

MAIDSTONE BOROUGH COUNCIL

CABINET

14 MAY 2014

URGENT REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Paul Riley

1. PROVISIONAL REVENUE AND CAPITAL OUTTURN 2013 14

1.1 Issue for Decision

1.1.1 This report summarises the first set of provisional revenue and capital outturn figures for 2013/14 and provides some initial consideration of the impact of these figures on the Council's future financial planning.

1.1.2 The report also provides Cabinet with provisional figures on treasury management and other balance sheet items.

1.2 Reasons for Urgency

1.2.1 The issues outlined in this report relate to the financial affairs of the Council during 2013/14 and have a direct impact on the medium term financial strategy. Early consideration of any issues arising from this report is good financial management and will enable service managers to continue with service provision delayed by the financial constraints of an annual budget cycle.

1.3 Recommendation of Head of Finance & Customer Services

1.3.1 It is recommended that Cabinet:-

- a) Note the first set of provisional outturn figures for revenue and capital for 2013/14;
- b) Agree the provisional funding of capital expenditure in 2013/14 as set out in paragraph 1.6.3 and note the resulting carry forward of £6.777m of revenue resources set aside to finance the capital programme in future years as detailed in paragraph 1.6.7;
- c) Note the carry forward from 2013/14 into 2014/15 of grant funding as detailed in Appendix B;

d) Consider and approve the revenue carry forward requests from 2013/14 into 2014/15 as detailed in Appendix C;

e) Note the impact on the balance sheet of the provisional outturn 2013/14;

1.4 Reasons for Recommendation

1.4.1 The purpose of this report is to facilitate good financial management. It gives Cabinet provisional figures for revenue and capital outturn to allow early consideration of any issues arising from them, not only in the current financial year but in terms of any impact on future strategy.

1.4.2 The medium term financial strategy and the strategic plan will undergo a full review in 2014/15 for the forthcoming five year period 2015/16 to 2019/20. The strategy will continue to identify the impact of the government's fiscal plans and their effect on local government. Current assumptions are that the government's general support to local government through revenue support grant will be removed completely by 2020.

1.4.3 Early sight of the provisional outturn figures for 2013/14 will provide the Cabinet with information and greater clarity about the Council's financial position and the level of available resources as the financial year 2014/15 commences. The information will also aid Cabinet's consideration of the risks in advance of the medium term financial strategy development for 2015/16 onwards.

1.4.4 If the provisional outturn detailed in this report is amended prior to the report on the Statement of Accounts to the Audit Committee then final expenditure figures for revenue and capital will be reported back to the June 2014 Cabinet meeting.

1.5 Impact on Future Financial Planning

1.5.1 The Council has ended 2013/14 with a net positive variance on the revenue account of £92,000. A small number of service areas have significant adverse variances and these have all received a higher level of focus during the year. Actions taken in these service areas will mean a reduced or removed pressure on 2014/15 budgets.

- 1.5.2 In summary the £92,000 surplus is a result of the following proposals which are set out in detail in this report:

	£000
Variance on net service spending (as per Appendix A)	7,711
Less:	
Revenue set aside to finance capital expenditure	-6,157
Grants required to be carried forward – Appendix B	-831
Carry forward request - Appendix C	-631
Net under spend against budget requirement	92

- 1.5.3 The Capital Programme remains within the expected levels set out in the quarterly monitoring reports and is fully funded, subject to the approval of the carry forward of revenue resources recommended in this report.
- 1.5.4 By the end of 2014/15 general balances are expected to be £2.7m which is £0.4m above the working minimum set by Cabinet in February 2014. In addition resources of £0.58m exist for invest-to-save proposals and £0.75m remains of the VAT reimbursement arising from the “Fleming” claims made by the Council. During 2013/14 the Council agreed to set aside £0.5m in order to make a provision for property investment and other commercial activity.
- 1.5.5 The level of collection of Council Tax and Non-Domestic Rates is considered to be at an acceptable level and an adequate provision exists to cover bad debt and the predicted level of current and future appeals in relation to business rates for 2013/14 and prior years.
- 1.5.6 Considered together, these factors enable the Council to begin 2014/15 on a financially sound basis with the ability to carefully consider options for the most appropriate actions to ensure an effective Medium Term Financial Strategy for the period 2015/16 to 2019/20.

