

Executive

2012/13 Quarter 2 Finance Report

3 December 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

This report summarises the Council's Revenue, Capital, Procurement action plan and Treasury performance for the first 6 months of the financial year 2012/13 and projections for the full 2012/13 period.

These are measured by the budget monitoring function and reported via the Performance Management Framework (PMF) informing the 2013/14 budget process currently underway.

To provide an update on the Local Government Resources Review Project.

This report is public

Recommendations

The Executive is recommended:

- (1) To note the projected revenue and capital position at September 2012.
- (2) To note the Quarter 2 performance against the 2012/13 investment strategy.
- (3) To note the contents and the progress against the Corporate Procurement Action Plan (detailed in Appendix 1) and the Procurement savings achieved at September 2012 (detailed in Appendix 2).
- (4) To note the latest update on the Local Government Resources Review detailed in section 5.

Executive Summary

Introduction

- 1.1 In line with good practice budget monitoring is undertaken on a monthly basis within the Council. The revenue, capital, treasury and procurement position is reported monthly to the Joint Management Team and formally to the Executive on a quarterly basis. This report includes the position at Q2.

- 1.2 The revenue and capital expenditure in Q2 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 treasury performance has been reviewed regularly and reported to the Accounts, Audit and Risk Committee who undertake the governance and monitoring role.
- 1.4 We continue to consult with our treasury advisors Sector on a regular basis regarding counterparties, understanding risk and diversification of the portfolio.
- 1.5 The procurement action plan is reviewed monthly and exceptions are reported to the Procurement Steering Group.
- 1.6 The LGRR project team continues to meet regularly and analyse any new intelligence or respond to consultations so that we can evaluate the implications for the Council, its residents and its finances.

Conclusion

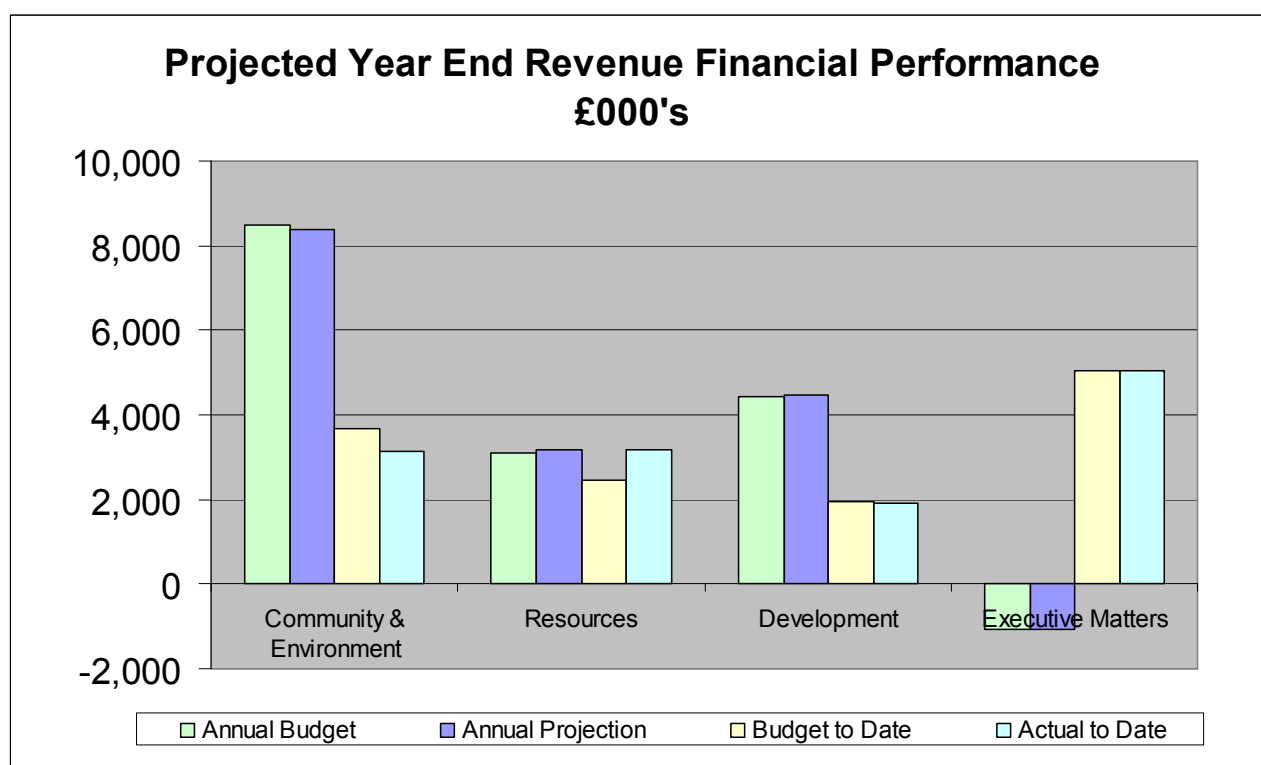
- 1.7 Due to the downturn in the economy, impact of the credit crunch on Council services and the volatility of the financial markets, the Council is keeping a watching brief on any challenges that they may need to face which may result in a redirection of budgets.
 - 1.8 The variances on the revenue and capital projections are within the Council's stated tolerances of +2% / -5%.
 - 1.9 The Council has a General Fund Revenue reserve to meet any budgetary surplus or deficit.
 - 1.10 At the end of quarter 2, interest received was 27% 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.
 - 1.11 Performance against treasury strategy and procurement action plan is on track.
 - 1.12 The Chancellor's Autumn Statement will be delivered on 5 December 2012 and the settlement is expected on 19 December so the LGRR project team will be processing this intelligence and implications for the 2013/14 budget which will be reported in draft to the January 2013 Executive.
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Background Information

