

# Executive

## Quarter 1 2012/13 Finance Report and Local Government Resources Review Update

3 September 2012

### Report of Head of Finance and Procurement

#### PURPOSE OF REPORT

This report summarises the Council's Revenue and Capital performance for the first 3 months of the financial year 2012/13 and projections for the full 2012/13 period.

The report also considers treasury and procurement performance for the first quarter and compares against strategy and action plans.

A short update on the Local Government Resources Review (LGRR) Project is also included.

This report is public
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#### Recommendations

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The Executive is recommended:

- (1) To note the projected revenue & capital position at June 2012.
- (2) To note the Q1 performance against the 2012/13 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 2012 (detailed in Appendix 2).
- (4) To note the latest position on the LGRR project.

#### Executive Summary

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##### 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 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.
- 1.4 The variances on the revenue and capital projections are within the Council's stated tolerances of +2% / -5%. The Council has a General Fund Revenue reserve to meet any budgetary surplus or deficit.
- 1.5 At the end of quarter 1, interest received was 22% 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 2012/13, obtaining better than projected rates from our investments, and the change in allocation of funds.
- 1.6 The CIPFA Code of Practice on Treasury Management which this Council has adopted requires a regular budget monitoring report - this detailed report was taken to Accounts Audit and Risk Committee on the 27<sup>th</sup> June 2012 and a summary included in this report.
- 1.7 The procurement action plan approved along with the strategy is also regularly monitored and this reports contains an update of progress against this plan and savings target as at 30 June 2012.
- 1.8 Work continues on understanding the implications of the LGRR and this report gives a quick update on the status of the project.

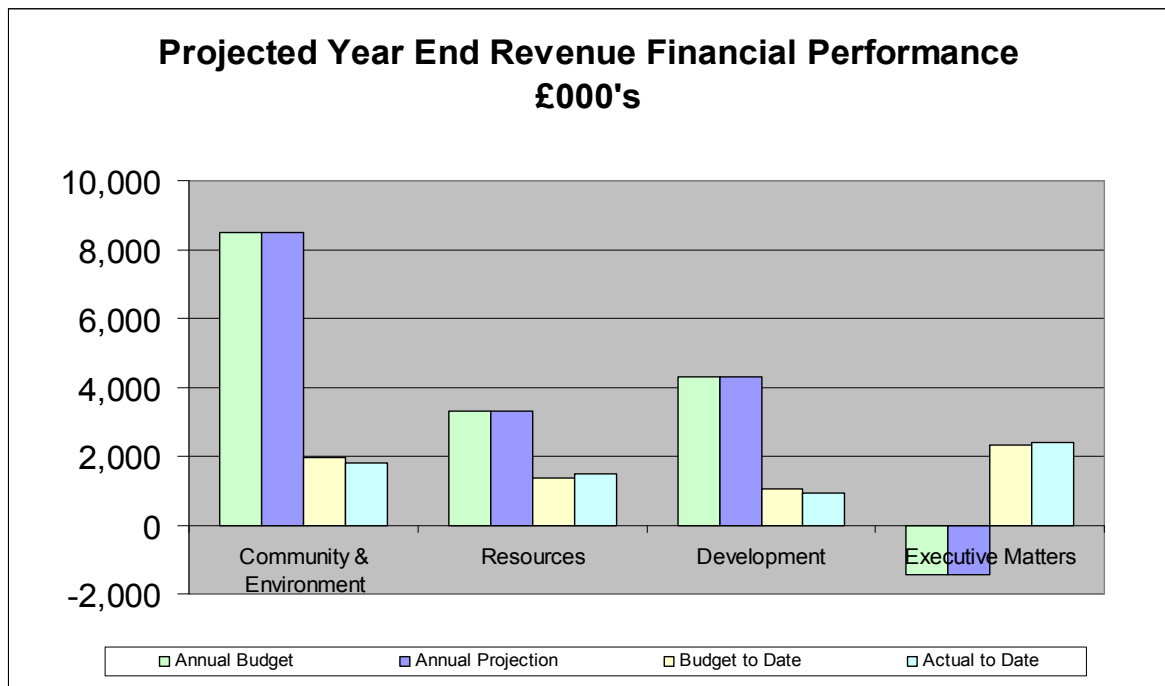
## **Background Information**

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### **Revenue Projected Outturn 2012/13**

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

<b>June 2012 PROJECTIONS</b>	<b>Full-Year Budget 2012/13 £000's</b>	<b>Projected Out-turn 2012/13 £000's</b>	<b>Projection Variance 2012/13 £000's</b>
<b>DIRECTORATES</b>			
Community & Environment	8,560	8,337	-223
Resources	3,184	3,146	-38
Development	4,214	4,279	65
<b>Net Expenditure Services</b>	<b>15,958</b>	<b>15,762</b>	<b>-196</b>
<b>Increase in Investment Income</b>		-100	-100
<b>Transfer to Reserves</b>		296	296
	<b>15,958</b>	<b>15,958</b>	<b>0</b>
<b>Q1 Net Revenue Projected (under) / overspend</b>			<b>0</b>



2.2 Community and Environment shows a projected underspend of £223k.

This primarily relates to Environmental Services where the over recovery of income from the new dry recyclables contract of £395k, offsets service overspends such as £90k in agency costs, reductions in tonnages and recycling credits - £58k and reduction in sales of blue and brown bins and liners £35k.

