

POLICY AND RESOURCES COMMITTEE

28 June 2017

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

Yes

Revenue & Capital Outturn 2016-17

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green – Director of Finance and Business Improvement (Lead Officer) Ellie Dunnet – Head of Finance (Report Author)
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

That the committee:

1. Notes the revenue and capital outturn at the end of 2016-17.
2. Notes the carry forward of resources as detailed in **Appendix B**.
3. Agrees to earmark the £89,000 underspend for 2016-17 for any further one-off expenditure that is required to deliver the three key action areas for 2017/18.
4. Approves the proposed slippage in the capital programme of £2,974,264 into 2017-18 as detailed in **Appendix C**.
5. Notes the performance in relation to the treasury management strategy for 2016-17.
6. Notes the performance of the collection fund and the level of balances at the year-end.

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	28 June 2017

Revenue & Capital Outturn 2016-17

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides the committee with an overview of the capital and revenue budget and outturn for 2016-17, and highlights other financial matters which may have a material impact on the medium term financial strategy or the balance sheet.
 - 1.2 The first section of the report presents the revenue information specific to this committee's services, and the remainder of the report provides an update on strategic and cross-cutting issues since both aspects fall into the remit of this committee.
 - 1.3 The revenue outturn position for 2016-17 is an underspend of £89,000. It should be noted that the council's accounts for 2016-17 are still subject to audit and there is therefore a possibility that this figure could change. This is a significant improvement from the end of the third quarter, when an overspend of £288,000 was projected. It follows the introduction of additional controls over spending, designed to ensure that the council remained within budget for the year.
 - 1.4 The capital spending for the year totals £11,480,345 from the annual budget of £14,331,350, which includes an adjustment for slippage previously agreed by this committee.
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2. INTRODUCTION AND BACKGROUND

- 2.1 The Director of Finance & Business Improvement is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management. However in practice day to day budgetary control is delegated to service managers, with assistance and advice from their director and the finance section.
- 2.2 The budget for 2016-17 was agreed by full Council on 2 March 2016. This report sets out the position as at the end of the fourth quarter for revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.

Fourth Quarter Results – Revenue

- 2.3 Attached at **Appendix A** is a table detailing the current budget and actual position for this committee to March 2017, by cost centre.
- 2.4 The Appendix shows:
 - a) The cost centre description;
 - b) The value of the net expenditure budget for the year;
 - c) Actual expenditure;

- d) Actual income;
- e) Actual net expenditure;
- f) The variance between expected and actual net expenditure;

2.5 **Appendix A** shows net expenditure of £5.486 million compared with a budget of £6.660 million.

2.6 Explanations are shown below for all variances within individual cost centres which exceed £30,000:

Cost Centre	Positive Variance £000	Adverse Variance £000
<p>Appropriation Account</p> <p>The capital funding budget for vehicle and equipment purchases was not used as the proceeds from vehicle disposals were sufficient to fund the purchases made in 2016-17.</p>	39	
<p>Pensions Backfunding</p> <p>As previously reported actual payments exceeded the budget for the year.</p>		53
<p>Council Tax Collection</p> <p>This variance is a combination of reduced postage costs and increased income from legal costs.</p>	48	
<p>Interest & Investment Income</p> <p>As was previously reported returns have continued to be low and have not improved since the end of the 3rd quarter.</p>		84
<p>Commercial Property</p> <p>The shortfall in this area arose primarily because of a number of rental issues and empty property rates, although these were partly offset by additional income from new acquisitions.</p>		31
<p>Corporate Management</p> <p>There has been an increase in the provision for bad debts, which is reflected in this budget heading. This is due to an ongoing dispute over payments with the contractor at the Cobtree Golf Course, in which the Council has a 2/9ths interest.</p>		43
<p>Members' Facilities</p> <p>The variance in this area has arisen from underspends against the photocopying and central training budgets.</p>	41	

Cost Centre	Positive Variance	Adverse Variance
<p>Maidstone House</p> <p>There were increased rent and non-domestic rates payments, along with a shortfall in income following the write-off of irrecoverable debt.</p>		44
<p>Rent Allowances</p> <p>The positive variance has arisen from the recovery of housing benefit overpayments.</p>	36	
<p>Legal Services</p> <p>There is additional income generated this year due to the high volume of Section 106 agreements and planning applications during the year.</p>	108	
<p>Internal Printing</p> <p>The printing section has not recovered its costs over the course of the year.</p>		70
<p>Grant Funding</p> <p>A number of unused grants have been carried forward to be used in 2017/18, the most significant ones being the Transition Grant and funding from DCLG for settling land charges legal claims.</p>	345	
<p>Salary Slippage</p> <p>This arises primarily from the MBC share in the Revenues & Benefits and ICT shared services.</p>	217	

