Agenda Item 7
Report RPC 02/12

Report to	**Resources and Performance Committee**
Date	**8 February 2012**
By	**Chief Finance Officer**
Title of Report	**Budget Monitoring Report for Quarter 3, 2011/12**
Purpose of Report	**To advise the Committee of the overall financial position of the Authority for 2011/12 as at Quarter 3**

Recommendation: The Committee is recommended to:
1. **note the overall financial position as at Quarter 3.**

1. Introduction

1.1 This report sets out the Authority's current financial position as at the third 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 3 is a net underspend of £0.438 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 3.

<u>Significant Variances</u>

3.2 The main variances to the Adjusted Budget as shown in **Appendix 1are**:

<u>Employees' costs</u>

3.3 Direct employees costs are forecast to underspend by £0.687 million as a result of a number of vacancies in permanent posts being recruited to later than originally anticipated.

3.4 Indirect employee costs forecast underspend has increased by a further £0.073 million to £0.209 million in relation to staff training, staff advertising and recruitment costs which are likely to be lower than originally expected.

Premises costs

3.5 The underspend in relation to the review of premises costs as part of the preparation of the estates strategy and the planning for Capron House has increased by a further £0.130 million to £0.389 million in the current year, although these resources are needed in the future to undertake the work at the area offices, and the relocation to Capron House. Therefore the 2012/13 Budget report also on this agenda, now includes £0.300 million allocated to area offices and one off revenue funding for cabling, furniture and temporary office leases.

Supplies & Services

3.6 Supplies and services budgets are projected to overspend by a net of £0.875 million which is mainly from the following significant variances:

- A projected overspend of £0.829 million from interim agency and consultancy costs which are mainly offset by the £0.707 million underspend in permanent employees resulting in a net overspend unchanged from last quarter of £0.122 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.
- Additional costs of £0.041 million for training, installation and hosting of the Document Management System.
- Additional costs of £0.067 million in relation to visitor surveys for gathering evidence to inform the Management Plan.
- As this is the first operation year and many staff have been recruited during the year there has been a less spend than anticipated on general supplies and services including £0.044 million within the Volunteers Service.

3.7 Payments in respect of the Sustainable Communities Fund are also included within supplies & services. Approximately £0.375 million of the total budget of £0.400 million for the Sustainable Communities Fund has been committed as at the end of December 2011. This is treated as a ring fenced fund and therefore projected to breakeven, which assumes that any underspends will be carried forward for spending against this fund in 2012/13.

3.8 This forecast now assumes that the Major Partnerships Fund of £0.300 million will now also be treated as ring fenced budget and is therefore forecast to breakeven. This means that any underspends at the end of the financial year will be carried forward for spending against these schemes in 2012/13. The Major Partnerships Fund provides funding for projects that typically span more than one year. These partnerships take time to develop and there are now a number of potential projects awaiting approval, so whilst a significant underspend is likely this year, there will be more pressure on this fund in the following financial years.

Third Party Payments

3.9 Third party payments which include payments to other local authorities for services provided are now projected to underspend by £0.219 million from the following variances:

- the planning policy budget was based on estimated costs for developing Local Development Frameworks (LDF) and commissioning other evidence required. Following final negotiations on joint LDF working and commissioning evidence it is projected that the budget will underspend by £0.120 million.
- 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.

- an underspend of £0.032 million within Human Resources in respect of the transactional contract where these services are currently being provided in house.
- an underspend of £0.027 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

3.10 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

3.11 The income from planning applications budget projected shortfall in income has increased by a further £0.034 million to £0.402 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. Estimates of fee income for the year were carefully evaluated and were based on levels of fee income actually received in each Local Planning Authority (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.

3.12 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. Finally, there is some evidence that not all opportunities to generate income are being taken within some parts of the National Park by some LPAs. For example, only a few appear to be charging for pre-application advice and some may not be charging for other work, such as the discharge of planning conditions. This can be addressed in 2012/13 but we cannot anticipate income from such potential sources during the current financial year.

3.13 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.

3.14 Investment income from interest on balances are projected to overachieve the budget by £0.050 million as a result of higher interest rates than expected.

Budget Virements

3.15 There are no significant virements during this period.

Areas of Risk

3.16 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 (SMT) on a monthly basis as well as continuous budget monitoring by all budget managers supported by finance staff.

3.17 Planning officers have reviewed 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 remainder of the year. This will enable officers to match every planning activity with it's appropriate income. Income and activity data received from local authorities for the first six months have been reconciled and amendments agreed.

3.18 The quarterly planning delegation returns received from local authorities to date provide information that shows that it is not anticipated that the Authority will be required to increase any fees during 2012/13 for the delegated management agreement.