Revenue Projected Outturn 2012/13

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

SEPT 2012 PROJECTIONS	Full-Year Budget 2012/13 £000's	Projected Out-turn 2012/13 £000's	Projection Variance 2012/13 £000's
DIRECTORATES			
Community & Environment	8,480	8,370	(110)
Resources	3,238	3,282	44
Development	4,440	4,477	37
Net Expenditure Services	16,158	16,129	(29)
Executive Matters			
Increase in Investment Income		(350)	(350)
Transfer to Reserves		379	379
Net Position	16,158	16,158	0
Net Revenue Projected (under) / overspend 2012/13 @ September 2012			0



2.2 Community and Environment shows a projected underspend of £110k.

This primarily relates to Environmental Services where the over recovery of income from the new dry recyclables contract offsets other service overspends such as agency costs and reductions in recycling credits.

2.3 Resources shows a projected overspend of £44k.

This primarily relates to Service Assurance with a projected overspend due to additional payments of Housing Benefit and Council Tax Benefit and the restrictions relating to 100% subsidy. This will be reviewed in Q3 against caseload with a view to using risk reserve if trend continues. This offset has been partly offset by underspends in other areas of the directorate.

2.4 Development shows a projected overspend of £37k.

This primarily relates to areas within Regeneration in relation to utilities and staff restaurant sales are predicted to be down on budget. These areas will be reviewed in more detail for Q3 report.

2.5 Executive Matters

We are projecting additional investment income of £350,000 for the reasons detailed later in the report in Paragraph 3.4.

This together with the net £29,000 underspend in services projects a transfer into general fund reserves of £379,000

Capital Projection 2012/13

2.6 Total capital spend to September 2012, including commitments, amounts to £1.086m. This represents 6% of the total annual budget and 13% of the periodic budget.

SEPT 12 PROJECTIONS	Full-Year Budget 2012/13	Projected Out-turn 2012/13	Projection Variance 2012/13
	£000's	£000's	£000's
DIRECTORATES			
Community and Environment	3,370	2,508	(862)
Resources	399	410	11
Development	15,403	15,108	(295)
	19,172	18,026	(1,146)
Analysed:-			
Net (Under) / Overspends			(204)
Identified Slippage (no approvals requested at this stage)			(942)
		As above	(1,146)

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

Capital Budget 2012/13	£000's
Approved Capital programme for 2012/13 (including Supplementary)	9,455
Slippage from 2011/12 Programme	<u>9,717</u>
	<u>19,172</u>

2.6 The projected 2012/13 spend for capital schemes as at September 2012 is currently £18m , the slippage predicted is shown below:

DESCRIPTION	ANNUAL BUDGET £000	Slippage Required £000	Comments
Biomass Heating for Bicester Leisure Centre	385	365	Timing
Replacement Cabling Infrastructure for CCTV	48	48	Timing
Sports Centre Modernisation Programme	249	249	Retention
Energy Efficiency Projects	80	30	Timing
Bicester Pedestrianisation	250	250	Timing
	<u>1,012</u>	<u>942</u>	

Treasury Management Performance Q2 2012/13

Update on Cherwell's Treasury Performance

- 3.1 The Treasury Management Strategy for 2012/13, which includes the Annual Investment Strategy was approved by the Council on 19 March 2012. It sets out the Council's investment priorities as being: Security of Capital; Liquidity; and Yield
- 3.2 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.
- 3.3 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,. 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.

- 3.4 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £81.4m. 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.

Investment performance for quarter ended 30 September 2012 was:

Fund	Amount at 30th Sept 2012	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	7,500,000	67,903	91,686	23,783	1.92%
Investec	11,742,224	43,125	75,889	32,764	1.15%
In House	58,881,369	325,750	385,512	59,762	1.38%
Total	78,123,594	436,779	553,088	116,309	1.42%

- 3.5 At the end of quarter 2, interest received was 27% 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.
- 3.6 As a result we have reviewed our interest projection for the year and we are currently projecting we will receive additional investment income of £350k after the deduction of interest in respect of Eco town funds which will be returned to the Eco Town funding amount. The amount in respect of the Eco Town funds is anticipated to be approximately £150k.

