

Report to	Policy & Resources Committee
Date	19 September 2017
By	Chief Finance Officer
Title of Report	Budget Monitoring Report for Quarter 1 2017/18

Recommendation: The Committee is recommended to:

- 1) Note the 2017/18 revenue forecast underspend position of £115,000 as at Quarter 1.**
- 2) Note the 2017/18 capital forecast position of zero variance as at Quarter 1.**
- 3) Note the current Treasury Management overview and position.**

1. Summary and Background

- 1.1 The Authority approved the revenue and capital budget for 2017/18 on the 30th March 2017. The adjusted budget shown in the report reflects the original budget approved by the Authority plus any approved virements during the financial year. The budget monitoring and control framework and is reported monthly to Operational Management Team and quarterly to Senior Management Team and Policy & Resources Committee.
- 1.2 This report sets out the South Downs National Park Authority's (the Authority) forecast financial position at the end of the first quarter of operations, 2017/18.
- 1.3 The Treasury Management Policy Statement and Annual Investment Strategy were adopted by the Authority on 30 March 2017 and set out the policy and principles used to manage the Authority's investments.

2. Revenue Forecast

- 2.1 The 2017/18 forecast outturn as at the end of quarter 1 is a net underspend of £115,000. The forecast position is explained below and a more detailed summary is provided at **Appendix 1** and **Appendix 2** to this report.

Expenditure

- 2.2 The direct employee budget is forecast to underspend by £21,000. The forecast underspend relates to the net impact of the currently employed establishment across the Authority. The variance is mainly due to vacancies during the first quarter of the financial year within the Countryside Policy & Management and Planning services, where recruitment is now completed or currently underway resulting in the organisation being close to a full staffing complement. The underspends from vacancies are partly offset by overspends due to costs of maternity cover and recruitment to posts to cover temporary service requirements.
- 2.3 The indirect employee budget is forecast to underspend by £58,000; the underspend is primarily due to the tender for the new insurance partnership with other National Park authorities, which has reduced the annual costs by approximately this value.

- 2.4 The supplies and services budgets are forecast to underspend by £37,000. This underspend relates to the following one off expenditure items.
- £47,000 underspend for legal fees within the Planning Service. A provision was created at the 2016/17 financial year end to meet obligations relating to unresolved planning appeals and challenges. One of the appeals has now been resolved resulting in costs being £47,000 less than originally anticipated.
 - £10,000 overspend for a one-off contribution to National Parks Partnership within Corporate Services, which had not been budgeted for due to unknown timing. The contribution has been made on a non-recurring basis to support the Partnership in its early years as agreed when the National Park Authority (NPA) originally approved the Authority's involvement in this new vehicle.

3. Capital Forecast

- 3.1 There is a zero forecast variance on the capital programme at quarter 1. A summary of the capital programme is provided at **Appendix 3** to this report.

4. Treasury Management

Economic Overview

- 4.1 The Bank of England Base Rate remains at 0.25% following the reduction of the official rate by the Monetary Policy Committee (MPC) back in August 2016. Markets were generally taken by surprise by the interest rate vote in the June 2017 MPC Meeting as members voted 5-3 to hold rates at 0.25%. Previously, there was just one MPC member who had been voting to raise interest rates. This vote suggests that policymakers are becoming concerned about rising inflation which has resulted mainly from the devaluation of sterling.

- 4.2 Data released in early July suggests that the UK economy is slowing down. The economy grew by 0.2% in Quarter 1 2017, and the full year growth is currently forecast to be 1.4% compared to 1.8% seen in 2016. Additionally, the July Inflationary report saw an unexpected fall in inflation from 2.9% to 2.6%. These factors are likely to stall policymakers from any tightening of monetary policy.

4.3 Investments

The Authority's investments at 30 June 2017 are made up of the following:

- £4.0m fixed deposits held with Lloyds Bank plc (held as four separate £1m deposits);
- £1.0m fixed deposit held with Santander (UK) plc;
- £1.0m in a 95 Day notice account held with Santander (UK) plc;
- The remaining cash balance is invested via Brighton & Hove City Council (£1.936m at 30 June 2017).

- 4.4 The table at **Appendix 4** summarises the performance of these investments in Quarter 1. The actual average interest rate earned in the quarter was 0.72% (down from 0.74% in quarter 4 2016/17).

