Agenda Item 7
Report RPC 13/12

Report to	**Resources and Performance Committee**
Date	**5 September 2012**
By	**Chief Finance Officer**
Title of Report	**Budget Monitoring Report for Quarter 1, 2012/13**
Purpose of Report	**To advise the Committee of the overall financial position of the Authority for 2012/13 as at Quarter 1**

Recommendation: The Committee is recommended to:

1. **note the overall financial position as at Quarter 1.**
2. **approve a capital variation for a mower as detailed in paragraph 4.2.**

1. Introduction

1.1 This report sets out the South Downs National Park Authority's (the Authority) current financial position as at the first 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 & Policy 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 the 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 1 is a net underspend of £0.188 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 as shown in **Appendix 1** are:

Employees' costs

3.3 The employees budget is forecast to underspend by £0.142 million which is 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.

Premises costs

3.4 Premises costs are forecast to underspend by £0.047 million in relation to the contributions to the buildings repairs and renewals reserve for future repairs and maintenance to the South Downs Centre after the refurbishment. At budget setting it was anticipated that this building would be occupied during this financial year and contributions would commence from this year, however as the building will not be occupied until 2013/14 contributions will commence from then.

Supplies & Services

3.5 Supplies and services budgets are projecting an overspend of £0.071 million of which £0.035 million relates to the Idox project. The Idox project forecast overspend is from additional consultants costs required to rectify some minor teething problems that have developed over the last couple of months and also to remove the backlog of planning applications in some local authorities.

3.6 Payments in respect of the Sustainable Communities Fund (£0.400 million) and Major Partnerships Fund (£0.400 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 £0.076 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.

Income

3.8 Overall, planning fee income is historically unpredictable, but is often significantly driven by the prevailing economic climate. Approximately £0.203 million has been received for the first quarter, which when extrapolated over the financial year results in total income of £0.815 million, a slight underachievement of £0.021 million compared to budget. 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 has not yet been included in the forecast but it is likely to be introduced from October 2012.

3.9 Investment income from interest on balances are projected to overachieve the budget by £0.015 million as a result of higher balances (due to the purchase and refurbishment of the 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 the South Downs Centre, Western Area Barn and purchase of vehicles. The forecast outturn as at Quarter 1 is detailed in the table below.

4.2 The purchase of vehicles budget of £0.080 million is slippage for which the budget was originally approved in 2010/11. The purchase of pool vehicles has been delayed due to an Estates Strategy being produced (which will be presented to Members in the Autumn), which is to incorporate an analysis of vehicle requirements. However, there is a need for a versatile mower for heathland conservation, which can be used in some of the more inaccessible parts of the various Wealden Heaths, where it is not possible to use a large forage harvester. The cost is around £12,000 and will greatly aid the NPA, in co-ordinating work on these sites with key partners. Mutually supportive work can be carried out with, for example, the National Trust, with the use of their tractor (and where the kit would be safely stored). It will also reduce fire risk and improve access, being efficiently deployed on ride-cutting, such as maintaining the Serpent Trail (currently a laborious volunteers' task). The mower will be funded from the Heathlands earmarked reserve, accrued from the income derived from the Environmental Stewardship scheme paid to enhance these Park heath sites and also from contributions from both the National Trust and Sussex Wildlife Trust.

4.3 A revised capital budget of £2.689 million for 2012/13 for the South Downs Centre was approved at the Authority meeting on 24 May 2012 and this is currently forecast to be fully spent by 31 March 2013.

4.4 The Western Area Scheme project is being reviewed as part of the Estates Strategy and 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.

Capital Forecast	2012/13 Budget £'000	2012/13 Actual at Quarter 1 £'000	2012/13 Forecast Outturn £'000	Slippage to 2013/14 £'000
Vehicles	80	0	12	0
South Downs Centre	2,689	35	2,689	0
Western Area Scheme	113	0	0	0
Total	**2,882**	**35**	**2,701**	**0**

5 Treasury Management

Brief overview of market

5.1 The economic outlook has generally weakened during the quarter. Demand on the high street was volatile and although employment rose and unemployment fell, earnings growth remained weak. Inflation continued to fall in the quarter. CPI inflation fell from 3.5% in March to 2.8% in May driven by declines in fuel and food prices. Core inflation fell from 2.5% to 2.2%.