2.3 Resources shows a projected underspend of £38k.

This primarily relates to underspends in Transformation with vacant posts within Training & Development. Law & Governance and Finance and Procurement are currently projecting on target. Work will be undertaken within Quarter 2 to realign ICT and finance budgets to the new joint working structure and a full review of the savings will be analysed.

2.4 Development shows a projected overspend of £65k.

Regeneration and Housing is projected to be £76k overspent – primarily within Corporate Facilities where there is a projected overspend in Repair and Maintenance £20k, reduced income from feed in tariffs £18k and additional utility costs. Based on the 1<sup>st</sup> Quarter rent received early indications are that there is a potential shortfall of rental income. However we have not included this within our projections at this stage, as plans are in place to reduce this shortfall and mitigate some of the impact caused by the economic downturn. We also have the risk reserve which could be utilised if required. This will be monitored carefully over the coming months and a further update will be provided in Quarter 2. An underspend of £11k within Public Protection and Development Management offsets the Directorate overspend projection to £65k.

- 2.5 Investment Income: We are currently projecting an over recovery of interest of £100k based on interest received to June 2012 and the forecasted cash flow for the remainder of the year. A detailed cash flow forecast will be prepared in September and a further projection in the Quarter 2 report. The 2012/13 budget did not rely on all the investment income to balance the budget with an agreed principle that the additional interest received would be used to replenish revenue and capital reserves.

### **Budget Reductions - £800k Public Promise 2012/13**

- 2.6 At Q1 80% of the public pledge to reduce expenditure by April 2013 by £800k has been identified and work continues to identify at least a further £200k. These savings will come from procurement, additional planning fee income and a number of joint working initiatives. A full analysis will be presented at Q2.

### **Capital Projection 2012/13**

- 2.7 Total capital spend to June 2012, including commitments, amounts to £535K. This represents 4% of the total annual budget and 15% of the periodic budget.

<b>JUNE 12 PROJECTIONS</b>	<b>Full-Year Budget 2012/13 £000's</b>	<b>Projected Out-turn 2012/13 £000's</b>	<b>Projection Variance 2012/13 £000's</b>
<b>DIRECTORATES</b>			
Community & Environment	3,370	3,370	0
Resources	399	399	0
Development	10,403	10,403	0
<b>(see below)</b>	<b>14,172</b>	<b>14,172</b>	<b>0</b>
<b><u>Analysed:-</u></b>			
<b>Net (Under) / Overspends Identified Slippage (no approvals requested at this stage)</b>			<b>0</b>
		<b>As above</b>	<b>0</b>

The Capital Budget for 2012/13 can be analysed as follows:-

<b>Capital Budget 2012/13</b>	<b>£000's</b>
Approved Capital program for 2012/13 (including Supplementary)	4,455
Slippage from 2011/12 Programme	9,717
	<b>14,172</b>

- 2.8 The projected 2012/13 spend for capital schemes as at June 2012 is currently £14.2M; we are not projecting any variances at this stage.

## Treasury Management Performance Q1 2012/13

2.9 The Treasury Management Strategy for 2012/13, which includes the Annual Investment Strategy was approved by the Council on 19<sup>th</sup> March 2012. It sets out the Council's investment priorities as being:

- Security of capital; liquidity; and yield

2.10 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.

2.12 Investment performance for quarter ended 30<sup>th</sup> June 2012 was:

Fund	Amount at 30th June 2012	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	£10,500,000	£33,952	£49,883	£15,931	1.91%
Investec	£11,742,224	£21,562	£31,366	£9,803	1.07%
In House	£54,990,742	£162,875	£185,275	£22,400	1.43%
<b>Total</b>	<b>£77,232,966</b>	<b>£218,389</b>	<b>£266,524</b>	<b>£48,134</b>	<b>1.44%</b>

2.13 At the end of quarter 1, interest received was 22% 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 2011/12, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.

2.14 As a result we have reviewed our interest projections and as you can see from the Q1 revenue report it is projected to achieve an additional £100k.

## Procurement Action Plan and Record of Savings 2012/13

2.15 Progress against the Council's procurement action plan is detailed under Appendix 1 with a record of savings achieved to June 2012 detailed under Appendix 2.