1.6 Revenue

- 1.6.1 Attached at **APPENDIX A** is a summary of the provisional revenue outturn for 2014/15 compared to the revised estimate approved by Cabinet and Council in February 2014. Also shown is the amended revised estimate, taking into account any changes in capital financing costs necessitated by changes in actual capital expenditure. This is provided to ensure a more accurate comparison with the outturn position, as it eliminates fluctuations in capital spend, which are dealt with later in this report. Appendix A shows a net unadjusted under spend of £7.711m.

- 1.6.2 Appendix A summarises the variance by portfolio and the major reasons for the variances are detailed in the following paragraphs.
- 1.6.3 The Leader's portfolio shows a positive variance of £0.597m. This has resulted from two key issues:
- a) Contingency budgets that exist for in-year cost pressures are held in this portfolio. They allow the Council some resilience from unexpected pressure from service demand year on year. The service demand can occur in any portfolio and the major pressures in 2013/14 are detailed in the following paragraphs. Members should note that this under spend, at £0.18m, is only sufficient to manage only one major budget pressure such as the over spend on the homelessness budget.
 - b) In addition to the contingency, the Council received grants for new burdens in advance of their use creating a positive variance in this portfolio. One major example is the funding for the introduction of individual elector of registration. The new system will be in use by the time of the General Election in May 2015 and the resources received are required to cover costs to be incurred by the service in 2014/15. This is reported as one of the grant carry forwards discussed in paragraph 1.6.9.
- 1.6.4 The Community and Leisure Services Portfolio is reporting an adverse variance of £0.173m. Contained within the portfolio is the Homelessness budget which is over spent by £0.189m due to demand for that service resulting in extensive use of bed and breakfast providers during the year. The acquisition of suitable temporary accommodation is now complete with refurbishment about to commence. This will ensure that this budget pressure is reduced in 2014/15.
- 1.6.5 The Corporate Services portfolio is reporting a positive variance of £6.587m.
- a) The variance is mainly a consequence of financing of the capital programme as set out in section 1.6. Due to the level of capital receipts, grants and other contributions available at the end of 2013/14 only £1.7m of the total revenue support of £7.85m was used to finance capital expenditure. The funding is mainly derived from the new homes bonus that the Council has agreed should be used to support the capital programme. It should be noted that the balance of £6.15m will be carried forward as it is required to ensure the future capital programme is fully funded.
 - b) This portfolio holds the budget for redundancy payments which was carried forward into 2013/14 for the expected redundancies

from the Chief Executive's review of the organisational structure of which £0.15m was unused.

- 1.6.6 The Economic and Commercial Development portfolio is reporting an adverse variance of £0.371m as a consequence of three main issues:
- a) The Museum is reporting a minor adverse variance against budget of £0.05m. The Museum now forms part of the Maidstone Culture and Leisure Service and the new manager is now in place. During 2014/15 a full zero based budgeting exercise will be carried out to bring the budget and service levels into line.
 - b) The Hazlitt Arts Centre is now managed by an external contractor on behalf of the Council but the service commenced later in the year than anticipated. An adverse variance of £0.36m is reported. This relates to the delay in completing the contract and some agreed maintenance works carried out this year, in advance of the originally planned dates. From 2014/15 the contract sum will become payable and costs will be contained within budget.
 - c) A carry forward of Growth Point grant totalling £0.07m is required. This grant will be used to complete the funding of the resourcing strategy for economic development agreed by Cabinet earlier in the year. This sum is reported as a positive variance.
- 1.6.7 The Environment portfolio is reporting a positive variance of £0.28m. This is derived from low value positive variances across most budgets. One major positive variance exists in relation to the income from garden waste bins. The success of the current schemes means that income is £0.15m above the budgeted level. It is currently expected that this increased income will recur however the increase in the number of bins will be reflected in the waste collection contract pricing for 2014/15 onwards and it is essential to identify the increased cost before assessing the potential for reducing the service budget.
- 1.6.8 The Planning, Transport and Development portfolio is reporting a positive variance of £0.714m. This is as a result of income levels in the Development Management service which is reporting a total positive variance of £0.657m. The major influence is the increased level of planning application fee income received during the year. At its meeting in February 2014 Cabinet considered and agreed a proposal to set aside £0.2m of this resource and allocate the funds directly to enhancing the team. In addition agreement was given to increase the number of employees within the service.
- 1.6.9 The Council makes best use of funding available from other agencies through grants and contributions. Often these grants are given for a