5.2 The Monetary Policy Committee voted narrowly against pursuing more quantitative easing (QE) at its June meeting, although this was revised in July with a further tranche of QE of £50bn. House prices trended downwards. The Nationwide measure fell in two of the three months from April to June, with the annual rate of house price inflation declining from -0.7%

in May to -1.5% in June. The Halifax measure also saw an overall decline in prices over April and May.

5.3 Market sentiment towards the Eurozone remained volatile as successive 'rescue packages' first raised, and then disappointed, expectations. The economic news suggested that the Eurozone economy contracted sharply in the second quarter, while Eurozone unemployment rose to 11.1% in May, the highest rate since the creation of the euro in 1999.

5.4 Banks' funding costs eased over the quarter reflecting actions by the Bank of England and Treasury to boost liquidity. Two initiatives were announced in June - a 'funding for lending' scheme which would allow banks to temporarily "swap" their assets with the Bank of England in return for money they could lend to customers, and an emergency scheme that offered six-month low-cost liquidity to banks in tranches of £5bn a month. Costs, however, remained elevated and banks began to pass higher costs onto borrowers. Borrowing rates on most types of new mortgages picked up in April and May.

Investments

5.5 The short-term nature of the Authority's investment portfolio has been maintained given the continuing uncertainty in the financial markets. The downgrading of many financial institutions, including high profile UK banks, has meant limits with the Authority's investment counterparties have reduced in some cases.

5.6 These downgrades have, so far, had limited impact on investment strategy. Investment in the quarter has continued to concentrate 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 near future but 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.

5.7 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.

5.8 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	£6,571,985	0.87%		£14,251
Investment in Lloyds TSB	£2,500,000	1.40%		£8,726
Average for Period	**£9,071,985**	**1.02%**	**0.44%**	**£22,977**
Benchmark rate		0.44%		
Rate over / (under benchmark rate)		0.58%		

Borrowing

5.9 There has been no borrowing in the three month period to 30 June 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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Appendix	1. Revenue Forecast Outturn as at Quarter 1
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 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	1,039	899	(140)	4,209	4,067	(142)
Indirect Employees	32	(2)	(34)	190	190	0
Premises	120	48	(72)	376	329	(47)
Transport	35	31	(4)	210	210	0
Supplies & Services	875	277	(598)	3,900	3,971	71
Third Party Payments	37	6	(31)	4,341	4,265	(76)
Total Expenditure	2,138	1,259	(879)	13,226	13,032	(194)
Income:						
National Park Grant	(1,757)	(1,781)	(24)	(10,981)	(10,981)	0
Other Grants	(100)	82	182	(402)	(402)	0
Planning Fees	(209)	(101)	108	(836)	(815)	21
Investment Income	(6)	(6)	0	(25)	(40)	(15)
Total Income	(2,072)	(1,806)	266	(12,244)	(12,238)	6
Sub Total	66	(547)	(613)	982	794	(188)
Approved contribution from reserves				**(982)**	**(982)**	**0**
Net Balance (change in reserves)					**(188)**	**(188)**

Directorate Analysis

Division	Quarter 1 Adjusted Budget to Date £'000	Quarter 1 Actual to date £'000	Quarter 1 Variance to Date £'000	Full Year Forecast Adjusted Budget £'000	Full Year Forecast Forecast Outturn £'000	Full Year Forecast Variance £'000
Chief Executive's Service	50	46	(4)	200	198	(2)
Strategy & Partnerships	773	531	(242)	3,151	3,109	(42)
Planning	180	228	48	4,385	4,406	21
Operations	317	215	(102)	1,332	1,362	30
Corporate Services	500	214	(286)	2,895	2,700	(195)
Net Expenditure	**1820**	**1234**	**(586)**	**11,963**	**11,776**	**(188)**
National Park Grant	(1,757)	(1,781)	(24)	(10,981)	(10,981)	0
Sub Total	**63**	**(547)**	**(610)**	**982**	**794**	**(188)**
Approved contribution from reserves				**(982)**	**(982)**	**0**
Net Balance (change in reserves)					**(188)**	**(188)**