

Executive

Quarter 1 Finance Report

5 September 2011

Report of Head of Finance

PURPOSE OF REPORT

This report summarises the Council's Revenue and Capital performance for the first 3 months of the financial year 2011/12 and projections for the full 2011/12 period. These are measured by the budget monitoring function and reported via the Performance Management Framework (PMF) informing the 2011/12 budget process currently underway.

To receive information on treasury management performance and compliance with treasury management policy during 2011/12 as required by the Treasury Management Code of Practice.

This report is public

Recommendations

The Executive is recommended:

- (1) To note the projected revenue & capital position at June 2011.
- (2) To note the Q1 performance against the 2011/12 investment strategy and the financial returns from each of the 3 funds.
- (3) To note the contents and the progress against the Corporate Procurement Action Plan (detailed in Appendix 1) and the Procurement savings achieved at June 2011 (detailed in Appendix 2).

Executive Summary

Introduction

- 1.1 In line with good practice budget monitoring is undertaken on a monthly basis within the Council. The revenue and capital position is reported monthly to the Corporate Management Team and formally to the Executive on a quarterly basis. This report includes the position at Q1.
- 1.2 The revenue and capital expenditure in Q1 has been subject to a detailed review by Officers and reported monthly to management as part of the corporate dashboard. An additional benchmark has been included this year to

measure the accuracy of projections by budget holders on a month by month basis.

- 1.3 The CIPFA Code of Practice on Treasury Management which this Council has adopted requires a regular budget monitoring report - this report is included in Appendix 2.

Conclusion

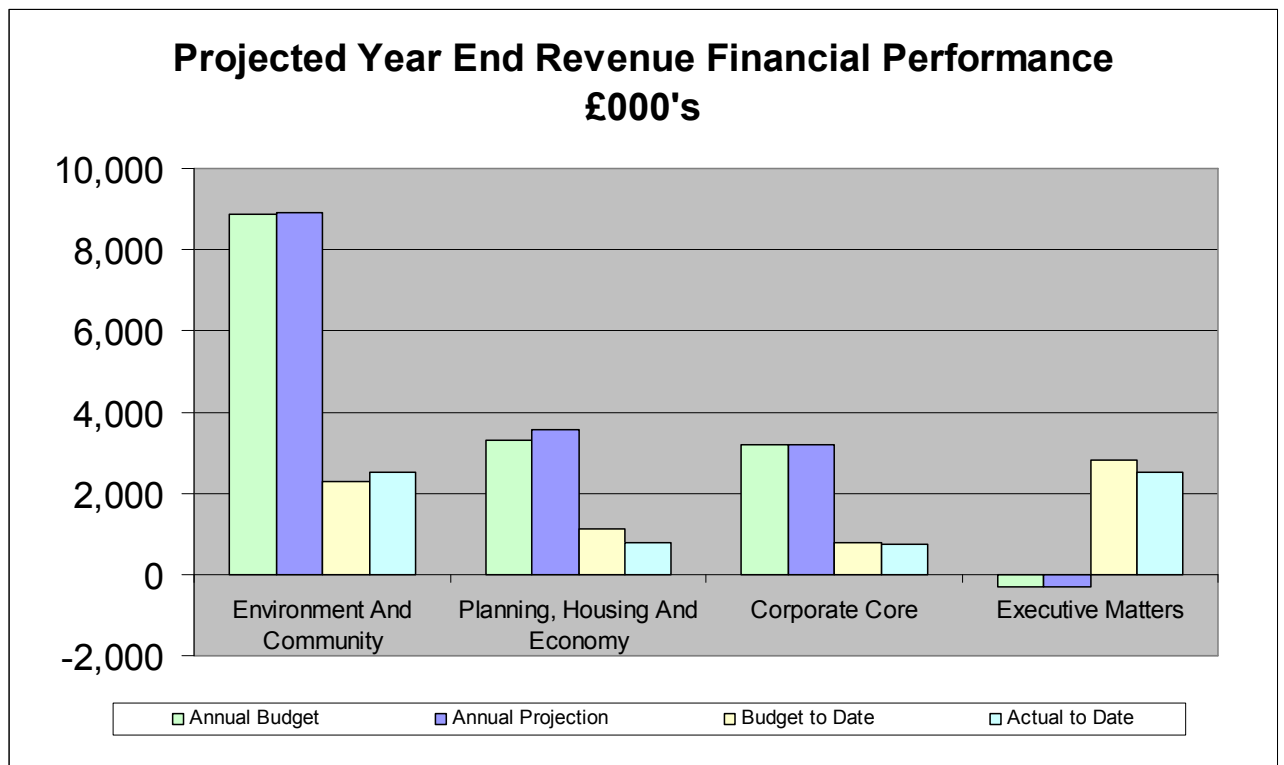
- 1.4 Due to the downturn in the economy, impact of the credit crunch on Council services and the volatility of the financial markets, the Council is keeping a watching brief on any challenges that they may need to face which may result in a redirection of budgets.
- 1.5 The variances on the revenue and capital projections are within the Council's stated tolerances of +2% / -5%.
- 1.6 The Council has a General Fund Revenue reserve to meet any budgetary surplus or deficit.
- 1.7 At the end of quarter 1, interest received was 35% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of capital programme slippage from 2010/11, obtaining better than projected rates from our investments, and the change in allocation of funds.