- 4.5 The average rate earned is declining as a result of the Bank of England Base Rate continuing to impact on investment rates. The Santander notice accounts have seen a significant fall in rates. Notice has therefore been given on these accounts and alternative appropriate fixed investments sought to reduce the impact of the decline in interest rates. Additionally a regular deposit cycle has been introduced with Lloyds deposits to optimise returns whilst maintaining liquidity. Officers regularly review cash flow forecasts to ensure sufficient liquidity remains within the portfolio. It is anticipated that as the interest rate environment will remain challenging, average investment returns are likely to reduce further during 2017/18.

- 4.6 The Annual Investment Strategy Report agreed by the former Policy & Programme Committee in January 2017 outlined potential changes to the classification of Local Authorities by the Financial Conduct Agency (FCA) under revised EU regulations known as MiFiD II (Markets in Financial Instruments Directive). Under current regulations all Local Authorities in the UK are treated by Investment Counterparties as "Professional" clients which allows authorities to access a number of instruments (such as Certificates of Deposits,

Treasury Bills and Money Market Funds) that “retail” clients, or individuals are not able to access. MiFID II seeks to automatically classify Local Authorities as retail, with criteria being outlined to allow authorities to “opt-up” to professional status. The FCA released the finalised position as part of a Policy Statement on 3rd July 2017. This release confirmed that Local Authorities would be automatically classified as “retail” clients with the final criteria for pursuing opt-up being as follows:

- Minimum £10m investment/cash balances (reduced from previous proposal of £15m), and;
- Minimum of 10 transactions (of significant size or relevant market) per quarter in the last four quarters or;
- The person authorised to undertake transactions has at least one year’s professional experience in a position that requires knowledge of the provision of services.

4.7 The Authority’s current investment balances are just under the £10m minimum requirement, and therefore at current levels, would not have the ability to opt-up and would be treated by its investment counterparties as a retail client. Brighton & Hove City Council’s treasury advisors have advised that it is likely that the Authority’s current Investment strategy will result in little impact from the change as the Authority currently invests in fixed term deposits with Banks and Building societies. These deposits are not covered by the regulations and the Treasury Advisors initial conversations with counterparties indicate that they are unlikely to introduce different rate structures for retail and professional clients. The balance of the Authority’s funds are invested via Brighton & Hove City Council (BHCC) who will fulfil the opt-up criteria and are therefore expected to still be able to access the current range of financial instruments it utilises. The Authority could be impacted in the future if it intended to access other types financial instruments in its own name, rather than through investment with BHCC, and if investment balances remained below the £10m minimum criteria.

4.8 The regulations will be in effect from January 2018 and the BHCC Treasury Team will be working with Treasury Advisors and individual counterparties to ensure the necessary arrangements are in place ahead of the deadline.

5. Policy & Resources Committee / NPA Considerations

5.1 Annual budgets are approved by the National Park Authority (NPA). Budget monitoring is a key component of the Authority’s overall performance monitoring and control framework and is reported quarterly to the Policy & Resources Committee

6. Other Implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	Yes – A positive budget variance at the end of the financial year could add to reserves and may have implications for the Medium Term Financial Strategy of the Authority.
How does the proposal represent Value for Money?	The report is for noting only. Internal controls and governance are in place to ensure the economical, efficient and effective use of resources.
Are there any Social Value implications arising from the proposal?	No
Has due regard has been taken of the South Downs National Park Authority’s equality duty as contained within the Equality Act	Not directly applicable to decisions in this report, however, all expenditure and programmes undertaken by the National Park Authority are compliant with the Equality Act.

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Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy: 1. Living within environmental limits 2. Ensuring a strong healthy and just society 3. Achieving a sustainable economy 4. Promoting good governance 5. Using sound science responsibly	No

7. Risks Associated with the Proposed Decision

7.1 There are no risks associated with this report as the recommendations are for noting only.

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Appendices

1. 2017/18 Revenue Forecast by Subjective
2. 2017/18 Revenue Forecast by Service Area
3. 2017/18 Capital Forecast
4. 2017/18 Treasury Management Performance

SDNPA Consultees Chief Executive; Director of Countryside Policy and Management; Director of Planning; Monitoring Officer; Legal Services, Business Service Manager

External Consultees None

Background Documents Information in this report is taken from audited Financial Management Information Systems maintained by the Corporate Financial Services provider, Brighton & Hove City Council.

