

Report to **Resources and Performance Committee**

Date **8 September 2011**

By **Chief Finance Officer**

Title of Report **Budget Monitoring Report for Quarter 1, 2011/12**

Purpose of Report **To advise the Committee of the overall financial position of the Authority for 2011/12 as at Quarter 1**

Recommendation:

The Committee is recommended to:

- 1) note the overall financial position as at Quarter 1.**
 - 2) approve the virement of the contingency budget of £0.130 million to consultancy fees as outlined in paragraph 3.13.**
-

1. Introduction

1.1 This report sets out the Authority's current financial position as at the first 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 Overall Financial Position

Revenue Forecast Outturn

3.1 The forecast outturn position as at Quarter 1 is a net underspend of £0.052 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 1.

Significant Variances

3.2 The main variances to the Adjusted Budget are:

Employees' costs

- 3.3 Direct employees costs are forecast to underspend by £0.547 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 £0.059 million in relation to staff training and recruitment costs which are likely to be lower than originally expected.

Premises costs

- 3.5 An initial review of premises costs as part of the preparation of the estates strategy and the planning for Capron House has identified an underspend of £0.075 million in the current year although these resources are still expected to be needed to undertake the work at area offices and the relocation to Capron House.

Supplies & Services

- 3.6 Supplies and services budgets are projected to overspend by a net of £0.645 million. There is a projected overspend of £0.653 million in relation to interim agency and consultancy costs which are partly offset by the £0.547 million underspend in permanent employees resulting in a net overspend of £0.106 million on total staffing (+3%).
- 3.7 This category includes the payments in respect of the Sustainable Communities Fund. Approximately £300,000 of the total budget of £400,000 has been committed to date.
- 3.8 There are a number of other areas of spending which fall within this heading including the introduction of the new planning system with effect from 1 April 2012, the development of the management plan including establishing the evidence base and producing the State of the National Park Report, and the Communications Strategy. Expenditure required in these areas will become clearer over the coming months in time for the report on Quarter 2 to this Committee.

Third Party Payments

- 3.9 Third party payments which include payments to other local authorities for services provided are currently projected to breakeven. This includes payments to the 15 local planning authorities under the delegation arrangements although the forecast is at this stage necessarily based only on a single quarter's information.

Contingency

- 3.10 The 2011/12 original budget included a contingency budget of £0.130 million to cover unforeseen budgetary requirements which may arise during the financial year. This budget has now been transferred to interim agency and consultancy costs as detailed in paragraph 3.13.

Income

- 3.11 Income from planning applications is currently projected to breakeven. However, a full detailed review of the income projections is underway as detailed in paragraph 3.16.
- 3.12 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

- 3.13 The level of spend on interim agency and consultancy fees is greater than was anticipated at budget setting. Therefore, this report includes the transfer, for this year only, of the £0.130 million contingency budget to cover some of this expenditure.
- 3.14 In addition, it should be noted that Strategy and Partnerships Directorate has recently reviewed and consolidated some budgets to align with service delivery and budget management responsibilities.

Areas of Risk

- 3.15 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.
- 3.16 The first quarter's planning delegation returns have now been received from most local authorities. Although these returns show that planning applications are forecast to increase by 18% (excluding those administered by the Park), the actual fees and income projections have significantly reduced. If these projections are accurate then this will result in an overspending for the Authority. Work is currently underway by planning officers to review the local authority returns including verifying actual income received and confirming income projections to inform the Quarter 2 forecast.

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 1 £'000	2011/12 Forecast Outturn £'000	Slippage to 2012/13 £'000
Vehicles	86	10	86	0
Capron House	670	0	100	570
Total	756	46	186	570

5 Treasury Management

Brief overview of market

- 5.1 Early 2011 saw the UK economy return to growth (albeit only marginally at 0.5%) and inflation remaining above the Bank of England's medium term target. The official Bank rate remained at ½% and the quantitative easing (QE) programme was unchanged at £200 billion. In June the issues around Greek sovereign debt returned with an EU bailout subject to the Greek Government passing measures to introduce both fiscal and monetary measures to reduce the country's indebtedness. Concerns about the debt problem spreading to other EU member states was also a major worry for the markets.
- 5.2 A number of austerity measures were then approved by the Greek Government to secure refinancing of the country's debt. However since then a ripple effect has extended to other parts of the Euro zone with Portugal and Ireland also suffering from increased borrowing costs. Spain and Italy are also considered vulnerable to increased costs. Fears of a double-dip recession have resulted in dramatic falls in stock markets around the World. In addition the protracted negotiations to secure an increase in the debt ceiling in the United States of America, although eventually passed at the 11th hour, has seen one major rating agency cut the US sovereign rating from triple A (AAA) to double A plus (AA+).

