

Report to **Resources and Performance Committee**

Date **13 February 2013**

By **Chief Finance Officer**

Title of Report **Budget Monitoring Report for Quarter 3, 2012/13**

Purpose of Report **To advise the Committee of the overall financial position of the Authority for 2012/13 as at Quarter 3**

Recommendation: The Committee is recommended to:

- 1) note the overall financial position as at Quarter 3;**
 - 2) approve the budget virement in respect of the Major Partnerships Fund to transfer £0.308 million to earmarked reserves as detailed in paragraph 3.12; and**
 - 3) approve a capital variation for the purchase of an exhibition trailer as detailed in paragraph 4.2**
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1. Introduction

- 1.1 This report sets out the South Downs National Park Authority's (the Authority) current financial position as at the third 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 Scheme 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 3 is a net underspend of £0.060 million. **Appendix I** 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.

Significant Variances

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

Employees' costs

- 3.3 The employee's budget is forecast to underspend by £0.185 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 £0.034 million from savings in staff training, relocation and other employees costs budgets.

Premises costs

- 3.4 Premises costs are forecast to underspend by £0.069 million, which is a reduction of £0.045 million as the forecast now assumes that a contribution of £0.047 million will be made to the buildings repairs and renewals reserve for future repairs and maintenance to South Downs Centre during this financial year. The £0.069 million underspend is from general repairs, gas, contract cleaning and testing of equipment.

Transport

- 3.5 The transport overspend includes a contribution to the capital programme (as detailed in paragraph 4.2) to fund the purchase of an exhibition trailer at an estimated cost of £0.020 million.

Supplies & Services

- 3.6 Supplies and services budgets are projecting a net overspend of £0.415 million which is mainly from additional spend in a number of areas:
- The Strategy & Partnerships budgets are projected to overspend by £0.110 million. 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 such as interpretation works (£0.050 million) and Contact Management System (£0.050 million).
 - The Idox project is forecast to overspend by £0.235 million from additional consultants costs required to rectify some teething problems and implement new modules.
 - 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 Land works within the Operations service where the budget was removed in error at budget setting. A net underspending of £0.016 million for Volunteer Services from various supplies and services budgets.
 - 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 contribution of £0.035 million towards the Up Marden cart/shelter shed restoration project.
 - net underspending of £0.024 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.
- 3.7 Payments in respect of the Sustainable Communities Fund (£0.486 million) and Major Partnerships Fund (£0.677 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

- 3.8 Third party payments underspend has increased from £0.109 million to £0.175 million of which £0.170 million is in relation to the planning budget where the projected spend is less

than anticipated at budget setting due to reduced costs of joint working and from the release of £0.060 million contingency held against the development management agreements budget.

Income

- 3.9 Other grants income includes a reduction in Collabor8 income of £0.025 million where the amount of grant received is less than anticipated resulting in an overspend. This is in relation to exchange rate variations from the project and a funding cap on scheme as it reaches the end of the project.
- 3.10 Overall, planning fee income is historically unpredictable, but is often significantly driven by the prevailing economic climate. Approximately £0.614 million has been received for the first three quarters, which when extrapolated over the financial year results in total income of £0.818 million, an underachievement of £0.018 million compared to budget. Therefore, at this stage it is prudent to forecast a breakeven position of £0.836 million for planning fees income which takes into consideration the 15% increase in fees and also charging for pre application from January.
- 3.11 Investment income from interest on balances are projected to overachieve the budget by £0.055 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

- 3.12 The Major Partnerships Fund is treated as a ring fenced fund and any unallocated budget is carried forward to the next financial year for allocation against new projects commencing during that year as well as funding ongoing approved projects. However, The Partnerships Panel have requested that as projects are approved, funds for the full life of the project should be held in reserves, fully funded from the year in which the project is approved. Future commitments (approved projects) for the fund currently total £0.573 million, so it is proposed to transfer the remaining unallocated 2012/13 budget of £0.308 million to earmarked reserves, with the remaining balance of £0.256 million funded from the 2013/14 budget. Once approved by Committee, the 2012/13 budget will be reduced to reflect the budget transfer to reserves.

Areas of Risk

- 3.13 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.
- 3.14 The Quarter 3 budget monitoring forecast includes a number of projects and other agreed commitments, currently estimated at £0.587 million, where it is likely that works and spend will not be incurred until 2013/14 and therefore carry forward underspending will be requested in the Provisional Outturn report in order to ensure these works and projects can be completed. Officers will carry out a Mid Term review of the 2013/14 budgets and performance of progress against projects, and for those where performance is unsatisfactory, carry forwards will not be permitted for the following year. A full list of 2012/13 carry forwards will be completed and provided as part of the Provisional Outturn report but will include items such as:
- An agreed commitment (and carry forward) of £0.050 million for the Contact Management System as part of the 2013/14 budget setting process.
 - Computer cabling and furniture and equipment purchases of £0.125 million for South Downs Centre now likely to be incurred during 2013/14 due to delays in the refurbishment works.
 - South Downs Way surfacing improvements of £0.040 million delayed due to the extreme weather conditions.

- Lewes Core Strategy work and East Hampshire examination costs totalling £0.080 million.
- A number of projects, audits and assessments within the Strategy & Performance teams currently estimated at £0.140 million.

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 3 is detailed in the table below.