This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedures.

2017/18 Revenue Forecast by Subjective

2016/17 Variance Outturn £'000	Expenditure and Income by Subjective	2017/18 Quarter 1 Budget £'000	2017/18 Quarter 1 Forecast £'000	2017/18 Quarter 1 Variance £'000	2017/18 Quarter 1 Variance %
	EXPENDITURE:				
(175)	Direct Employees	5,482	5,461	(21)	0%
53	Indirect Employees	214	156	(58)	-27%
(65)	Premises	281	278	(3)	-1%
(31)	Transport	150	154	4	3%
208	Supplies & Services	2,977	2,940	(37)	-1%
(66)	Third Party Payments	3,098	3,098	0	0%
0	Capital Financing Costs	160	160	0	0%
(76)	Total Expenditure	12,362	12,247	(115)	-1%
	INCOME:				
0	National Park Grant	(10,135)	(10,135)	0	0%
(40)	Other Grants	(376)	(376)	0	0%
175	Planning Fees	(1,000)	(1,000)	0	0%
(5)	Other Income	(19)	(19)	0	0%
(25)	Investment Income	(40)	(40)	0	0%
105	Total Income	(11,570)	(11,570)	0	0
29	Net (Surplus) / Deficit	792	677	(115)	-15%

2017/18 Direct Employees Forecast by Service Area

2017/18 Variance Quarter 1 £'000	Service Area	Explanation of Variances
70	Corporate Service	Overspend due to the recruitment of additional support for the National Parks conference, implementation of the Local Plan and temporary summer cover for South Downs Centre.
(82)	Countryside Policy and Management	Variance due to vacant posts in the first quarter of the financial year during implementation of a new service structure.
(9)	Planning	Variance due to additional post recruited to not in the original budget, offset by vacant posts in the first quarter of the financial year.
0	Strategic Investment Fund	Zero variance
(21)	Total Salaries Variance	

2017/18 Revenue Forecast by Service Area

2016/17 Variance Outturn £'000	Service Area	2017/18 Quarter 1 Budget £'000	2017/18 Quarter 1 Forecast £'000	2017/18 Quarter 1 Variance £'000	2017/18 Quarter 1 Variance %
10	Corporate Services	3,766	3,786	20	1%
(122)	Countryside Policy and Management	2,709	2,629	(80)	-3%
141	Planning	4,034	3,979	(55)	-1%
0	Strategic Investment Fund	419	419	0	0%
29	Total Budget	10,928	10,813	(115)	-1%
0	National Park Grant	(10,135)	(10,135)	0	0%
0	Contribution to / from Reserves	(793)	(793)	0	0%
29	Total Authority Budget	0	(115)	(115)	-

2017/18 Revenue Forecast by Service Area – Explanation Variances

2017/18 Quarter 1 Variance £'000	Service Area	Explanation of Variances
28	Chief Executives Service	Overspend due to additional costs for maternity leave cover and one-off contribution to National Parks Partnership
(42)	Business Services	Underspend mainly due to reduced costs for a new insurance partnership with other National Park authorities.
14	Marketing and Income Generation	Salaries - Overspend due to short term costs for additional staff cover to support the National Parks conference
20	Governance and Support Services	Salaries – Overspend due to additional support to the Planning Policy service on temporary basis during the implementation of the Local Plan and temporary summer cover for South Downs Centre.
20	Total for Corporate Services	
(2)	Director of Countryside Policy and Management	Minor net variance.
(28)	Countryside and Policy Central	Salaries - Underspend due to vacant posts during implementation of new service structure.
(12)	Countryside and Policy Wealden Heath	Salaries - Underspend due to vacant posts during implementation of new service structure.
(1)	Research and Performance	Minor net variance.
(12)	Countryside and Policy Eastern	Salaries - Underspend due to vacant posts during implementation of new service structure.
(25)	Countryside and Policy Western	Salaries - Underspend due to vacant posts during implementation of new service structure.
(80)	Total for Countryside Policy and Management	
3	Director of Planning	Minor net variance.

