Agenda Item 6
Report RPC 13/11

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| Report to | **Resources and Performance Committee** |
| Date | **24 November 2011** |
| By | **Chief Finance Officer** |
| Title of Report | **Budget Monitoring Report for Quarter 2, 2011/12** |
| Purpose of Report | **To advise the Committee of the overall financial position of the Authority for 2011/12 as at Quarter 2** |

**Recommendation:**
**The Committee is recommended to:**
**1) note the overall financial position as at Quarter 2.**

## 1. Introduction

1.1 This report sets out the Authority's current financial position as at the second quarter of operation in 2011/12. This report therefore includes:

- Revenue Forecast
- Capital Programme
- Treasury Management position

## 2. Background

2.1 The Authority approved the revenue budget for 2011/12 on 29 March 2011. This budget represents the first operational year of the Authority and includes carry forward underspendings of £0.512 million in relation to recruitment, staff advertising, relocation expenses and staff training and uniforms, premises costs, the planning system and a local study. The adjusted budget shown in the report reflects the original budget approved by the Authority plus any virements during the financial year.

2.2 The current capital programme was approved at the Authority meeting on 29 March 2011 and consists of two schemes:

- the purchase of a fleet of vehicles
- the purchase and refurbishment of Capron House.

2.3 The Treasury Management Policy Statement and Annual Investment Strategy was adopted by the Authority on 29 March 2011 and sets out the policy and principles used to manage the Authority's investments.

## 3 Revenue Forecast Outturn

3.1 The forecast outturn position as at Quarter 2 is a net underspend of £0.189 million. Appendix 1 details the forecast outturn position by both expenditure type and also directorate headings. These tables also provide the actual spend to date (excluding commitments) and the profiled budget for Quarter 2.

**Significant Variances**

3.2 The main variances to the Adjusted Budget are:

Employees' costs

3.3 Direct employees costs are forecast to underspend by £0.734 million as a result of a number of vacancies in permanent posts being recruited to later than originally anticipated.

3.4 Indirect employee costs are now forecast to underspend by £0.136 million in relation to staff training and recruitment costs which are likely to be lower than originally expected.

Premises costs

3.5 The review of premises costs as part of the preparation of the estates strategy and the planning for Capron House has identified an underspend of £0.257 million in the current year although these resources are still expected to be needed in the future to undertake the work at the area offices, and the relocation to Capron House. This will be considered as part of the budget strategy for 2012/13.

Supplies & Services

3.6 Supplies and services budgets are projected to overspend by a net of £0.825 million which is mainly from the following significant variances:

- A projected overspend of £0.840 million from interim agency and consultancy costs which are mainly offset by a £0.736 million underspend in permanent employees resulting in a net overspend unchanged from last quarter of £0.104 million on total staffing (+3%).
- Additional costs of £0.034 million in respect of the IDOX project not anticipated at the time the budget was agreed. These include costs for the planning portal, software for administering S106 agreements and a fee for procuring IDOX through a framework agreement.
- Costs of £0.041 million for training, installation and hosting of the document management system which were not included in the original budget.
- Costs of £0.080 million that are not included in the Budget, in relation to visitor surveys for gathering evidence to inform the Management Plan.
- A forecast underspend of £0.100 million in the major partnership fund (short term projects budget). Of the £0.300 million in the fund just £0.040 million has been allocated to date. There is a pipeline of potential major partnership projects incoming to the Authority, so whilst a significant underspend is likely this year, there maybe upwards pressure on this fund in the next financial year as these partnerships take time to develop.
- The planning policy budget was based on estimated costs for developing Local Delivery Frameworks and commissioning other evidence required. Following final negotiations on joint LDF working and commissioning evidence it is projected that the budget will underspend by £0.080 million.

3.7 Supplies & services also includes payments in respect of the Sustainable Communities Fund. This budget is forecast to breakeven and £0.295 million of the total budget of £0.400 million has been committed as at the end of October.

Third Party Payments

3.8 Third party payments which include payments to other local authorities for services provided are now projected to underspend by £0.065 million.