Background Information

Revenue Projected Outturn 2011/12

- 2.1 We are currently projecting to be on track to budget at the year end.

June 2011 PROJECTIONS	Full-Year Budget 2011/12 £000's	Projected Out-turn 2011/12 £000's	Projection Variance 2011/12 £000's
DIRECTORATES			
Corporate Core	3,205	3,201	-4
Environment & Community	8,875	8,904	29
Planning Housing & Economy	3,311	3,574	263
Net Expenditure Services	15,391	15,679	288
Use of General Risk Reserve		(100)	(100)
Increase in Investment Income		(188)	(188)
	15,391	15,391	0
Net Revenue Projected (under) / overspend 2011/12 @ June 2011			0



- 2.2 Corporate Core shows a projected underspend of £4k and is therefore primarily on target for the year. An underspend arising from an 8% reduction in Audit Commission fees offsets minor overspends in the remaining service areas. Within Finance, we are awaiting the completion of the Mid Year Subsidy Estimate to determine any over / under spend in relation to Rent Allowances and associated subsidy. This will be reported in Q2.
- 2.3 The majority of service areas within Environment & Community are currently projecting to be on target for the year. The impact from the recently approved changes to Car park tariffs will be reported at a later date once we have more detailed knowledge of the impact these have had. There is a projected overspend within Customer Service & Information systems of £29k which are part offset by a reduction in the cost of printing. We are also currently investigating the potential to cover this shortfall from both in service underspends and the use of the general risk reserve which allows for 1% budget deviations.
- 2.4 Planning Housing and Economy is currently projecting an overspend of £263k. We are projecting a reduction in rental income from both Castle Quay and Industrial Estates of up to £180k. Additionally there are various small overspends within Housing of £18k. Building Control is currently projecting an overspend of £65k however this is based on the expenditure and income processed by CDC and there is further reconciliation and invoicing to be undertaken with SNC once their Q1 position is also finalised.
- 2.5 Investment Income: We are currently projecting an over recovery of interest of £188k based on interest received to June 2011 and the forecasted cash flow for the remainder of the year.

Joint Working Arrangements – SNDC

- 2.6 Our 2011/12 budget has been prepared on the basis that we will achieve £333k worth of savings in this current year.
- 2.7 The joint chief executive started earlier than anticipated in the business case and there will be savings as a direct result of this. It is anticipated that there will be further savings in the joint senior management team as the salaries are lower than assumptions contained in the business case.
- 2.8 We can confidently project that at the end of September – Q2 we will have achieved £124K of savings relating to staffing budgets as a result of vacancies and the earlier start of the CEX. We are also projecting additional income of approximately £33k through other Joint Working initiatives within Health & Safety and Democracy. This represents 47% of the £333k target.
- 2.9 Using this information and estimating a projection forward to the end of the year we do anticipate in excess of £333K worth of savings being achieved, however, as stated previously it is very difficult to quantify this accurately until appointments have been made. Further detailed information will be prepared for the Q2 report.

Capital Projection 2011/12

- 2.10 Total capital spend to June 2011, including commitments, amounts to £337K. This represents 2% of the total annual budget and 10% of the periodic budget.

