

Report to	<b>Resources and Performance Committee</b>
Date	<b>14 November 2012</b>
By	<b>Chief Finance Officer</b>
Title of Report	<b>Budget Monitoring Report for Quarter 2, 2012/13</b>
Purpose of Report	<b>To advise the Committee of the overall financial position of the Authority for 2012/13 as at Quarter 2</b>

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**Recommendation:**

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

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**1. Introduction**

- 1.1 This report sets out the Authority's current financial position as at the second quarter of operation in 2012/13. This report therefore includes:
- Revenue Forecast
  - Capital Programme
  - Treasury Management position

**2. Background**

- 2.1 The Authority approved the revenue budget for 2012/13 on 13 March 2012. The adjusted budget shown in the report reflects the original budget approved by the Authority plus any virements during the financial year. The adjusted budget therefore includes new budgets for the carry forward underspend for specific projects from 2011/12, totalling £0.528 million as approved at Resources & Performance Committee on 21 June 2012 and also the carry forward underspending for the Sustainable Communities Fund (£0.178 million) and Major Partnerships Fund (£0.276 million).
- 2.2 The capital programme for 2012/13 consists of three schemes: purchase and refurbishment of South Downs Centre, Western Area Barn and purchase of Vehicles.
- 2.3 The Treasury Management Policy Statement and Annual Investment Strategy was adopted by the Authority on 13 March 2012 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 £0.230 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 as shown in Appendix 1 are:

**Employees' costs**

- 3.3 The employee's budget is forecast to underspend by £0.151 million from vacancy management and posts taking longer to recruit to than expected at budget setting, for example, the Finance & Procurement Manager and Enforcement Officer. As the permanent establishment is now fully in place, this level of underspend is unlikely to occur in future

years. The non employee's budget is forecast to underspend by £0.028 million is from savings in staff training, relocation and other employees costs budgets.

#### Premises costs

- 3.4 Premises costs are forecast to underspend by £0.114 million. At budget setting it was anticipated that the South Downs Centre would be occupied during this financial year and therefore contributions would commence to the buildings repairs and renewals reserve for future repairs and maintenance. However as the building will not be occupied until 2013/14, contributions will commence from then resulting in an underspend of £0.047 million. Other property costs are forecast to underspend by £0.067 million from underspendings in general repairs, equipment testing, contract cleaning and venue hire.

#### Supplies & Services

- 3.5 Supplies and services budgets are projecting a net overspend of £0.239 million which is mainly from additional spend in a number of areas:
- A projected net overspend of £0.025 million in the Strategy & Partnerships budgets. This is the cumulative effect of a number of changes including projected underspends in relation to the work of Strategy Leads and increases in budget agreed within the year for Communications items.
  - An overspend of £0.010 million in relation to exchange rate variations from the collabor8 project, where the amount of grant received is less than anticipated resulting in an overspend. This will be funded from the collabor8 earmarked reserve of £0.030 million set aside for this purpose.
  - The Idox project is forecast to overspend by £0.156 million from additional consultants costs required to rectify some teething problems that have developed over the last couple of months and also to remove the backlog of planning applications in some local authorities.
  - An investment of £0.025 million for additional enforcement officers on a temporary basis to deal with the backlog inherited from the recovered service area, including some complex cases requiring detailed assessment to draw to a close long standing issues.
  - An agreed overspend of £0.015 million in relation to Access to Land works within the Operations service where the budget was removed in error at budget setting.
  - A contribution of £0.033 million match-funding to the partnership project (Environment Agency, Wildlife Trust and others) to reintroduce Water Voles and establish a self-sustaining population along the River Meon, following habitat improvements, targeting of Environmental Stewardship and other enhancement measures. This is a three-year project, with a five-year maintenance and monitoring programme.
  - A net underspending of £0.028 million in relation to an underspending in the IT budget and contingency budget which is partly offset by an increase in consultancy costs to fund the South Downs Centre project manager until the end of the financial year.
- 3.6 Payments in respect of the Sustainable Communities Fund (£0.476 million) and Major Partnerships Fund (£0.676 million) are also included within supplies & services. This is a ring fenced fund and therefore projected to breakeven which assumes that any underspends will be carried forward for spending against this fund in 2013/14.

#### Third Party Payments

- 3.7 Third party payments are projecting an underspend of £0.109 million of which £0.063 million is in relation to the planning policy budget where the projected spend is less than anticipated at budget setting due to reduced costs of joint working. Corporate Services support services budgets are forecasting a net underspend of £0.019 million mainly from savings in HR budget where these services have been provided in house. The Evidence budget within Strategy and Partnerships is forecast to underspend by £0.027 million from project slippage due to officers prioritising the State of the Park report.