3.9 This includes payments to the 15 local planning authorities under the delegation arrangements which were budgeted at £3.740 million and are now projected to underspend by £0.040 million. The original budget included a small contingency to cover any additional set up costs occurring after 1 April 2011. Following a review of the Quarter 2 delegation claims there are no further set up costs payable to the Local Authorities for 2011/12 and it is also not anticipated that the Authority will need to increase any fees during the year for service provision to cover any increased levels of planning activity.

3.10 There is also a forecast underspend of £0.025 million in commissioning evidence for the management plan within Strategy & Partnerships where services will be procured from non public sector bodies instead and therefore the expenditure is shown within supplies & services.

Contingency

3.11 The original budget included a contingency budget of £0.130 million to cover unforeseen budgetary requirements which may arise during the financial year. There is currently no requirement for this budget and therefore it is forecast to fully underspend.

Income

3.12 Income from planning applications is currently projecting a shortfall in income of £0.368 million. The potential fall in fee income for planning work in the National Park over the full year is higher than anticipated by both parties. Original estimates of fee income for the year were carefully evaluated and were based on levels of fee income actually received in each LPA over 2 previous years. It appears, however, that due to a number of circumstances, fee income is now expected to be lower than expected, both within the National Park and across the wider areas covered by our partner LPAs. The difficult economic climate generally has clearly had a major impact, with some speculative applications not being pursued and related concerns about the housing market and house prices generally also contributing. Commercial schemes have also been affected and with investment decisions and access to funding also being very difficult, there appears to have been a general downturn in the type of planning activity that might otherwise, in more settled economic conditions, bring in higher levels of fee income.

3.13 Analysis of planning application activity in the National Park since 1st April 2011 shows that the types of planning application submitted is also having an impact on income. Certain types of planning application attract no fee at all and these include works to trees, applications for Listed Building and Conservation Area Consent and revisions to previously resubmitted schemes within a prescribed period (where the original fee went to the LPA). There have been quite a high number of such cases. The additional planning controls that designation has brought to some parts of the National Park and increased public awareness of them since 1st April 2010 may well have had some impact in this regard.

3.14 Overall, planning fee income is historically unpredictable, but is often significantly driven by the prevailing economic climate, as we are finding at present. The application fee structure presently operated also created uncertainty, with fees being applied for some types of application, but not others and with much higher fees applying for some types of development. The Government is proposing to address this through the potential introduction of locally set planning fees in the future, but ongoing delays to the long-awaited Regulations is stopping this from happening at present.

3.15 Investment income from interest on balances is currently projected to overachieve the budget by £0.025 million as a result of higher interest rates than expected.

**Budget Virements**

3.16 There are no significant virements during this period.

**Areas of Risk**

3.17 It is essential that all budgets are monitored closely, particularly as the organisation is in its first operational year, to ensure that the year end figures can be predicted with certainty. The process for sound budget management is becoming established within the Authority with budget management reports to the Strategic Management Team on a monthly basis as well as continuous budget monitoring by all budget managers supported by finance staff.

3.18 Planning officers are progressing well in reviewing both the first and second quarters returns from local authorities. Initial reviews identified that some income due from local authorities was not accurately recorded on Quarter 1 returns and as a result of this further detailed listings have been requested from all local authorities for the last six months (and will be required for the remainder of the year). This will enable officers to match every planning activity with it's appropriate income. Reconciliations agreed with local authorities for the first six months data will be completed by the end of November.

3.19 The majority of the second quarter's planning delegation returns have been received from local authorities and these provide information that shows that it is not anticipated that the authority will be required to increase fees for the delegated management agreement.

3.20 Planning income projections continue to be an area of risk for the Authority and the actual income due to the Authority will now be recorded on a weekly basis from the Local Authorities which will support monthly projections in the future rather than quarterly.

## 4 Capital Programme

4.1 The capital programme was approved on 29 March 2011 and consists of the purchase of a fleet of vehicles and the purchase and refurbishment of Capron House. The forecast position is shown in the table below.