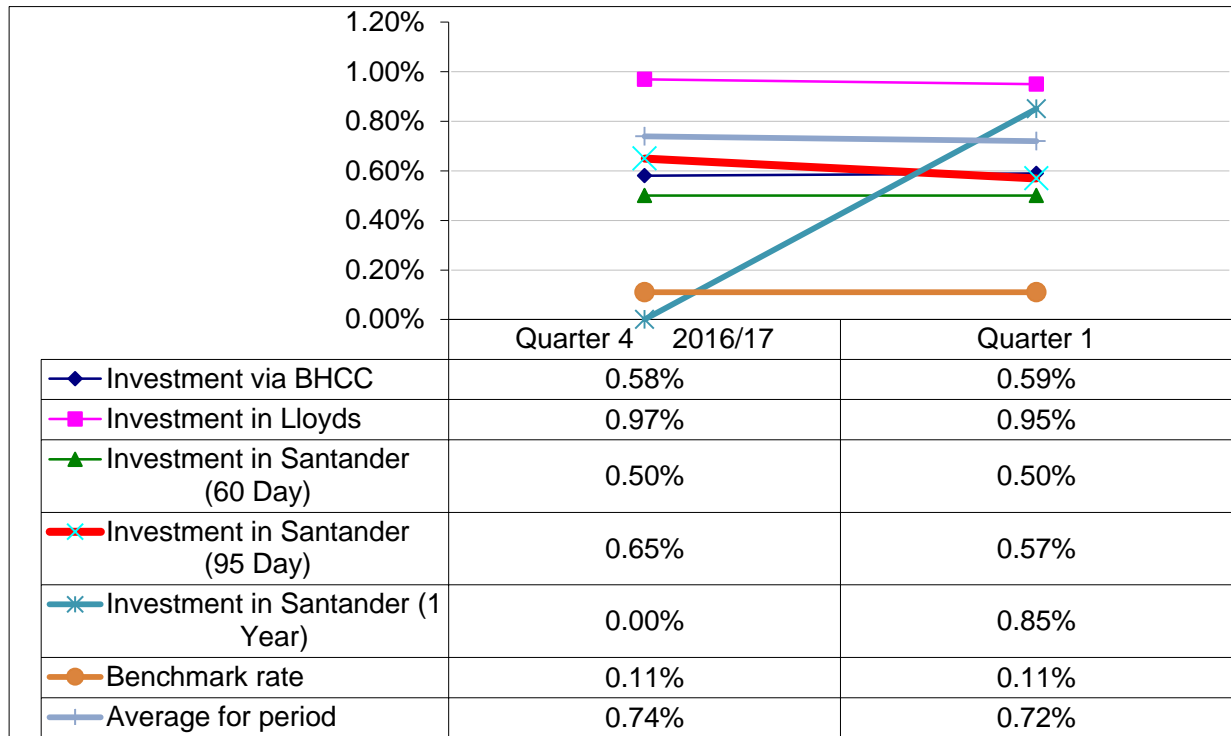
(74)	Planning Development Management	Vacant posts resulting in an underspend of (£27k) due to vacancies during the quarter, and underspend (£47k) on legal costs relating to a provision made at the end of the 2016/17 financial year for an unresolved planning challenge.
21	Performance and Technical Management	Salaries - Overspend due to additional Design Officer post not included in original budget. It is anticipated that this new post will be funded from core budget in future years from increased planning income.
(5)	Planning Policy	Minor net variance.
(55)	Total for Planning	
0	Strategic Investment Fund	
(115)	Total for Strategic Investment Fund	

2017/18 Capital Forecast

2016/17 Variance Outturn £'000	Capital Project	2017/18 Quarter 1 Budget £'000	2017/18 Quarter 1 Forecast £'000	2017/18 Quarter 1 Variance £'000	2017/18 Quarter 1 Variance %
N/A	National Park Signage Project	160	160	0	0.0%
N/A	Events Vehicle	45	45	0	0.0%
N/A	Total Capital Budget	205	205	0	0.0%

2017/18 Treasury Management Performance

Average Interest rate achieved on Investments compared to Benchmark (7 Day-LIBID)



Average amount invested (weighted by amount per day)

