Street Parking is showing greater than anticipated income of £27,039, as well as less than anticipated expenditure of £25,218. The Transport & Parking Services Manager has indicated that a programme of works for lines and signs has been identified, and this will be undertaken in bulk by the end of the financial year, thus benefiting from economies of scale. The under spend on the repairs and maintenance should therefore reduce by the end of the financial year.

1.4.10 A number of areas are showing significantly more spend or a shortfall in income than was actually budgeted at the end of quarter two, and these are reported below:-

a) The Homeless Temporary Accommodation continues to show expenditure greater than budget, with the figure rising to £68,275 at the end of quarter two. This budget experienced similar problems during the last financial year, with expenditure on providing bed and breakfast accommodation being significantly higher than the budgeted figure. Growth of £60,000 was approved as part of the budget strategy for 2012/13, but demand for this service continues to be higher than anticipated. The service manager is working with the Cabinet Member to bring forward proposals to reduce the pressure but it is unlikely that this budget pressure will be reduced during this financial year. The performance report elsewhere on this agenda demonstrates the increased level of demand for this service that has caused this budget pressure and includes in its appendices an action plan to manage the demand.

b) The Sundry Corporate Property budget is reporting expenditure greater than budget of £82,203. The main element of this is the vacant retail unit underneath King Street Multi-Storey Car Park, for which business rates are still due, as well as there being no rental income received. Cabinet received a report on the future of the site in September 2012 and have agreed to demolish the car park and re-develop the site as a surface car park. At this time it is expected that this budget pressure will reduce but not be completely removed during the remainder of the financial year due to the impending demolition meaning a period of restricted options to generate income. Whilst the performance report elsewhere on this agenda does not currently show problems in relation to this issue, the pending demolition means that members should expect to see an effect on performance by the year end.

c) The Museum is currently reporting an adverse variance of £131,569. The Museum is currently configuring its service to meet the requirements of the new facility and bringing into place the activities set out in the business plan. Whilst an adverse variance of this size is of concern, management action being discussed with the Cabinet Member to reduce this variance. At this time it is possible that this variance will not be fully resolved by the year end. Management action will continue into the new year bringing funding back into line with the business plan.

d) The budget for Park & Ride is showing a shortfall of £59,715 against the anticipated budget, mainly due to a continuing shortfall in income. This position is borne out by the performance monitoring report elsewhere on this agenda that demonstrates the reduction in passenger numbers. The income levels have been decreasing for a number of years and this quarter’s income follows the trend. The Cabinet Member for Planning, Transport & Development has recently received and agreed a report that takes action to address the financial problems of the service by revising the current timetable to meet service needs.

1.4.11 The report identifies no risks that require action by Cabinet at this time. Allowing for the continuation of the issues detailed as budget pressures above, the predicted outturn for 2012/13 is a favourable variance of £0.4m.

1.4.12 Through the budget strategy for 2012/13, savings and efficiencies were identified totalling £1.9m. These savings are being monitored corporately and it is anticipated that the target will be met in year.

1.5 <u>Balances</u>

1.5.1 Balances as at 1st April 2012 were £10.1m. The current medium term financial strategy assumes balances of £5.0m by 31st March 2013.

1.5.2 The major reason for the movement in balances during 2012/13 relates to the use of carry forwards approved by Cabinet in May 2012. In addition, whilst approval has not been granted at this time, the balance of £5m at 31st March 2013 assumes the use of the 2012/13 underspend as set out in the report currently being considered by the Leader and Corporate Services Overview and Scrutiny Committee.

1.5.3 The position set out above allows for the minimum level of balances of £2.3m, as previously agreed by Cabinet, to be maintained.

1.6 <u>Collection Fund</u>

1.6.1 The collection rates achieved for the second quarter, and the targets set, are reported below. The rate is given as a percentage of the debt targeted for collection in 2012/13.

	Target %	**Actual %**
NNDR	60.7	60.1
Council Tax	58.8	58.4

Both have marginally missed their respective targets and this reflects the experience at other billing authorities in Kent. This performance is also reviewed in the performance monitoring report elsewhere on this agenda.

1.6.2 Whilst the percentage variances are small, the gross values of Council tax and Business Rates collected each year are significant. These variances represent approximately £0.75m of income that is now behind the profiled collection schedule. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken before year end to attempt to bring collection rates back to target.

1.6.3 Prior year arrears collection is on target and officers will continue to pursue payment of any developing arrears along with the arrears from prior years.

1.7 Capital Expenditure

1.7.1 Attached as **Appendix B** is a summary of the current capital programme for 2012/13, as agreed by Council. This includes the initial capital programme for the financial year plus amounts carried forward from 2011/12. It also reflects the slippage that was identified in the first quarter report.

1.7.2 The table in **Appendix B** gives the following detail:

Column	Detail.
1.	Description of scheme, listed in portfolio order.
2.	Approved budget for 2012/13 after the adjustments detailed above.
3.	Actual spend to the end of September 2012.
4.	Balance of budget available for 2012/13.
5 – 7.	Quarterly analysis of expected spend for the remainder of 2012/13.
8.	Balance of budget that will slip into 2013/14.
9.	Budget no longer required.