4.2 The 2011/12 vehicles budget includes £0.086 million slippage from 2010/11. In respect of Capron House, the forecast assumes that £0.570 million of the approved 2011/12 budget will be reprofiled (slipped) into 2012/13 along with the slippage of £1.015 million from 2010/11, part of which will be used to complete the purchase of Capron House. It is now anticipated that the refurbishment works will be undertaken during 2012/13.

| Capital Forecast | 2011/12 Budget £'000 | 2011/12 Actual at Quarter 2 £'000 | 2011/12 Forecast Outturn £'000 | Slippage to 2012/13 £'000 |
|---|---|---|---|---|
| Vehicles | 86 | 6 | 86 | 0 |
| Capron House | 670 | 0 | 100 | 570 |
| **Total** | **756** | **6** | **186** | **570** |

## 5 Treasury Management

### Brief overview of market

5.1 The second quarter in 2011/12 has seen major financial turbulence within the global economy. Issues around Euro zone sovereign debt, in particular Greece, Portugal and Ireland, continue to concern the financial markets and forecasts for economic growth. In the United States the debate around, and eventual approval of, increasing the sovereign debt cap led to a downgrade of the US sovereign rating by the major rating agencies. In the UK the bias of monetary policy decisions continue towards stimulating the economy with official interest rates unchanged at ½% and quantitative easing (QE) unchanged at £200 billion during the quarter. With forecasts for UK economic growth being revised downwards the Bank agreed at its meeting in October 2011 to increase the QE programme by a further £75 billion. Inflation continues to be well above the Bank's target range

### Investments

5.2 A decision to lengthen the investment portfolio was taken in May with a six month deposit with Lloyds TSB Bank. Following a review of the Authority's cash flow position for 2011/12 Concern around the security of investments – as highlighted by the recent downgrade of a number of UK and Euro based institutions – has resulted in no further lengthening of the Authority's investment portfolio. It is unlikely this situation will improve in the near future but the decision not to lengthen the portfolio has resulted in the balance of funds being invested in Brighton & Hove City Council, providing above benchmark yields and ensuring sufficient liquidity to meet the expenses of the Authority.

5.3 The risk within the investment portfolio remains well within the 0.05% approved by the Authority. Performance on the investments in the first quarter has exceeded the benchmark rate.

5.4 The following table summarises the average amount invested in the council together with the average interest rate achieved and the benchmark rate (7-Day LIBID). The 7-Day LIBID represents the interest rate at which the UK major banks are prepared to lend to each other.

5.5 The additional interest of £209 for Quarter 1 is a result of an upward revision to the average interest rate for June 2011.

| | Average amount invested (weighted by amount per day) | Average interest rate (annualised) | | Interest received / accrued in quarter |
|---|---|---|---|---|
| | | Actual | Benchmark (7-Day LIBID) | |
| **Quarter 1** | | | | |
| Investment in Brighton & Hove City Council | £4,047,183 | 0.73% | | £7,386 |
| Adjustment to Interest | | | | £209 |
| Investment in Lloyds TSB | £2,500,000 | 1.32% | | £8,203 |
| **Average for Period** | **£6,547,183** | **0.96%** | **0.45%** | **£15,798** |
| **Quarter 2** | | | | |
| Investment in Brighton & Hove City Council | £5,204,054 | 0.84% | | £10,910 |
| Investment in Lloyds TSB | £2,500,000 | 1.42% | | £8,948 |
| **Average for Period** | **£7,704,054** | **1.02%** | **0.46%** | **£19,858** |
| Benchmark rate | | 0.46% | | |
| Rate over / (under benchmark rate) | | 0.56% | | |

**Borrowing**

5.6 There has been no borrowing in the three month period to 30 September 2011.

## 6. Resources

6.1 This report details the position of the Authority's financial resources.

## 7. Risk Management

7.1 The monthly monitoring of the Authority's financial position seeks to minimise and manage financial risks. The key risks are highlighted in section 3.15 to 3.17.