3.19 Planning income projections continues to be an area of risk for the Authority and the actual income due to the Authority will in the future 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 £0.670 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 all 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	0	670
Total	**756**	**6**	**86**	**670**

5 Treasury Management

Brief overview of market

5.1 The third quarter in 2011/12 has shown no abatement in the financial problems affecting the Euro zone. The contagion within the Euro zone around sovereign debt has spread, with an increasing number of Governments forced to pay higher interest rates on their debt. Speculation around the downgrading of credit ratings for a number of key Euro countries worried the financial markets, adding to the uncertainty. 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) increased from £200 billion to £275 billion in October. Inflation continues to be above the Bank's target range, although the first signs of a reduction were reported in November.

Investments

5.2 The short-term nature of the Authority's investment portfolio has been maintained given the continuing uncertainty in the financial markets. Investment in the quarter has concentrated on lending funds to Brighton & Hove City Council, the only exception being an investment in Lloyds TSB for three months. It is unlikely this strategy will change in the final quarter of

2011/12 but this strategy has resulted in investment performance being above benchmark yields whilst at the same time ensuring capital preservation and 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 third 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.

	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**
Quarter 3				
Investment in Brighton & Hove City Council	£6,155,786	0.95%		£14,523
Investment in Lloyds TSB	£1,983,696	1.38%		£6,878
Average for Period	**£8,139,482**	**1.04%**	**0.50%**	**£21,401**
Benchmark rate		0.50%		
Rate over / (under benchmark rate)		0.54%		

Borrowing

5.5 There has been no borrowing in the three month period to 31 December 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 3.18.

8. Human Rights, Equalities, Health and Safety

8.1 There are no implications arising from this report.

9. External Consultees

9.1 None.

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Appendices	1. Revenue Forecast Outturn as at Quarter 3
SDNPA Consultees	Chief Executive Officer, Director of Corporate Services, Director of Planning, Head of Operations, Chief Finance Officer, Monitoring Officer.

Revenue Forecast Outturn as at Quarter 3

Subjective Analysis

Full Year Variance Quarter 2 £'000	Division	Quarter 3 Adjusted Budget to Date £'000	Quarter 3 Actual to date £'000	Quarter 3 Variance to Date £'000	Full Year Forecast Adjusted Budget £'000	Full Year Forecast Forecast Outturn £'000	Full Year Forecast Variance £'000
	Expenditure:						
(734)	Direct Employees	2,739	1,924	(815)	3,673	2,986	(687)
(136)	Indirect Employees	527	224	(303)	598	389	(209)
(259)	Premises	545	166	(379)	656	267	(389)
(26)	Transport	155	103	(52)	254	229	(25)
825	Supplies & Services	2,473	1,824	(649)	3,153	4,028	875
(65)	Third Party Payments	2,585	1,225	(1,360)	5,159	4,940	(219)
(130)	Contingency	0	0	0	130	0	(130)
(525)	Total Expenditure	9,024	5,466	(3,558)	13,623	12,839	(784)
	Income:						
0	National Park Grant	(5,687)	(7,210)	(1,523)	(11,373)	(11,373)	0
(7)	Other Grants	(250)	(34)	216	(334)	(340)	(6)
368	Planning Fees	(885)	(181)	704	(1,179)	(777)	402
(25)	Investment Income	(19)	(38)	(19)	(25)	(75)	(50)
336	Total Income	(6,841)	(7,463)	(622)	(12,911)	(12,565)	346
(189)	**Sub Total**	2,183	(1,997)	(4,180)	712	274	(438)
0	**Approved contribution from reserves**				**(712)**	**(712)**	**0**
(189)	**Net Balance (change in reserves)**				**0**	**(438)**	**(438)**

Directorate Analysis

Full Year Variance Quarter 2 £'000	Division	Quarter 3 Adjusted Budget to Date £'000	Quarter 3 Actual to date £'000	Quarter 3 Variance to Date £'000	Full Year Forecast Adjusted Budget £'000	Full Year Forecast Forecast Outturn £'000	Full Year Forecast Variance £'000
9	Chief Executive's Service	198	128	(70)	217	212	(5)
206	Strategy & Partnerships	1,277	1,241	(36)	1,778	1,986	208
159	Planning	2,557	1,650	(907)	4,754	4,855	101
(217)	Operations	1,195	708	(487)	1,616	1,341	(275)
(5)	Governance	210	179	(31)	280	265	(15)
(111)	Corporate Services	2,024	1,150	(874)	2,610	2,288	(322)
	Corporate Items:						
(130)	Contingency	0	0	0	130	0	(130)
0	SDF & Community Grants	259	157	(102)	400	400	0
(100)	Major Partnership Fund (Short Term Projects)	150	0	(150)	300	300	0
(189)	**Net Expenditure**	**7,870**	**5,213**	**(2,657)**	**12,085**	**11,647**	**(438)**
0	National Park Grant	(5,687)	(7,210)	(1,523)	(11,373)	(11,373)	0
(189)	**Sub Total**	**2,183**	**(1,997)**	**(4,180)**	**712**	**274**	**(438)**
0	**Approved contribution from reserves**				**(712)**	**(712)**	**0**
(189)	**Net Balance (change in reserves)**				**0**	**(438)**	**(438)**