Table 1: Summary of significant variances (Policy & Resources Committee)

- 2.7 The overall position for the council at the end of 2016-17 was an underspend of £89,000. It is proposed that this be ringfenced within the General Fund balances for any further one-off expenditure that is required to deliver the three key action areas for 2017/18. Although significant capital resources have been allocated as part of the Capital Programme for 'A Home for Everyone' and 'Regenerating the Town Centre', there have not been similar allocations for 'Clean and Safe'.
- 2.8 Details of grant funding to be carried forward into 2017-18 have been included within **Appendix B**. These amounts relate to unspent sums of money which the council has received for a specific purpose. These sums have been carried forward into 2017-18 and will be spent on fulfilling the objectives for which they were originally received.
- 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 fourth quarter of 2016-17:

Reason	Value £	Temp/Perm*
Return unspent business rates funding to balances	9,370	Temporary
Return unspent Penenden Heath funding to balances	27,500	Temporary
Funding of commingled bins from FPN surplus	14,000	Temporary

Table 2: Reportable virements

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

2.10 The amounts listed within the above table have all been previously earmarked for a specific purpose, and were transferred back into the relevant area at the beginning of the new financial year. This process ensures that this funding can be used to deliver the objectives for which the amounts were originally allocated, rather than being used to offset overspends elsewhere.

Strategic Level Capital Programme 2016-17

2.11 The capital programme was approved by Council on 2 March 2016. Funding for the programme remains consistent with previous decisions of Council in that the majority of resources come from New Homes Bonus along with a small grants budget. Previous decisions of Council, Cabinet and this committee have focused the use of New Homes Bonus on infrastructure projects where these are required by the infrastructure delivery plan that forms part of the Local Plan.

2.12 The current programme is set out in **Appendix C** and shows the approved budget and actual expenditure incurred. The budget figure incorporates slippage previously approved by this committee during 2016-17. At the end of the fourth quarter, £11.480 million had been spent against a total budget of £14.331 million. The committee is asked to approve slippage into 2017-18 totalling £2.974 million at this stage.

2.13 The slippage has arisen in the following areas:

- Brunswick Street Housing Development – it is anticipated that expenditure will now be incurred during 2017-18;
- Improvements to play areas – spending has been lower than anticipated;
- Maidstone East/Sessions Square – further expenditure will be incurred for master planning work during 2017-18; and
- Bridges Gyrotory System – final payments due for this scheme will be made during 2017-18.

2.14 The Council has sufficient resources to fund capital expenditure for 2016-17 from New Homes Bonus, capital receipts and government grants, and has therefore not needed to borrow for this purpose.

Reserves and Balances

- 2.15 The total of earmarked reserves and balances as at 31st March 2017 was £17.35 million. This represents a decrease of £1.5 million from the beginning of the year, which relates to use of New Homes Bonus previously set aside for capital expenditure to fund acquisitions during the year. This is also reported in the council's draft financial statements for 2016-17.
- 2.16 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

- 2.17 The council is dependent 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.
- 2.18 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 2016-17:

	Target %	Actual %	Amount collected
Council Tax	98.45	98.10	£93,976,662
Business Rates	97.95	96.86	59,229,908

Table 3 : Collection Rates for Council Tax and Business Rates 2016-17

- 2.19 The targets have been narrowly missed for both council tax and NNDR. Although as a percentage of the overall total, the variances appear small, the sums involved are significant and officers are therefore monitoring this closely.
- 2.20 The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken to maximise collection rates. Officers will continue to pursue payment of any developing arrears along with the arrears from prior years.
- 2.21 Income from retained business rates growth is also lower than anticipated, due to a high volume of businesses appealing against their rateable value.
- 2.22 The overall growth against the baseline is £0.45 million for 2016-17. The benefit from membership in the Kent Business Rates Pool for 2016-17 is £0.19 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 9.351% payable as a pool member. It should be noted that £0.02m of the retained levy will be used to pay as contingency to a pool member who ended 2016-17 in a safety net position.
- 2.23 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.

Treasury Management

2.24 The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In March 2016, the Council approved a Treasury Management Strategy for 2016-17 that was based on this code. The strategy requires that this committee should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

2.25 During the Quarter ended 31st March 2017, economic data showed:

- UK GDP growth in quarter 4 was at 0.7% which represents an increase from 0.5% in the previous quarter.
- The unemployment rate had dropped to 4.7% in February, the lowest in 11 years.
- There has been a 3% appreciation in sterling since November but this remains 18% below its peak in late 2015.
- In Quarter 3 gilt yields had risen to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.
- After forecasts that the Bank of England Bank Rate may fall to 0%, this has remained at 0.25% during the quarter.