Procurement Action Plan and Record of Savings 2012/13

- 4.1 Progress against the Council's procurement action plan is detailed under Appendix 1 with a record of savings achieved to September 2012 detailed under Appendix 2.
- 4.2 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.
- 4.3 The procurement target for securing on going cashable savings in 2012/13 is £150,000 and to date total savings achieved amount to £54,124. Non-cashable savings of £31,931 and capital savings of £9,000 have also been secured.
- 4.4 A significant number of projects have been capital or programme based, such as the property condition surveys, the fleet management software and the Build! Affordable Homes Programme, which has seen substantial savings against budget to date – e.g. an estimated £235,000 saving against the South West Bicester new build project.

Local Government Resources Review Update

Council Tax Support

- 5.1 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 including a review of discounts and exemptions are being prepared and will be reported as part of the formal adoption of the scheme and 13/14 budget process ahead of the deadline for scheme adoption of 31 January 2013.

Business Rates Pooling

- 5.2 From 1 April 2013 the funding arrangements for local authorities will be changing significantly and officers have been working to ensure the authority is well placed to be in the strongest position for the many changes that are coming forward.

One of the most significant changes is in relation to how business rates income will be distributed in future. Currently all business rates income received from businesses is paid over to the Government who then determine how much of that is re-allocated back to authorities based on perceived need.

From April, the Council will keep the amount that the Government calculates it needs and the balance will be paid to the Government – in essence this is just a change in the distribution method. However, the Government has provided an incentive if businesses are grown in the District by allowing the Council to keep a proportion of that business rate growth once a minimum threshold has been reached. However, the amount of growth that can be kept is quite modest. If business rate income in the District grows by £1m the Council would get to keep approximately £52,000.

Pooling

- 5.3 One way of increasing this share is to form a pool of authorities where all the calculations are carried out on the pools funds as if they were one body rather than individual bodies. Owing to the impact the County Council's figures have on these calculations, the pool gets to keep a much greater amount than would otherwise be the case and more money is potentially retained locally.
- 5.4 However, there are also risks to pooling. If business rates income declines in an area, after a certain threshold of decline is reached then 'safety net' payments are made by the Government. These payments soften the blow of any decline in Business Rates so that after a certain amount of reduction compensation payments are received. The safety net payments do not come into effect for the pool until a much greater level of decline has taken place than is the case if an authority decides not to pool.

Oxfordshire Pool

- 5.5 Across Oxfordshire there is a mixture of growth and decline being forecast by individual authorities leaving the decision on whether to pool or not finely balanced.

At a recent meeting of Chief Executives and Chief Finance Officers meeting across Oxfordshire it was acknowledged that the financial case, as it is currently being projected, is finely balanced. There are still some significant unknown factors feeding into the financial modelling and in December two (of the three) unknowns will be revealed by the Government (who may also alter the current scheme). Therefore it was agreed that the plans for a pool across Oxfordshire (including all Oxfordshire authorities) should continue.

Submission to the Government was sent on 9th November 2012 with an understanding that a final decision would be made once the settlement and the next set of figures are released in December at which point we can take a more informed (and final) view on pooling for 2013-14.

- 5.6 Since the submission, a number of announcements relating to levy rates, safety nets and proportional shares have been made in relation to business rates which will affect the calculations made across the County. As a result further modelling is underway to see how this changes the pooling submission.
- 5.7 As a result of these announcements DCLG has set another deadline for confirmation of pooling arrangements of noon on 5 December 2012. The latest information on pooling will be verbally updated at the meeting.

2013/14 Budget Update

- 5.8 Latest intelligence suggests the information regarding the financial settlement for local authorities will not be available until at least the 19 December 2012 so as a result the first draft of the budget will be presented to the Executive in January 2013.

Council will be asked to agree the 2013/14 budget and corporate plan (and the service plans that underpin delivery) at their meeting in February 2013

Key Issues for Consideration/Reasons for Decision and Options

- 6.1 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

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 Joint Management Team.

Implications

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 Beth Baines, Strategic Finance Accountant 01327 322223

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, 01295 222045.

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 Nicola Jackson, Corporate Finance Manager 01295 221731.

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 2012/13
Appendix 2	Procurement Savings Achieved April to Sept 2012
Background Papers	
None	
Report Author	Karen Curtin, Head of Finance Beth Baines, Strategic Finance Accountant Viv Hichens, Corporate Strategic Procurement Manager Karen Muir, Project Accountant
Contact Information	01327 322223 beth.baines@cherwellandsouthnorthants.gov.uk