#### Income

- 3.8 Overall, planning fee income is historically unpredictable, but is often significantly driven by the prevailing economic climate. Approximately £0.422 million has been received for the first six months, which when extrapolated over the financial year results in total income of £0.844 million, an overachievement of £0.012 million compared to budget. However, the government has recently announced that it is proposing a "one-off adjustment to up-rate planning fees in line with inflation, amounting to around 15 per cent increase since 2008. This is likely to be implemented during December 2012 and indications are that this has caused an increase in applications being submitted before the fee increases are applied. Therefore, at this stage it is prudent to forecast a breakeven position for planning fees income.
- 3.9 Investment income from interest on balances are projected to overachieve the budget by £0.049 million as a result of higher balances (due to the purchase and refurbishment of South Downs Centre taking place in the later half of the year) than expected at budget setting.

### **Budget Virements**

- 3.10 There are no significant virements during this period.

### **Areas of Risk**

- 3.11 It is essential that all budgets are monitored closely, to ensure that the year end figures can be predicted with certainty. The process for sound budget management is now 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.
- 3.12 Planning income projections continue to be an area of risk for the Authority but the Idox system now provides improved management information to inform robust forecasts.

## **4 Capital Programme**

- 4.1 The capital programme consists of three schemes: purchase and refurbishment of South Downs Centre, Western Area Scheme and purchase of vehicles. The forecast outturn as at Quarter 2 is detailed in the table below.
- 4.2 The purchase of vehicles budget of £0.092 million includes £0.080 million of slippage for which the budget was originally approved in 2010/11. The capital forecast has increased to £0.159 million reflecting the Vehicle Fleet report earlier on this agenda recommending the purchase of three Land Rovers and three pool cars, and the purchase of a versatile mower of £0.012 million for heathland conservation as reported in the Quarter 1 budget monitoring report. Following approval of the Vehicle Fleet recommendations the capital budget will be increased by £0.067 million to reflect the funding from the earmarked vehicle renewals reserve.
- 4.3 A revised capital budget of £2.689 million for 2012/13 for South Downs Centre was approved at the Authority meeting on 24 May 2012. This project is now forecast to spend £0.876m in 2013/14, as the refurbishment works on site are now starting several months later than originally projected, principally because the purchase has not yet been completed and a number of legal issues still remain to be resolved. In addition, the requirement to refine aspects of the design has resulted in later than originally planned submissions for planning and listed buildings consents for the works.
- 4.4 Area offices are being reviewed as part of the Estates Strategy. For the Western Area Scheme, consultants have been commissioned to undertake a full feasibility study based on new information obtained from the Forestry Commission regarding the long term vision of the site. Therefore, this project is forecasting no expenditure and an update of progress will be available at the next Committee meeting.

<b>Capital Forecast</b>	<b>2012/13 Budget £'000</b>	<b>2012/13 Actual at Quarter 2 £'000</b>	<b>2012/13 Forecast Outturn £'000</b>	<b>Slippage to 2013/14 £'000</b>
Vehicles	92	12	159	0
South Downs Centre	2,689	118	1,813	876
Western Area Scheme	113	0	0	0
<b>Total</b>	<b>2,894</b>	<b>130</b>	<b>1,972</b>	<b>876</b>

## **5 Treasury Management**

### **Brief overview of market**

- 5.1 Indicators suggest that the UK economy will return to a positive position in the quarter ended September after 3 quarters of declining growth. Business surveys over the three months indicate a growth, whilst industrial production has risen and the overall trade deficit has shrunk.
- 5.2 Spending off the high street has also shown signs of recovering; in particular private new car registrations in July and August were higher than a year ago and the sale of Olympics tickets.
- 5.3 The labour market has continued to recover. The measure of employment rose in the three months to July, whilst unemployment fell over the same period. Pay growth has remained modest, but real pay continued to fall as inflation outstripped pay increases.
- 5.4 The cost of Bank funding continued to ease over the quarter as a result of the Bank of England's provision of low cost liquidity to banks. Inflation struggled to make further downward progress during the quarter. CPI inflation rose in June before falling back in August. While inflation should drop in September further falls over the next few months look unlikely as a result of the recent increase in commodity prices.
- 5.5 The Monetary Policy Committee voted in July to undertake £50bn additional asset purchases over the following four months. Financial markets are factoring in a reduction in the Base Rate (currently 0.5%) but to date the MPC has concentrated on asset purchases (quantitative easing) rather than near zero interest rates.
- 5.6 The return on the amount invested in Brighton & Hove City Council (BHCC) has reduced marginally in the quarter as the financial markets factor in lower short-term interest rates.