Council Review of Treasury Management for Quarter 4

2.26 Typically, the Council's income sources start to slow down during the final quarter whilst expenditure steps up. Investments have therefore been kept short term with the majority of funds being held within money market funds and cash plus funds.

2.27 Total investments held as at 31st March 2017 were £15.86m with a total investment income of £186k. A list of investments can be found in **Appendix D**.

2.28 The average rate of return on investments for the year was 0.58%, compared with a benchmark of 0.54%.

Borrowing

2.29 The Council has not needed to borrow during this quarter.

3 AVAILABLE OPTIONS

3.1 Providing the outturn to the Policy and Resources Committee at this time facilitates good financial management and aids consideration of issues and challenges faced by the council. The committee could choose to defer their consideration of this report until the conclusion of the external audit in September 2017.

- 3.2 This is not recommended as the outturn position will inform future budget strategy and it is therefore considered important for committee members to have early sight of this.
 - 3.3 The committee could decide not to approve the slippage in the council's capital programme, however, this option is not recommended given that the planned projects are closely aligned with achievement of the council's current priorities.
 - 3.4 The committee has the option to propose an alternative use of the £89,000 underspend, however, the proposal made by the Corporate Leadership Team is to use the money to support the delivery of the council's priorities, as set out in the Strategic Plan.
 - 3.5 There is no alternative option to the carry forward of grant funding as these amounts have been awarded to the council to spend on specific projects and will need to be repaid if they are not used for the intended purpose.
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4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The committee is requested to note the content of the report, agree the proposed use of the £89,000 underspend and approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.
 - 4.2 This is recommended as the outturn position can then be used as the basis for financial planning and formulation of the medium term financial strategy for 2018-19 onwards.
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5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each committee has been given the opportunity to consider the outturn position for the services within their remit. This report is not expected to lead to further consultation.
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6 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Fourth quarter budget monitoring reports are being considered by service committees in June 2017. The overall outturn for the year ended 31 March 2017 will be reported as part of the council's Statement of Accounts, which will be considered in draft form by the Audit, Governance and Standards Committee at its meeting on 26 June 2017. The Statement of Accounts will be audited and is due to be approved, in its final form, by the Audit, Governance and Standards Committee at its meeting on 18 September 2017.

6.2 In the event that material changes arise as a consequence of the audit of the council's financial statements, then a follow up report will be brought to this committee.

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Council's budget reflects its corporate priorities. This report compares actual performance with the budget, and so provides a measure of whether the Council has fulfilled its priorities in financial terms.	Director of Finance & Business Improvement (Section 151 Officer)
Risk Management	Regular and comprehensive monitoring of financial performance as summarised in this report ensures early warning of significant issues that may place the council at significant risk and gives the Committee the best opportunity to take actions to mitigate such risks.	Director of Finance & Business Improvement (Section 151 Officer)
Financial	Financial implications are the focus of this report. Budget monitoring, as summarised in this report, ensures that services can react quickly to potential operational and resourcing problems. The process helps to ensure that the Council delivers against its strategic priorities.	Director of Finance & Business Improvement (Section 151 Officer)
Staffing	Employee costs represent approximately 50% of the direct spend of the Council. Any consideration of resource allocation and monitoring therefore pays attention to employee costs and relevant issues will be raised in monitoring reports such as this.	Director of Finance & Business Improvement (Section 151 Officer)
Legal	The Council has a statutory obligation to maintain a balanced budget. The monitoring process enables the Committee to ensure that it meets this requirement for the services within its remit.	[Legal Team]

Equality Impact Needs Assessment	No specific implications.	Director of Finance & Business Improvement (Section 151 Officer)
Environmental/Sustainable Development	No specific implications.	Director of Finance & Business Improvement (Section 151 Officer)
Community Safety	No specific implications.	Director of Finance & Business Improvement (Section 151 Officer)
Human Rights Act	No specific implications.	Director of Finance & Business Improvement (Section 151 Officer)
Procurement	No specific implications.	Director of Finance & Business Improvement (Section 151 Officer)
Asset Management	The budget allocates resources for asset management. There are no specific issues arising from service performance as reported here for asset management.	Director of Finance & Business Improvement (Section 151 Officer)

8 REPORT APPENDICES

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

- Appendix A: Revenue Outturn 2016-17 – Policy & Resources Committee
- Appendix B: Carry Forward of Grant Funding 2016-17 to 2017-18
- Appendix C: Capital Outturn 2016-17
- Appendix D: Investments Held as at 31 March 2017

9 BACKGROUND PAPERS

None