Capital Forecast	2012/13 Budget £'000	2012/13 Actual at Quarter 3 £'000	2012/13 Forecast Outturn £'000	Slippage to 2013/14 £'000
Vehicles	92	12	113	0
South Downs Centre	2,689	905	1,011	1,678
Western Area Scheme	113	0	0	0
Total	2,894	917	1,124	1,678

- 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 and £0.012 million for a mower. The capital forecast expenditure has increased to £0.113 million reflecting:
- purchase of a versatile mower of £0.012 million for heathland conservation
 - purchase of three Land Rovers as approved at Resources and Performance Committee on 6 November 2012 at an estimated cost of £0.081 million
 - and the requirement to purchase an exhibition trailer at an estimated cost of £0.020 million, which will be funded from underspendings within the Revenue Budget.
- 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 £1.011m in 2012/13, as the later than originally expected completion of the purchase in late November 2012 and the need to review the specifications and costs of the refurbishment works to achieve savings has resulted in a delay to the start of the main construction works. The results of the cost review will be considered at the 19 February Authority meeting. The majority of the South Downs Centre refurbishment cost (£1.678m) will now be incurred in the 2013/14 financial year.
- 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.

5 Treasury Management

Brief overview of market

- 5.1 Indicators suggest that the UK economy contracted in the final quarter of 2012 but overall the economy remained unchanged in the year. Retail sales for the quarter weakened (due in part to the unwinding of the Olympic Games boost in the previous quarter) but spending away from the high street (for example new car registrations) held up. Employment continued to rise, albeit at a slower pace and inflation remained stubbornly above the Monetary Policy Committee's 2% target. Real pay continues to fall, with pay growth remaining at levels below inflation.
- 5.2 News on the housing market was mixed. Prices fell slightly over the year whilst mortgage approvals for new house purchase continued to edge up. The Autumn Statement contained few surprises. Austerity measures were extended for a further year to 2017/18 whilst a number of growth measures, including a cut in corporation tax, were

announced.

- 5.3 The cost of banks funding continued to ease over the quarter, reflecting the Bank of England's provision of low cost funding via the Funding for Lending Scheme. Inflation remained stubbornly above the 2% target set by the Government. The CPI measure for inflation rose in October and remained unchanged in the following month. Independent projections suggest that CPI is likely to hover between 2.5% and 3% for the best part of 2013. There have been no further increases in the Bank of England's asset purchases programme (i.e. quantitative easing).
- 5.4 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

- 5.5 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 investment in Lloyds Bank. As reported in the last quarter the amount invested in Lloyds was increased to £5m, resulting in an average investment of circa £4.2m. The impact of this decision has resulted in investment performance remaining unchanged on last quarter despite average short-term rates falling.
- 5.6 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. 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.
- 5.7 The following table summarises the average amount invested together with the average interest rate achieved against 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 BHCC	£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 benchmark rate		0.58%		
Quarter 2				
Investment in BHCC	£5,810,004	0.75%		£10,838
Investment in Lloyds TSB	£2,500,000	1.39%		£8,736
Average for Period	£8,310,004	0.93%	0.44%	£19,574
Benchmark rate		0.44%		
Rate over benchmark rate		0.49%		
Quarter 3				
Investment in BHCC	£5,139,018	0.62%		£7,942
Investment in Lloyds TSB	£4,211,956	1.33%		£13,997
Average for Period	£9,350,974	0.93%	0.40%	£21,939
Benchmark rate		0.40%		
Rate over benchmark rate		0.53%		

Borrowing

5.8 There has been no borrowing in the three month period to 31 December 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 3.13 to 3.14.

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
SDNPA Consultees

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I. Revenue Forecast Outturn as at Quarter 3
Chief Executive Officer, Director of Corporate Services, Director of Planning, Director of Strategy and Partnerships, Director of Operations, Monitoring Officer.

Revenue Forecast Outturn as at Quarter 3

Subjective Analysis

Quarter 2 Variance £'000	Division	Quarter 3			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:						
(151)	Direct Employees	3,159	2,904	(255)	4,269	4,084	(185)
(29)	Indirect Employees	174	64	(110)	213	179	(34)
(114)	Premises	299	159	(140)	380	311	(69)
4	Transport	120	104	(16)	216	240	24
239	Supplies & Services	2,884	1,643	(1,241)	4,174	4,589	415
(109)	Third Party Payments	2,203	2,012	(191)	4,262	4,087	(175)
(160)	Total Expenditure	8,839	6,886	(1,953)	13,514	13,490	(24)
	Income:						
0	National Park Grant	(7,248)	(8,359)	(1,111)	(10,981)	(10,981)	0
(9)	Other Grants	(409)	(42)	367	(679)	(658)	21
(2)	Planning Fees & Other Income	(627)	(304)	323	(836)	(838)	(2)
(49)	Investment Income	(19)	(20)	(1)	(25)	(80)	(55)
(60)	Total Income	(8,303)	(8,725)	(422)	(12,521)	(12,557)	(36)
(220)	Sub Total	536	(1,839)	(2,375)	993	933	(60)
(10)	Approved contribution from reserves				(993)	(993)	0
(230)	Net Balance (change in reserves)				0	(60)	(60)

Directorate Analysis

Quarter 2 Variance £'000	Division	Quarter 3			Full Year Forecast		
		Adjusted Budget to Date £'000	Actual to date £'000	Variance to Date £'000	Adjusted Budget £'000	Forecast Outturn £'000	Variance £'000
(8)	Chief Executive's Service	150	139	(11)	200	186	(14)
(87)	Strategy & Partnerships	2,287	1,450	(837)	3,100	3,159	59
123	Planning	2,408	2,683	275	4,436	4,555	119
50	Operations	967	825	(142)	1,343	1,440	97
(298)	Corporate Services	1,972	1,423	(549)	2,895	2,574	(321)
	Net Expenditure	7,784	6,520	1,264	11,974	11,914	(60)
0	National Park Grant	(7,248)	(8,359)	(1,111)	(10,981)	(10,981)	0
(220)	Sub Total	536	(1,839)	(2,375)	993	933	(60)
(10)	Approved contribution from reserves				(993)	(993)	0
(230)	Net Balance (change in reserves)				0	(60)	(60)