### **Investments**

- 5.7 The short-term nature of the Authority's investment portfolio has been maintained given the on-going uncertainty in the financial markets. Investment in the quarter has continued to concentrate on lending funds to BHCC, the only exception being an investment in Lloyds Bank for three months.
- 5.8 In July 2012 BHCC agreed to increase the number of financial institutions by adding counterparties with a "good" credit quality and increasing investment limits in those banks benefitting from HM Treasury support. Against this background the Authority's investment in Lloyds Bank was increased to £5 million in October 2012 at an average rate of 1.35%. The impact of this decision on investment performance will be reported to the Authority as part of Quarter 3. The remaining cash balance will continue for the time being, to be invested in BHCC as this results in investment performance being above benchmark yields whilst at the same time ensuring capital preservation and liquidity to meet the expenses of the Authority.
- 5.9 The risk within the investment portfolio remains well within the 0.05% approved by the Authority. Performance on the investments in the second quarter has exceeded the benchmark rate.
- 5.10 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.

	<b>Average amount invested (weighted by amount per day)</b>	<b>Average interest rate (annualised)</b>		<b>Interest received / accrued in quarter</b>
		Actual	Benchmark (7-Day LIBID)	
<b>Quarter 1</b>				
Investment in Brighton & Hove City Council	£6,571,985	0.87%		£14,251
Investment in Lloyds TSB	£2,500,000	1.40%		£8,726
<b>Average for Period</b>	<b>£9,071,985</b>	<b>1.02%</b>	<b>0.44%</b>	<b>£22,977</b>
Benchmark rate		0.44%		
Rate over / (under benchmark rate)		0.58%		
<b>Quarter 2</b>				
Investment in Brighton & Hove City Council	£5,810,004	0.75%		£10,838
Investment in Lloyds TSB	£2,500,000	1.39%		£8,736
<b>Average for Period</b>	<b>£8,310,004</b>	<b>0.93%</b>	<b>0.44%</b>	<b>£19,574</b>
Benchmark rate		0.44%		
Rate over / (under benchmark rate)		0.49%		

## **Borrowing**

5.1.1 There has been no borrowing in the three month period to 30 September 2012.

## **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 3.11 to 3.12.

## **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	I. 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.

## Revenue Forecast Outturn as at Quarter 2

## Subjective Analysis

Quarter 1 Variance £'000	Division	Quarter 2			Full Year Forecast		
		Adjusted Budget to Date £'000	Actual to date £'000	Variance to Date £'000	Adjusted Budget £'000	Forecast Outturn £'000	Variance £'000
	<b>Expenditure:</b>						
(142)	Direct Employees	2,083	1,896	(187)	4,222	4,071	(151)
0	Indirect Employees	137	36	(101)	210	181	(29)
(47)	Premises	215	109	(106)	376	262	(114)
0	Transport	81	63	(18)	214	218	4
71	Supplies & Services	1,909	895	(1,014)	3,963	4202	239
(76)	Third Party Payments	1,138	1,177	39	4,306	4197	(109)
(194)	Total Expenditure	5,563	4,176	(1,387)	13,291	13,131	(160)
	<b>Income:</b>						
0	National Park Grant	(4,502)	(4,509)	(7)	(10,981)	(10,981)	0
0	Other Grants	(227)	(39)	188	(456)	(465)	(9)
21	Planning Fees & Other Income	(418)	(201)	217	(836)	(838)	(2)
(15)	Investment Income	(13)	(15)	(2)	(25)	(74)	(49)
6	Total Income	(5,160)	(4,764)	396	(12,298)	(12,358)	(60)
(188)	<b>Sub Total</b>	403	(588)	991	993	773	(220)
0	<b>Approved contribution from reserves</b>				<b>(993)</b>	<b>(1,003)</b>	<b>(10)</b>
(188)	<b>Net Balance (change in reserves)</b>				<b>0</b>	<b>(230)</b>	<b>(230)</b>

## Directorate Analysis

Quarter 1 Variance £'000	Division	Quarter 2			Full Year Forecast		
		Adjusted Budget to Date £'000	Actual to date £'000	Variance to Date £'000	Adjusted Budget £'000	Forecast Outturn £'000	Variance £'000
(2)	Chief Executive's Service	100	92	(8)	200	192	(8)
(42)	Strategy & Partnerships	1,539	878	(661)	3,100	3,013	(87)
21	Planning	1,321	1,558	237	4,436	4,559	123
30	Operations	649	473	(176)	1,343	1,393	50
(195)	Corporate Services	1,296	919	(377)	2,895	2,597	(298)
<b>(188)</b>	<b>Net Expenditure</b>	<b>4,905</b>	<b>3,920</b>	<b>(985)</b>	<b>11,974</b>	<b>11,754</b>	<b>(220)</b>
0	National Park Grant	(4,502)	(4,509)	(7)	(10,981)	(10,981)	0
<b>(188)</b>	<b>Sub Total</b>	<b>403</b>	<b>(589)</b>	<b>(992)</b>	<b>993</b>	<b>773</b>	<b>(220)</b>
<b>0</b>	<b>Approved contribution from reserves</b>				<b>(993)</b>	<b>(1,003)</b>	<b>(10)</b>
<b>(188)</b>	<b>Net Balance (change in reserves)</b>				<b>0</b>	<b>(230)</b>	<b>(230)</b>