specific activity and in some cases this activity is carried out over a number of years or may be received in one financial year and used in a future financial year. In such cases the budget to be utilised must be carried forward to maintain the link between the grant and the expenditure for which it is used. Grants within the 2013/14 budget that have not been utilised in year total £0.831m and are detailed in **APPENDIX B**. In all cases these grants are for committed schemes that had been identified and agreed as part of previous budget strategies.

- 1.6.10 Attached as **APPENDIX C** is a schedule of provisional carry forward requests, into 2014/15, totalling £0.631m. It is recommended that Cabinet review the requests in Appendix C and give approval as considered appropriate.
- 1.6.11 If Cabinet agree all of the carry forwards proposed in this report the net under spend available for other actions or transfer to general balances is £0.1m. The net under spend is not significant and it is therefore recommended that the under spend be taken into balances at this time.

1.7 Capital

- 1.7.1 Attached at **APPENDIX D** is a summary of capital spend against the revised estimate. Slippage of £2.06m has been identified since the capital programme was approved at Council in March 2014. The major variance is the slippage of the property acquisition proposal into 2014/15. This proposal is currently under consideration and negotiation and if approved by the Cabinet Committee will progress early in 2014/15.
- 1.7.2 Schemes identified in Appendix D by an asterisk (*) are funded or partly funded from specific resources such as s106 or external contribution and not from the Council's own capital resources.
- 1.7.3 The expenditure of £5.75m outlined in Appendix D can be funded entirely from available capital resources. Proposed funding is summarised in the following table:

Resources	£000
Capital Receipts	2,498
Capital Grants & Contributions (incl. s106)	1,558
Support from revenue budgets	1,697
TOTAL	5,753

- 1.7.4 This funding proposal is developed on the basis of using the most flexible resources last. This means that grants and capital receipts have been utilised in preference to revenue support.
- 1.7.5 The Council has approved prudential borrowing of up to £6m for the acquisition of commercial assets but not for general capital expenditure. It is possible for the Council to borrow its own revenue resources and repay the loan at a later date when it becomes more advantageous to borrow from the market. This year the Council has acquired one asset and could borrow from its own or external resources to finance the acquisition. Careful consideration of the options has led to the conclusion that borrowing is not necessary at this time. This is because the resources that would be used to facilitate internal borrowing are already set aside for capital expenditure in future years and are not revenue balances intended for later revenue expenditure. This means the direct use of the resources to finance the acquisition will have an identical impact to internal borrowing on the future capital programme.
- 1.7.6 It is recommended that Cabinet consider and approve the provisional financing of the capital programme as set out in the table at 1.6.3. and the consequence of the recommended financing is detailed in paragraph 1.7.7 below
- 1.7.7 In line with the policy of using capital resources first, some of the resources identified from revenue budgets to finance capital expenditure will not be required until 2014/15 or later years creating a revenue variance of £6.157m. This represents a resource that is essential to the financing of the future capital programme. This variance is reported under the Cabinet Member for Corporate Services' Portfolio, see paragraph 1.6.5. It is recommended that this money is carried forward for this use in 2013/14 or later years, in order for the capital programme to remain affordable.

