Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET
8 NOVEMBER 2013

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.5 CORPORATE BUDGET MONITORING REPORT FOR THE SECOND QUARTER OF 2013/14 AND ANNUAL MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2014/15

(Report prepared by Finance and Procurement)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide an overview of the Council's actual financial position against the budget as at the end of September 2013 and to seek Cabinet's approval of the Annual MRP policy statement for 2014/15 for recommendation to Council.

EXECUTIVE SUMMARY

- The Council's financial position against the approved budget has been prepared for the period to the end of September 2013 and is the second such report for 2013/14.

- Although the report sets out the half yearly position some expenditure or income trends may still be emerging. However any significant issues arising to date have been highlighted and comments provided as necessary.

- The position to the end of September 2013, as set out in more detail in the Executive Summary attached, shows that overall the actual General Fund Revenue position is behind the profiled budget by **£3.909million** (behind profile by £2.234m at the end of the previous quarter)**.** After allowing for significant one-off budgets such as the Fit for Purpose Budget where commitments or decisions are still to be made, the position is revised to **£0.882m** behind the profiled budget (behind profile by £0.634m at the end of the previous quarter). A considerable element of this variance is due to the timing of expenditure and income although some emerging or continuing issues have been identified which have been set out below.

- In respect of other areas of the budget such as the Housing Revenue Account, Capital Programme, debt recovery, treasury activity and LCTSS / business rates retention, there are no significant issues that have been identified to date.

- Any emerging items that are either new or continue from 2012/13 will be monitored and updates provided in future budget monitoring reports along with their consideration as part of the Financial Strategy and budget setting framework for 2014/15 where a longer term response may be required.

- A half year treasury management review has been carried out with a summary set out below. The outcome of this review also includes a proposed increase to the aggregate investment limit for Local Authorities from £30 million to an unlimited amount.

- As part of the half yearly review of treasury management, the Annual Minimum Revenue Provision Policy Statement for 2014/15 was also reviewed. The associated policy is set out at Appendix J which needs to be considered by Cabinet before recommending on to Full Council.

RECOMMENDATION(S)

It is recommended that:

(a) The financial position as at the end of September 2013 is noted.

(b) The Council's Treasury Management Practices are updated to reflect an increase in the aggregate investment limit for Local Authorities to an unlimited amount.

(c) Cabinet recommends to Council that the Annual Minimum Revenue Provision (MRP) Policy Statement for 2014/15 as set out in Appendix J be approved.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability plays a key role in delivering the Council's corporate and community aims and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are considered in the body of the report.

In respect of the annual MRP policy statement, this sets out how the Council will make provision for the repayment of loans taken out to finance capital investment. For General Fund the MRP is a direct charge on the revenue budget. At present no MRP over and above the amount of principal being repaid is calculated for Housing Revenue Account capital investment although future provision will be considered within the business planning process in future years.

Risk

A number of variances will be subject to change as the year progresses although at this stage it is expected that any adverse position can be managed within the overall budgets. The budget position will be monitored and reviewed as part of both the future budget monitoring arrangements and Financial Strategy Processes.

LEGAL

The Local Government Act 2003 makes it a statutory duty that Local Authorities monitor income and expenditure against budget and take appropriate action if variances emerge.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 set out the requirements of a Minimum Revenue Provision (MRP) Policy Statement which must be approved by Council each year.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications arising from this report.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2013.

Although this report sets out the position for the first half of the year, some expenditure or income trends may still be emerging. However any significant issues arising to date have been highlighted and comments provided as necessary.

GENERAL FUND REVENUE

The position to the end of September 2013, as set out in more detail in the Executive Summary attached, shows that overall the actual position is behind the profiled budget by **£3.909m**.