JUNE 11 PROJECTIONS	Full-Year Budget 2011/12 £000's	Projected Out-turn 2011/12 £000's	Projection Variance 2011/12 £000's
DIRECTORATES			
Corporate Core	65	70	5
Environment & Community	4,112	4,107	(5)
Planning Housing & Economy	11,417	10,658	759
(see below)	15,594	14,835	759
<u>Analysed:-</u>			
Net (Under) / Overspends Identified Slippage (no approvals requested at this stage)			-4
			763
		As above	759

The Capital Budget for 2011/12 can be analysed as follows:-

Capital Budget 2011/12	£000's
Approved Capital program for 2011/12 (including Supplementary)	4,012
Prior Year Approvals profiled for 2011/12	1,245
Slippage from 2010/11 Programme	10,337

2.10 The projected 2011/12 spend for capital schemes as at June 2010 is £14.8M.

Treasury Management Performance Q1 2011/12

Update on UK and Global Treasury Performance

2.11 The first quarter of 2011 saw:

- The economic recovery struggle to regain momentum;
- Conditions on the high street deteriorate;
- Mixed signals on the strength of the labour market recovery;
- Public sector borrowing come out disappointingly high;
- The near-term outlook for CPI inflation deteriorate further;
- The Monetary Policy Committee move away from raising interest rates;
- UK equities stay broadly flat over the quarter and gilt yields fall;
- Economic growth slow in the US and euro-zone.

2.12 Interest Rate Forecast

Most Monetary Policy Committee members still think that the rise in inflation will be only temporary and that inflation will fall back sharply next year. So despite the worsening of the near-term inflation outlook, the weakness of the activity data has pushed most members further away from an interest rate rise.

The Council's treasury adviser, Sector, provides the following forecast:

Sector's Interest Rate View												
	NOW	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Sector's Bank Rate View	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%
5yr PWLB Rate	3.12%	3.55%	3.65%	3.75%	3.90%	4.00%	4.15%	4.25%	4.45%	4.60%	4.65%	4.75%
10yr PWLB View	4.45%	4.75%	4.75%	4.80%	4.95%	4.95%	5.00%	5.05%	5.15%	5.20%	5.25%	5.25%
25yr PWLB View	5.24%	5.40%	5.40%	5.40%	5.40%	5.40%	5.45%	5.50%	5.50%	5.50%	5.60%	5.65%
50yr PWLB Rate	5.20%	5.40%	5.40%	5.40%	5.40%	5.40%	5.45%	5.50%	5.50%	5.50%	5.60%	5.65%

The Sector central forecast is for a November 2011 first increase in Bank Rate but with reservations that it could well slip back in time, unless there is some good news on the UK economic recovery before then.

We have used these rates to project our investment income in our Q1 projections and in refreshing our MTFS.

Update on Cherwell's Treasury Performance

2.13 The Treasury Management Strategy for 2011/12, which includes the Annual Investment Strategy, was approved by the Council on 18th May 2011. It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

2.14 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

2.15 Given the turmoil in peripheral Europe, our investments list does not have direct exposure to any sovereign debt of Portugal, Ireland Greece, Spain or Italy and that includes their national banks, with the exception of Abbey National (Santander). However, indirectly the banks on our lending list, in all probability do have exposure in some shape or form to either or both. Our lending criterion is very stringent and only the very largest banks are considered through negotiable securities, providing us with the greatest liquidity and flexibility.

2.16 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes during the quarter was £72.4m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

2.17 Investment performance for quarter ended 30th June 2011 was:

Fund	Amount at 30th June 2011	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	£17,000,000	£44,974	£48,534	£3,560	3.22%
Investec	£18,548,176	£11,250	£20,000	£8,750	0.56%
In House	£39,580,438	£24,010	£39,567	£15,557	1.20%
Total	£75,128,614	£80,234	£108,101	£27,867	1.66%

At the end of quarter 1, interest received was 35% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of capital programme slippage from 2010/11, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.

As a result we have reviewed our interest project and as you can see from the Q1 revenue report it is projected to achieve an additional £188k.