1.8 Balance Sheet

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

Asset Sales

- 1.8.2 The revised estimate assumed asset sales for 2013/14 of £1.398m. The provisional outturn figures show cash backed Capital Receipts, net of costs of £1.598m. This is £0.2m greater than estimated, due to additional receipts from Golding Homes' Right-to-Buy sales. All available receipts have been utilised in the financing of the capital programme.

Collection Fund

- 1.8.3 The outturn collection rates for Council Tax and Non-Domestic Rates were close to target at the end of the financial year. At this time it is predicted that there will be a small surplus on the collection fund at the year end. This surplus will be formally shared between preceptors during 2015/16. For this Council it is expected to compensate for losses in business rates once the final business rates account is certified and submitted to central government. The collection rates, compared to target, are as follows:

Collection Rates	Target %	Actual %
NNDR	97.0%	97.8%
Council Tax	98.3%	98.3%

Investments

- 1.8.4 The Treasury Management Strategy 2013/14 agreed by Council in February 2013 anticipated year end investments of approximately £19.3m. The actual investment at 31 March 2014 totalled £19.1m. Such a minor change to the level of investments will have no impact on the strategy or the revenue account during the course of 2014/15. Daily monitoring of cash-flow has confirmed that the Prudential Indicators that Council set for 2013/14 have been complied with.

Fixed Assets

- 1.8.5 The capital investment achieved in 2013/14 resulted in investment in the Council's property portfolio of £2.839m out of a total spend of £4.7m. The balance of the spend is in areas such as support for social housing, renovation grants, etc which do not contribute to the Authority's asset base and have been written off, through the revenue account, as revenue expenditure funded from capital under statute.

Useable capital receipts

- 1.8.6 As a result of the level of capital investment and the level of capital receipts received in 2013/14, the level of useable capital receipts at 31st March 2014 is less than £0.1m.

Balances

- 1.8.7 Balances are set out in **APPENDIX E**. The overall level of balances at 31st March 2014 is provisionally expected to be £11.901m, compared to £10.384m at 31st March 2013. However, after allowing for the commitment to carry forwards and the planned use in

2014/15, the provisional level of uncommitted balances is £2.7m. The estimate for 2014/15 as approved at Council in March 2014 reported an expected balance of £2.7m. This means balances will be above the minimum level of working balances by £0.4m along with other resources, provisionally allocated but not committed, of £1.328m.

1.9 Alternative Action and why not Recommended

1.9.1 The reporting of revenue outturn could wait until the Cabinet meeting in June 2014 when final figures are available in the Statement of Accounts prior to external audit. Providing provisional outturn to Cabinet at this time facilitates good financial management and aids consideration of issues within the current financial year and helps inform future budget strategy.

1.9.2 The early approval of requests for carry forward of revenue resources enables budget managers to continue to provide the planned services for which the resources are required without the delay of waiting for a later Cabinet meeting.

1.10 Impact on Corporate Objectives

1.10.1 The financial resources spent in 2013/14 and reported here reflect a focus on corporate priorities. Any under spend will be carried forward in accordance with those corporate priorities and previous commitments.

1.11 Risk Management

1.11.1 At this stage the financial analysis is provisional and contains some estimated values. Monthly financial monitoring by officers and quarterly by Cabinet improve the accuracy of the provisional figures. These figures are produced to a timetable for the completion of the Statement of Accounts and all essential work is complete at this stage.

1.12 Other Implications

1.12.1

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

1.12.2 The financial implications are incorporated in the body of the report.

1.13 Relevant Documents

1.13.1 Appendices

- Appendix A – Summary Provisional Revenue Outturn
- Appendix B – Schedule of Grants to be Carried Forward
- Appendix C – Schedule of Carry Forward Requests
- Appendix D – Summary Provisional Capital Outturn
- Appendix E – Provisional General Fund Balances

<u>IS THIS A KEY DECISION REPORT?</u>		<u>THIS BOX MUST BE COMPLETED</u>	
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, this is a Key Decision because:			
Wards/Parishes affected:			