After allowing for significant / one-off budgets such as the Fit for Purpose Budget where commitments or decisions are yet to be made, this position is revised to **£0.882m** behind the profiled budget with further details as follows:

Variance As Set out In Executive Summary	**(£3.909m)**
Less Variances to date for Significant / One-off Budgets	
Fit For Purpose	£1.680m
Contingency	£0.358m
New Homes Bonus	£0.502m
Local Plan	£0.487m
Variance Excluding Significant / One-off Budgets	**(£0.882m)**

After further excluding the variance for employee costs of **£0.312m**, which is covered separately below, the remaining net variance is **£0.570m** (£0.387m behind profile at the end of the last quarter)

As set out in the appendices, a considerable element of this remaining variance is due to the timing of expenditure and income or where commitments / decisions have yet to be made.

Appendix B provides further narrative around variances with the following drawing out the significant issues that have emerged to date:

EXPENDITURE BUDGETS

a) Expenditure Budgets Behind Profile

- **Salaries / Employee Costs**

  Overall employee expenses are behind profile by **£0.312m.**

  As reported in the last quarter, fundamental service reviews (FSR's) have now been completed with significant and on-going savings delivered via these reviews which have been reflected in the 2013/14 base budget. The position above is due to the full implementation of FSR's remaining in progress so for example, vacancies remain until the associated recruitment processes are completed. It is also important to highlight that services continue to challenge how they deliver their services so opportunities are taken to further review staffing levels, such as when vacancies exist, rather than automatically recruit on a like for like basis. The outcome of any reviews will need to be reflected in the 2014/15 budget where applicable.

INCOME BUDGETS

As previously mentioned, additional details around the Council's most significant areas of income are set out in **Appendix H** with additional comments below:

a) Income Budgets Ahead of Profile

A number of income budgets are currently ahead of the profile including crematorium charges and careline. Further details are set out below for any significant issues:

Beach Hut Income ahead of profile - £0.040m or 5% of the annual budget (£0.017m ahead of profile at the end of the first quarter)

When Cabinet considered the Corporate Budget Monitoring Report for the first quarter of 2013/14 it agreed that where income from Beach Huts was in excess of the net budget for that area, then the excess could be reinvested in additional beach huts / sites or other seafront amenities with delegation given to the Corporate Director (Public Experience) in consultation with the Portfolio Holder for Environment and Coast Protection to undertake any associated activity. Therefore this income is earmarked for such investment and the appropriate financial mechanisms to ensure that this income is appropriately set aside and available on an on-going basis will be considered as part of the financial strategy and detailed estimates process currently in progress.

- **Car Park Income ahead of profile - £0.037m or 9% of the annual budget** (£0.053m behind profile at the end of the last quarter)

  At the end of the last quarter it was noted that the summer months generated significant income and with the good weather experienced in July and August, the position at the end of the second quarter of the year would be important to enable a clearer picture to emerge along with the impact of the resident's free parking initiative. The most up to date position therefore now reflects the results of the important summer months with income now ahead of the profile. It is also worth noting that only **£0.022m** of income is required over the remainder of the year to ensure that the annual income budget is achieved.

- **Planning Fees ahead of profile - £0.126m or 23% of the annual budget** (£0.030m ahead of the profile at the end of the last quarter)

  As set out in **Appendix H**, a number of planning applications have been made in the first half of the year which has resulted in income being ahead of the profile at this stage of the year.

b) **Income Budgets Behind Profile**
As set out in **Appendix H,** only a small number of income budgets are behind profile to date. It is worth highlighting that in respect of leisure income, a managed response remains in place in terms of managing expenditure and income to deliver the service within the overall net budget along with continuing to explore opportunities to maximise income through commercial and promotional activities. Crematorium income also continues to offset cemetery income which remains behind profile.

OTHER BUDGETS

- **External Legal Advice**
The position to date is as follows:

Expenditure on External Legal Advice – Full Year Budget = £0.098m
Expenditure on External Legal Advice – Actual to the end of September = £0.027m

This revised approach is still being embedded with the possibility that some costs may be charged to alternative budgets in error. This is being monitored and transfers made where necessary to develop the necessary clarity around this area of the Council's expenditure.