1.7.3 Capital expenditure to the end of the first quarter of 2012/13 is shown as £2.0m. £1.5m of this spend is in relation to the major projects at Mote Park and in the High Street.

1.7.4 Following the second quarters monitoring, officers anticipate that £43,100 will need to be reprofiled into 2013/14. This is detailed in column 8 of **Appendix B**. These are both items where the programmed works have been rescheduled to now take place during 2013/14. A further £20,830 of budget is now no longer required.

1.8 Capital Financing

1.8.1 The agreed capital programme 2011/12 to 2014/15, as approved by Council in March 2012, and subsequently amended by Cabinet in May 2012 and again in July 2012, identifies sufficient resources to finance the 2012/13 programme.

1.8.2 Resources that can currently be confirmed are:

Funding Source:	£.m
Grants & Contributions	2.1
Capital Receipts	3.0
Revenue Support	3.9
	9.0

The capital receipts figure includes the disposals of Hayle Place and 13 Tonbridge Road which took place in April. Progress is also being made on a number of other potential disposals, which could realise further receipts during the year.

1.8.3 Based on the current projected expenditure shown at **Appendix B** there are sufficient resources to fund the programme for the current year without the need to borrow.

1.8.4 The slippage and re-profiling proposed for approval elsewhere in this report will mean that net expenditure of £43,100 will be re-profiled into 2013/14 if Cabinet agree this recommendation.

1.9 Treasury Management

1.9.1 The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management 2009 (Revised) in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In March 2011 the Council approved a Treasury Management Strategy for 2011/12 that was based on this code. The strategy requires that Cabinet should be informed of Treasury Management activities quarterly as part of budget monitoring.

1.9.2 The first half of 2011/12 saw:

- Economic growth returning, after three quarters of recession
- That retail sales held up well and spending, off the high street, strengthened
- Employment rose at a steady pace
- A continued, negative impact from high inflation levels

1.9.3 The Council's Treasury Management Advisors, Sector Treasury Management, provide the following forecast:

- The first base rate increase is expected during the last quarter of 2014 and is expected to steadily rise.
- Long term PWLB rates are expected to steadily increase to reach 4.50% by early 2015.

1.9.4 As at 30th September 2012 the Council held £28.5m in investments. A full list of the investments held is given in **Appendix C**. £10.5m of investments in the appendix are in accounts which can be called upon immediately or for a short notice period.

1.9.5 During the first quarter of 2012/13 investment income has been above target. Income of £0.15m has been received compared to a budget of £0.12m with an average rate of 1.23%.

1.10 Alternative Action and why not Recommended

1.10.1 The budget monitoring process could be left to officers. The Constitution already requires officers to report budget variances to the relevant Cabinet Member in specific circumstances. The absence of any such reports would then suggest that no specific items have been identified for consideration.

1.10.2 If such an approach were taken Cabinet Members would have a reduced financial awareness. This could restrict Cabinet's ability to meet service requirements and achieve the Council's corporate objectives.

1.11 Impact on Corporate Objectives

1.11.1 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 and is therefore focused on the strategic plan and corporate objectives.

1.11.2 Regular monitoring by Cabinet ensures that actual activity is in accordance with the plan set out in the budget and that the Council is able to achieve its objectives.

1.12 Risk Management

1.12.1 The Council has produced a balanced budget for both capital and revenue expenditure and income for 2012/13. This budget is set against a backdrop of limited resources and an economic climate that is still in difficulty. 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 Cabinet the best opportunity to take actions to mitigate such risks.

1.12.2 The current revenue budget does not exhibit the level of risk identified in previous years and a small contingency exists for any significant budget pressures that may yet develop.

1.12.3 The capital programme is reporting slippage. Resources to finance the programme remain subject to achieving assets sales, and assumes that the other planning assumptions are accurate. To mitigate any potential risk the Council has approved prudential borrowing up to a maximum of £4m.

1.12.4 Reporting on other issues such as council tax and non-domestic rates collection and treasury management activity ensure that the report covers all major balance sheet items in addition to the capital programme and revenue budget. No significant risks are identified in any of these areas.

1.13 Other Implications

1.13.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.13.2 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 corporate objectives.

1.14 Conclusions

1.14.1 The second quarter monitoring report shows a positive evaluation of the period. Revenue expenditure, balances, treasury management and council tax and NNDR collection are all satisfactorily at or above target.

1.14.2 Capital expenditure reports from officers show an expectation to re-profile £43,100 into 2013/14. However, funding of the ongoing

IS THIS A KEY DECISION REPORT?

Yes		No	X

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because: ………………………………………………………………..

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Wards/Parishes affected: ……………………………………………………………………..

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programme still requires further capital receipts from asset disposals.

1.14.3 All other items monitored are at or above target for the second quarter.

1.15 Relevant Documents

1.15.1 Appendices

Appendix A – Revenue Budget Report
Appendix B – Capital Programme 2012/13
Appendix C – List of Investments as at 30th September 2012