

# Executive

## Quarter 1 2013/14 Finance and Procurement Report

2 September 2013

### 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 2013/14 and projections for the full 2013/14 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 receive information on treasury management performance and compliance with treasury management policy during 2013/14 as required by the Treasury Management Code of Practice.

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 2013.
- 2) To note the quarter 1 (Q1) performance against the 2013/14 investment strategy and the financial returns from the two 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 2013 (detailed in Appendix 2).

#### 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 Joint 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.

- 1.3 The CIPFA Code of Practice on Treasury Management which this Council has adopted requires a regular budget monitoring report - this full report will be taken to Accounts Audit and Risk Committee on the 18<sup>th</sup> September 2013.

### 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 Q1, interest received is projected to be on target. It is worth noting that the revenue budget for 2013/14 has been prepared utilising only £150,000 of investment income; however, total Investment income within 2013/14 is budgeted as £550,000. The balance of £400,000 will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town pot.

### Background Information

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#### Revenue Projected Outturn 2013/14

- 2.1 At quarter one, we are projecting a small underspend at the year end of £89,000.

DIRECTORATE	TOTAL		
	ANNUAL BUDGET £000's	PROJECTED OUTTURN £000's	VARIANCE TO ANNUAL PROJECTION
Community & Environment	8,015	7,934	(81)
Resources	2,660	2,652	(8)
Development	3,833	3,833	0
Chief Executive	794	794	0
Services Executive Matters	(1,567)	(1,567)	0
<b>(SURPLUS)/DEFICIT SERVICES</b>	<b>13,735</b>	<b>13,646</b>	<b>(89)</b>

Investment Income above amount built into revenue budget:	(400)
Transfer to reserves - MTFS principle of not relying on investment income	400
<b>Q1 Net Revenue Projected (underspend) 2013/14</b>	<b>(89)</b>

2.2 Community and Environment shows a projected underspend of £81,000.

This primarily relates to vacant posts within the service. There are two vacant warden posts in Safer Communities that will not be filled this year. There are two vacant posts that will be filled during the year within Arts, Tourism and Health. In the Q2 report we will review vacancies and update interim costs and overtime to improve our projections.

2.3 Resources shows a projected underspend of £8,000.

There are some small variances throughout the service and an increase in search income due to an increase in the volume of searches requested. The service will look at income estimation in Q2.

2.4 Development is projected to be on budget at Q1

However, due to the current economic climate and the increasing numbers of voids in Castle Quay, there has been a shortfall in income in quarter 1 which will result in a year end under recovery. This projection will be included at Q2.

#### Capital Projection 2013/14

2.5 Total capital spend to June 2013 including commitments, is showing significant credit value due to a few large accruals from 2012/13 for which the invoices have not yet been received. These are being chased and expected to be called upon in Q2/Q3. The estimated variance at year end is £1.7m of which £1.6m is being requested to be carried forward to 2014/15 after a thorough review of the capital profiling of projects for quarter 1. The variance after the re-profiling is £98,000 which is 0.6% of the total budget and within tolerances.

<b>JUNE 2013 PROJECTIONS</b>	<b>Full-Year Budget 2013/14 £000's</b>	<b>Projected Out-turn 2013/14 £000's</b>	<b>Projection Variance 2013/14 £000's</b>
<b>DIRECTORATES</b>			
Community & Environment	4,037	2,349	(1,688)
Resources	418	418	0
Development	13,482	13,482	0
<b>Capital Total</b>	<b>17,937</b>	<b>16,249</b>	<b>(1,688)</b>
<b>Identified slippage</b>			<b>1,590</b>
<b>Variance after slippage</b>			<b>98</b>

2.6 The Capital Budget for 2013/14 can be analysed as follows:-

<b>Capital Budget 2013/14</b>	<b>£000's</b>
Approved Capital programme for 2013/14	7,131
Prior years approved schemes (primarily Cherwell Community Led Programme)	2,353
Slippage from 2012/13 Programme	8,453
	<b>17,937</b>

## **Treasury Management Performance Q1 2013/14**

### **Update on Cherwell's Treasury Performance**

2.7 The Treasury Management Strategy for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2013. It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

2.8 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.

2.9 During the quarter ended 30th June, Sector highlight the following:

- Indicators suggested that the economy accelerated;
- Stronger household spending, both on and off the high street;
- Inflation remained stubbornly above the Monetary Policy Committee (MPC)'s 2% target;
- The MPC remained in a state of limbo ahead of Mark Carney's arrival
- 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
- The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).

2.10 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £69.5m. 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.

2.11 As highlighted in the executive summary, it is worth noting that the revenue budget for 2013/14 has been prepared utilising only £150,000 of investment income; however, total investment income within 2013/14 is budgeted as £550,000. The balance of £400,000 will be used to replenish reserves after

transferring interest received in respect of Eco Town funds to the Eco Town pot.

**Investment performance for quarter ended 30 June 2013 was:**

<b>Fund</b>	<b>Amount at 30th June 2013</b>	<b>Interest Budget</b>	<b>Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
Investec	£11,840,069	£14,375	(£9,194)	(£23,569)	(0.8%)
In House	£57,735,505	£123,258	£178,969	£55,711	1.24%
<b>Total</b>	<b>£69,575,574</b>	<b>£137,633</b>	<b>£169,775</b>	<b>£32,142</b>	<b>0.98%</b>

2.12 At this point in the year we are currently projecting to be on target. The variance shown above has arisen through the timing of interest received. Although there is currently a negative balance against budget on the funds managed by Investec, this has arisen through the global drop in government bond prices in anticipation of an eventual rise in official interest rates.

2.13 UK government bonds were not immune to this and unfortunately the price at 30th June 2013 had fallen from the initial average purchase price; therefore, showing an unrealised loss at quarter end. Given that since this quarter end position the new governor of the Bank of England has communicated to the markets that UK rates are on hold for longer there is an expectation that gilt prices will rise again accordingly. We are therefore confident that the current negative balance will reverse itself in quarter 2. By the 31<sup>st</sup> July 2013 the position had already moved positively by £16,000.

**Icelandic Investments**

2.14 There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,000 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.

2.15 We continue to work with the LGA and Bevan Brittan on the potential for transfer to the UK.

**Procurement Action Plan and Record of Savings 2013/14**

2.16 Progress against the Council's procurement action plan is detailed under Appendix 1 with a record of savings achieved to June 2013 detailed under Appendix 2.

2.17 The team have delivered cashable savings to date of £38,649 against an annual target of £75,000. Non-cashable savings of £24,568 have also been achieved.

2.18 There are a number of capital projects under way, including the bringing together of two construction projects in Bicester: the Community Building and the South West Bicester Sports Village Pavilion. Under a single tender exercise, we will drive out savings and provide opportunities for the local supply chain. The team are also working on tenders via regional and national frameworks for the supply of electricity and liquid fuels along with reviewing

options for single solutions across both Councils for financial management and hosted payment systems.

- 2.19 Work with Stratford-on-Avon is underway with tender exercises in progress for cash collection and external printing and specifications are currently being drawn up for building cleaning and bailiff services.

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

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- 3.1 This report illustrates the Council's performance against the 2013/14 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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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**

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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 2013/14 was based on a number of efficiencies. In addition we made a public promise of £500k savings which are being actively pursued as part of the 2013/14 budget setting process.

Comments checked by Nicola Jackson, Corporate Finance Manager 01295 221731.

**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.

Comments checked by Claire Taylor, 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 Portfolio**

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**Councillor Ken Attack**  
**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 2013/14
Appendix 2	Procurement Savings Achieved April to June 2013
<b>Background Papers</b>	
None	
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