- **LCTSS / NNDR**
Following the introduction of the Local Council Tax Support Scheme (LCTSS) and Business Rates Retention in 2013/14, additional information around these two areas is set out in **Appendix I**. There are no significant issues to highlight to date.

HOUSING REVENUE ACCOUNT – REVENUE

An overall position is set out in the Executive Summary with further details included in **Appendix C**.

As at the end of September 2013, the HRA is **£0.063m** behind the profiled budget (£0.396m behind profile at the end of the last quarter) with no significant issues to highlight to date as this largely reflects the timing of expenditure such as maintenance and repairs and interest payable on HRA debt.

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix D.**

As at the end of September 2013 the programme is behind profile by £0.049m (£0.073m behind profile at the end of the first quarter).

Where schemes are currently being delivered, relevant information is provided in the appendix. Given the lead in time to some schemes, some capital projects are subject to development and detailed procurement processes for example, with additional information planned on being provided in future budget monitoring reports as they progress. There are no significant issues to highlight at the present time with additional comments set out in **Appendix D.**

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

The overall position is included in **Appendix D.**

As at the end of September 2013 the programme is behind profile by £1.314m (£1.063m behind profile at the end of the first quarter).

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings and acquisition / new build schemes. There are no specific issues to highlight at this stage and the expectation is that expenditure / commitments will be broadly in line with the budget over the course of the year as work is progressed and procurement processes completed.

CORPORATE DEBT

A detailed analysis of the current position is shown in **Appendix E**.

There are no significant issues to highlight at the present time. Income will continue to be collected over the reminder of the year with recovery arrangements and action taken as necessary.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix F.**

The Council agreed the Treasury Strategy for 2013/14 on 26 March 2013 and in accordance with Financial Procedure Rules this strategy and associated activity have been subject to a half yearly review with the outcomes set out below:

The Economy

In August the Bank of England slightly upgraded its expectations for the speed of recovery and rate of growth for the rest of 2013. Although encouraging, there is still a long way to go to return to strong and sustainable growth and the indicators coming out continue to be mixed. The Bank has also issued forward guidance that the Bank will not start to consider raising interest rates until the jobless rate has fallen.

The UK is heavily influenced by worldwide economic developments and on-going negative sentiment in that area permeates into UK's performance. Investor confidence in the Eurozone remains weak, although in the short term it has been boosted by the ECB's pledge to buy bonds in countries requesting help. This has a major effect in undermining business and consumer confidence not only in Europe and UK but also in America and the Far East/China.

Consumer confidence has increased slightly in the UK, although it remains weak as inflation is still higher than rises in average earnings.

Economic Outlook for next 6 months

Risks in economic forecasts continue. Concern continues about the Chinese economy along with weak growth in America, not helped by the failure to agree the Federal budget and debt ceiling. Eurozone growth will also remain weak overall, although with some limited signs of growth in the stronger countries.

Concern remains that the Bank of England's forecasts may still prove to be over optimistic as indicators remain mixed. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to wage inflation remaining below price inflation.

Expectations are:

- Low growth in the UK to continue with Bank Rate unlikely to rise for a couple of years – keeps investment returns depressed.
- Expected trend is for PWLB borrowing rates to eventually rise. (A recent forecast received by the Council is highlighting that the Bank Rate will remain at 0.5% until September 2016 although PWLB rates may start increasing in September 2014)

Investments

Investment returns are behind the budget despite an advantageous cash flow position. Interest rates achievable in the market remain very low so returns for the second half of the year are unlikely to increase greatly, particularly towards the end of the year as cash flow advantages reduce as budgets are spent.

The Eurozone sovereign debt crisis and its potential impact on banks prompt a low risk and short term strategy which gives low investment returns. The better low risk investments opportunities remain with other local authorities, but this is limited by the relatively low overall allowable limit for this kind of investment of £30 million that is set out in the treasury management policy.