Update on recovery of Iceland Funds

- 2.18 The appeal date has been set for September 26th 2011 after which we will expect a decision on whether priority creditor status has been upheld and plans to repay principal and interest.
- 2.19 We continue to work in collaboration with LGA and Bevan Brittan and we will continue to keep members updated on the recovery process.

Procurement Action Plan and Record of Savings 2011/12

- 2.20 Progress against the Council's procurement action plan is detailed under Appendix 1 with a record of savings achieved to June 2011 detailed under Appendix 2.
- 2.21 The procurement target for securing ongoing cashable savings in 2010/11 is £150,000 and to date total savings achieved amount to £41,633 – i.e. 27% of the total at the end of Q1. One highlight has been the substantial savings achieved with the re-negotiation of the contract for the multi-functional printing devices with a reduction in the annual rental costs of £12,250 coupled with estimated annual printing reduction costs based on current usage levels of £4,202, a saving of £8,640 on the cost of additional software and additional equipment savings – increasing the speed and efficiency of the service – of some £3,244. A substantial saving of some 20% has also been achieved with public toilet maintenance with the appointment of the company currently undertaking the cleansing operations resulting in annual savings of £4,860.
- 2.22 A growing percentage of the cashable savings have been secured by including a range of initiatives within tender documents, such as fixed pricing for the second and third year of the contract or at least fixing increases by 1% below the Consumer Price Index; requesting prompt payment discounts against invoice payments – the average being 3% but discounts offered being as high as 5%; requiring the contract to be made available to other local authorities and public bodies with retrospective discounts agreed in the event that there is an increase in expenditure over the year. One initiative, whereby for the second year of the public toilet cleansing contract we pay the service charge up front as a single annual payment has resulted in a net saving of £2,191.
- 2.23 The initial 14 high profile projects identified for the Joint Arrangement Steering Group with SNC have been continually added to on a project by project basis. Highlights to date include;
- Telephony maintenance – contract set up by CDC joined by SNC.
 - Postal Services – CDC has adopted framework for 2nd class post reviewed by SNC.
 - SNC have been included on a range of facilities management tenders including reactive buildings maintenance and lift maintenance.
 - Review of Internal Audit has resulted in a proposal for a joint tender exercise with a view to a 1 April 2012 contract start date.

Key Issues for Consideration/Reasons for Decision and Options

3.1 This report illustrates the Council's performance against the 2011/12 Financial Targets for Revenue, Capital, Treasury and Procurement Monitoring.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

- | | |
|-------------------|---|
| Option One | To review current performance levels and considers any actions arising. |
| Option Two | To approve or reject the recommendations above or request that Officers provide additional information. |

Consultations

The revenue and capital position has been subject to regular review by the Corporate Management Team.

The investment and procurement strategies have been subject to regular review with Members and the Corporate Management Team.

Implications

- | | |
|-------------------------|--|
| Financial: | <p>Financial Effects – The financial effects are as outlined in the report.</p> <p>Efficiency Savings – There are no efficiency savings arising directly from this report however the budget 2011/12 was based on a number of efficiencies. In addition we made a public promise of £1m savings which are being actively pursued as part of the 2012/13 budget setting process.</p> <p>Comments checked by Karen Muir, Corporate System Accountant 01295 221559</p> |
| Legal: | <p>There are no legal implications. Presentation of this report is in line with the CIPFA Code of Practice.</p> <p>Comments checked by Nigel Bell Team Leader – Planning & Litigation / Interim Monitoring Officer, 01295 221687.</p> |
| Risk Management: | <p>The position to date highlights the relevance of maintaining a minimum level of reserves and budget contingency to absorb the financial impact of changes during the year.</p> <p>It is essential that the treasury annual report is considered by the Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Strategy has been monitored in 2011/12.</p> <p>Comments checked by Claire Taylor, Corporate Strategy and Performance Manager, 01295 221563.</p> |

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor Ken Atack
Lead Member for Financial Management

Document Information

Appendix No	Title
Appendix 1	Record of progress Against Procurement action Plan 2011/12
Appendix 2	Procurement Savings Achieved April to June 2011
Background Papers	
2011/12 Budget Booklet 2011/12 Capital Asset Strategy Medium Term Financial Strategy 2011/12 Investment Strategy CIPFA Treasury Management Code of Practice 2011/12 Procurement Strategy and Action Plan	
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