Investments

- 5.3 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 a further lengthening of the investment portfolio was considered but with the news regarding the problems being experienced by the Greek Government over refinancing debt, the decision was deferred. The balance of funds has therefore continued to be invested in Brighton & Hove City Council. This has allowed an above benchmark yield to be achieved for the Authority, as well as ensuring sufficient liquidity to meet the expenses of the Authority.
- 5.4 Turmoil within the financial markets continues with wild fluctuations in most markets on a daily basis. The Federal Reserve in the US has indicated interest rates will remain unchanged for at least two years and, although the Bank of England has not been as forthright, the latest inflation report does suggest short-term rates remaining at current levels for a considerable period. Against this background the decision to lengthen the Authority's investment portfolio remains on-hold, however the position will be continually monitored and any change to this strategy will be reported at the appropriate time.
- 5.5 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.
- 5.6 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.

Period – Quarter 1 (1 April to 30 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
Investment in Lloyds TSB	£2,500,000	1.32%		£8,203
Average for Period	£6,547,183	0.96%	0.45%	£15,589
Benchmark rate		0.45%		
Rate over / (under benchmark rate)		0.51%		

Borrowing

- 5.7 There has been no borrowing in the three month period to 30 June 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 and 3.16.

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

Contact Officer:	Sue Chapman, Deputy Chief Finance Officer
Tel:	01273 293105
email:	sue.chapman@brighton-hove.gov.uk
Appendix	Revenue Forecast Outturn as at Quarter 1
SDNPA Consultees	Chief Executive Officer, Director of Corporate Services, Head of Planning, Head of Operations, Chief Finance Officer, Monitoring Officer.

Revenue Forecast Outturn as at Quarter 1

Subjective Analysis

Division	Quarter 1			Full Year Forecast		
	Adjusted Budget to Date £'000	Actual to date £'000	Variance to Date £'000	Adjusted Budget £'000	Forecast Outturn £'000	Variance £'000
Expenditure:						
Direct Employees	903	499	(404)	3,673	3,126	(547)
Indirect Employees	195	49	(146)	598	539	(59)
Premises	235	43	(192)	656	582	(74)
Transport	54	25	(29)	251	251	0
Supplies & Services	777	333	(444)	3,286	3,931	645
Third Party Payments	5	11	6	5,159	5,159	0
Contingency	0	0	0	0	0	0
Total Expenditure	2,169	960	(1,209)	13,623	13,588	(35)
Income:						
National Park Grant	(2,326)	(1,569)	757	(11,373)	(11,373)	0
Other Grants	(83)	45	128	(334)	(326)	8
Planning Fees	0	(3)	(3)	(1,179)	(1,179)	0
Investment Income	(6)	(15)	(9)	(25)	(50)	(25)
Total Income	(2,415)	(1,542)	873	(12,911)	(12,928)	(17)
Sub Total	(246)	(582)	(336)	712	660	(52)
Approved contribution from reserves				(712)	(712)	0
Net Balance (change in reserves)				0	(52)	(52)

Directorate Analysis

Division	Quarter 1			Full Year Forecast		
	Adjusted Budget to Date	Actual to date	Variance to Date	Adjusted Budget	Forecast Outturn	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive's Service	75	37	(38)	217	217	0
Strategy & Partnerships	440	297	(143)	1,778	1,879	101
Planning	475	161	(314)	4,754	4,766	12
Operations	415	247	(168)	1,616	1,464	(152)
Governance	70	42	(28)	280	277	(3)
Corporate Services	599	203	(396)	2,740	2,730	(10)
Corporate Items:						
Contingency	0	0	0	0	0	0
SDF & Community Grants	6	0	(6)	400	400	0
Short Term Projects	0	0	0	300	300	0
Net Expenditure	2,080	987	(1,093)	12,085	12,033	(52)
National Park Grant	(2,326)	(1,569)	757	(11,373)	(11,373)	0
Sub Total	(246)	(582)	(336)	712	660	(52)
Approved contribution from reserves				(712)	(712)	0
Net Balance (change in reserves)				0	(52)	(52)