## 8. Human Rights, Equalities, Health and Safety

8.1 There are no implications arising from this report.

## 9. External Consultees

9.1 None.

**CATHERINE VAUGHAN**
**Chief Finance Officer**

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| Appendices | 1. Revenue Forecast Outturn as at Quarter 2 |
| SDNPA Consultees | Chief Executive Officer, Director of Corporate Services, Head of Planning, Head of Operations, Chief Finance Officer, Monitoring Officer. |

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**Appendix 1**

## Revenue Forecast Outturn as at Quarter 2

### Subjective Analysis

| Full Year Variance Quarter 1 £'000 | Division | Quarter 2 Adjusted Budget to Date £'000 | Quarter 2 Actual to date £'000 | Quarter 2 Variance to Date £'000 | Full Year Forecast Adjusted Budget £'000 | Full Year Forecast Forecast Outturn £'000 | Full Year Forecast Variance £'000 |
|---|---|---|---|---|---|---|---|
| | **Expenditure:** | | | | | | |
| (547) | Direct Employees | 1,805 | 1,156 | (649) | 3,673 | 2,939 | (734) |
| (59) | Indirect Employees | 456 | 92 | (364) | 598 | 462 | (136) |
| (74) | Premises | 435 | 89 | (346) | 656 | 397 | (259) |
| 0 | Transport | 116 | 60 | (56) | 251 | 225 | (26) |
| 775 | Supplies & Services | 1,684 | 1,048 | (636) | 3,156 | 3,981 | 825 |
| 0 | Third Party Payments | 1,295 | 1,017 | (278) | 5,159 | 5,094 | (65) |
| (130) | Contingency | 0 | 0 | 0 | 130 | 0 | (130) |
| (35) | Total Expenditure | 5,791 | 3,462 | (2,329) | 13,623 | 13,098 | (525) |
| | **Income:** | | | | | | |
| 0 | National Park Grant | (2,843) | (4,512) | (1,669) | (11,373) | (11,373) | 0 |
| 8 | Other Grants | (167) | 25 | 192 | (334) | (341) | (7) |
| 0 | Planning Fees | (590) | (178) | 412 | (1,179) | (811) | 368 |
| (25) | Investment Income | (13) | (9) | 4 | (25) | (50) | (25) |
| (17) | Total Income | (3,613) | (4,674) | (1,061) | (12,911) | (12,575) | 336 |
| (52) | **Sub Total** | 2,178 | (1,212) | (3,390) | 712 | 523 | (189) |
| **0** | **Approved contribution from reserves** | | | | **(712)** | **(712)** | **0** |
| **(52)** | **Net Balance (change in reserves)** | | | | **0** | **(189)** | **(189)** |

## Directorate Analysis

| Full Year Variance Quarter 1 £'000 | Division | Quarter 2 Adjusted Budget to Date £'000 | Quarter 2 Actual to date £'000 | Quarter 2 Variance to Date £'000 | Full Year Forecast Adjusted Budget £'000 | Full Year Forecast Forecast Outturn £'000 | Full Year Forecast Variance £'000 |
|---|---|---|---|---|---|---|---|
| 30 | Chief Executive's Service | 180 | 61 | (119) | 217 | 226 | 9 |
| 101 | Strategy & Partnerships | 896 | 812 | (84) | 1,778 | 1,984 | 206 |
| 12 | Planning | 1,420 | 1,102 | (318) | 4,754 | 4,913 | 159 |
| (152) | Operations | 838 | 447 | (391) | 1,616 | 1,399 | (217) |
| (3) | Governance | 140 | 135 | (5) | 280 | 275 | (5) |
| 90 | Corporate Services | 1,508 | 655 | (853) | 2,610 | 2,499 | (111) |
| | Corporate Items: | | | | | | |
| (130) | Contingency | 0 | 0 | 0 | 130 | 0 | (130) |
| 0 | SDF & Community Grants | 39 | 88 | 49 | 400 | 400 | 0 |
| 0 | Major Partnership Fund (ST Projects) | 0 | 0 | 0 | 300 | 200 | (100) |
| **(52)** | **Net Expenditure** | **5,021** | **3,300** | **(1,721)** | **12,085** | **11,896** | **(189)** |
| 0 | National Park Grant | (2,843) | (4,512) | (1,669) | (11,373) | (11,373) | 0 |
| **(52)** | **Sub Total** | **2,178** | **(1,212)** | **(3,390)** | **712** | **523** | **(189)** |
| **0** | **Approved contribution from reserves** | | | | **(712)** | **(712)** | **0** |
| **(52)** | **Net Balance (change in reserves)** | | | | **0** | **(189)** | **(189)** |