2.16 The Joint Procurement Team has been in place since the beginning of July and has been working together on drawing up a joint forward plan to provide savings targets and support a range of programmes across the Councils including the Build! Affordable Home Programme and the Bicester centre re-development.

2.17 The procurement target for securing ongoing cashable savings in 2012/13 is £150,000 and to date total savings achieved (excluding the recycling contract) amount to £19,500. Non-cashable savings of over £13,000 and capital savings of £9,000 have also been secured.

- 2.18 A number of projects have been capital or programme based, such as the Build! Affordable Homes Programme which has seen substantial savings against budget, such as an estimated £235,000 saving against the South West Bicester new build project which is currently under way.
- 2.19 We are also working with Stratford Upon Avon District Council on a number of collaborative opportunities which we would expect to bring financial benefit.

### **Local Government Resources Review Update**

- 2.20 In July 2012 the Executive received an information report on the Welfare Reform Act and the Local Government Resource Review (LGRR) including the introduction of localised Council Tax Support to replace Council Tax Benefit and changes to the way in which business rates are collected and distributed. This summary provides members with updated information on progress since the last report.

### **Council Tax Localisation**

- 2.21 In July DCLG published both the draft regulations for the default scheme and the prescribed requirements for any local scheme. Since the last update the documentation has been reviewed and work has taken place on a number of proposals for a local scheme for year 1 which also addresses the reduction in funding.
- 2.22 The analysis has considered a number of proposals for addressing the % reduction in year 1 and the financial impact of any proposals including the cost of administering any local scheme.
- 2.23 Given the timescales involved Cherwell District Council has agreed with other major preceptors in Oxfordshire that for year 1 of the new scheme the status quo should be maintained and that there will, in effect, be no change to the current support which is in place. Proposals to offset the budget reduction will be prepared as part of the 13/14 budget process.
- 2.24 A draft scheme has been prepared and a public consultation will be undertaken from 23 August for a period of eight weeks.
- 2.25 Final recommendations will be presented to the Executive in November 2012.

### **Business Rates Localisation**

- 2.26 The proposals focus on the distribution of business rate income rather than changes to the system of business rates. Businesses will see no difference in the way in which they pay or the way in which the tax is set.
- 2.27 Each authority will receive in 2013/14 a level of funding from the Government but these figures have not yet been confirmed and are not likely to be known until November 2012.
- 2.28 Of the Business Rates collected by each authority the first 50% will go to the Government. Up to 50% may go to District council (subject to the levy on disproportionate benefit) as the business Rates baseline. There will be a system of top-ups and tariffs.

- 2.29 Following Executive approval in July 2012 the Council submitted an expression of interest to pool with other councils in Oxfordshire. We are meeting all district councils and the County to consider how we model, what additional financial benefits a pooling arrangement could deliver and how it would be shared. The outcome of this will be reported to the Executive in October along with a recommendation of whether to formally submit an application to pool by the deadline date of 19 October 2012.
- 2.30 A technical consultation paper has been released which requires a response by 24<sup>th</sup> September 2012 and the outputs will feed into proposals for local government funding for 2013/14. The response will be approved for submission by the Leader of the Council and Lead Member for Financial Management.
- 2.31 The LGRR project team are continuing to meet to model the financial and other implications so that they can feed into the medium term financial forecast and corporate planning. Regular updates have been considered by the Executive.

### **Key Issues for Consideration/Reasons for Decision and Options**

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- 3.1 This report illustrates the Council's performance against the 2012/13 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**

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- 4.1 The revenue and capital position has been subject to regular review by the Corporate Management Team.
- 4.2 The investment and procurement strategies have been subject to regular review with Members and the Corporate Management Team.

### **Implications**

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**Financial:** Financial Effects – The financial effects are as outlined in the report.

Efficiency Savings – There are no efficiency savings arising directly from this report however the budget 2012/13 was based on a number of efficiencies. In addition we made a public promise of £800k savings which are being actively pursued as part of the 2013/14

budget setting process.

Comments checked by Karen Muir, Technical & Project Accountant 01295 221559.

**Legal:**

There are no legal implications. Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by Kevin Lane, Head of Law and Governance, 0300 0030 107.

**Risk Management:**

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.

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.

Comments checked by Gavin Halligan Davis, Interim Corporate Performance Manager, 01295 221563.

**Wards Affected**

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All

**Corporate Plan Themes**

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An Accessible and Value for Money Council

**Executive Lead Member**

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**Councillor Ken Atack**  
Lead Member for Financial Management

**Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1	Record of progress Against Procurement action Plan 2012/13
Appendix 2	Procurement Savings Achieved April to June 2012
<b>Background Papers</b>	
2012/13 Budget Booklet 2012/13 Capital Asset Strategy Medium Term Financial Strategy 2012/13 Investment Strategy CIPFA Treasury Management Code of Practice 2012/13 Procurement Strategy and Action Plan LGRR Project Brief and associated documentation and minutes	
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