The £30 million Local Authority aggregate investment limit was exceeded in the first half of the year with the maximum invested with other Local Authorities reaching £39 million during the period. This was due to investments being made based on a process of manually checking the current position against investment limits. The process of manually checking investment limits introduces the risk of human error which occurred in this instance, which was brought about by the relatively high volume of transactions with these type of counterparties so far this year. Although the limit was exceeded it is important to note that the Council has not been exposed to any additional / material risks but the issue has however prompted the following two actions:

- The Council is now working with an associated software supplier to provide an 'electronic solution' to monitoring investment limits with an alert service planned on being implemented to ensure limits are not exceeded in future.

- It is proposed on increasing the aggregate investment limit with Local Authorities from £30 million to an unlimited amount. Individually the Council can invest up to £4 million with any one authority. Local Authorities are currently providing better value for money in terms of investment returns compared to other low risk investments such as directly with the Government. This additional flexibility would also support the Council in achieving the budgeted amount for investment income not only this year but into 2014/15 and beyond. Such a budget has been and will continue to be an important element of the Council's overall budget.

  As Local Authorities are tax raising bodies and are to a large extent an extension of investments with Central Government, the credit risk is very low. The proposed change is also supported by our external treasury advisors who have been consulted on this matter and they also highlight that our investment limit with

Central Government is already unlimited so this would just bring the Local Authority limit in line with this. An associated recommendation is set out earlier on in this report.

As part of the half year review, it is timely to provide an update on an issue that was raised as part of the treasury outturn 2012/13 that was reported to Cabinet on 12 July 2013, where for one day during the year the Council had a debit bank balance of **£1.882m** due to a late repayment of an investment by a counterparty. This was over and above the agreed overdraft limit of **£0.300m**. Following a review the key points to highlight are:

- The counterparty had made the necessary arrangements to repay the Council the correct amount on the specified date. The primary cause of exceeding the limit was due to a misunderstanding between the Council and the relevant bank who had tried to make contact to confirm the validity of the transaction before the payment was made to the Council's bank account.
- There were approximately 130 similar transactions during the year where there was no such issue.
- The cost of being in an overdrawn position for the night was approximately £250 (representing an interest rate of just under 5%.)
- It is worth highlighting that if the late payment was solely the fault of the counterparty then any interest charges incurred by the Council would be sought from them.
- Procedures have now been changed to ensure that instructions to banks are strengthened with confirmation and follow up processes in place.

Borrowing

The 'flip' side to the low returns on investment as set out above is that borrowing rates that the Council can access remain relatively low. Due to the low yield on investments, it is currently proposed on not replacing the £1m external loan which matures in March 2014 along with no additional borrowing currently planned in 2013/14.

Annual Minimum Revenue Provision Policy Statement (AMRP)

Attached as **Appendix J** is the proposed Annual MRP policy statement for 2014/15 that sets out how assets funded by borrowing are accounted for, which is required to be approved by Full Council each year.

The policy sets out how the Council will make provision for the eventual repayment of any borrowing undertaken to finance capital expenditure. The policy, which is unchanged from 2013/14, proposes that where new borrowing is undertaken in accordance with the prudential code, and is therefore not supported by Central Government via the Formula or specific grant, the provision is calculated on a straight line method over the initial life expectancy of the asset. Although there are no expectations of supported borrowing within the General Fund, for completeness the policy in respect of any potential future supported borrowing has also been set out and is based on a rate of 4% pa.

The timing of approval of the MRP is to enable it to be taken into account when setting the budget. In previous years the MRP has been subject to a separate report to Cabinet. However the MRP has been considered as part of the half yearly treasury management review so it was felt timely to include it within this report to enable it to be recommended to

Full Council on 26 November 2013.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Front Cover and Executive Summary Appendix A – Summary by Portfolio / Committee Appendix B – General Fund Budget Position by Department Appendix C – Housing Revenue Account Budget Position Appendix D – Capital Programme Appendix E – Corporate Debt Appendix F – Treasury Activity Appendix G – Income from S106 Agreements Appendix H – Significant Fees and Charges Appendix I – LCTSS and NNDR Appendix J – Annual Minimum Revenue Provision Policy Statement 2014/15