

Executive

2010/11 Projected Revenue & Capital Outturn at 30 June 2010 and 2009/10 Treasury Management Annual Report

6 September 2010

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 2010/11 and projections for the full 2010/11 period. These are measured by the budget monitoring function and reported via the Performance Management Framework (PMF) informing the 2010/11 budget process currently underway.

To receive information on treasury management performance and compliance with treasury management policy during 2009/10 as required by the Treasury Management Code of Practice. This report also reviews the treasury performance in Q1 2010/11.

This report is public

Recommendations

The Executive is recommended:

- (1) To note the projected revenue & capital position at June 2010.
- (2) To approve the changes in the 2010/11 capital programme as follows:
- (3) Slip £4.8m of project funding into the 2011/12 capital programme (detailed in Appendix 1) and consider this as part of the 2011/12 budget process
 - To note the performance against the 2009/10 investment strategy and the financial returns from each of the 3 funds (Appendix 2) and recommend that this report is considered by Full Council in line with CIPFA best practice.
- (4) To note the Q1 performance against 2010/11 investment strategy
- (5) To note the change in cumulative counterparty limits from £8m to £15m.

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 reports 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 an Annual Report to be presented to the Executive at the end of each financial year. 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 The Council's investment performance was 28 % lower than anticipated in the 2009/10 budget and the approved policy was adhered to throughout the financial year.

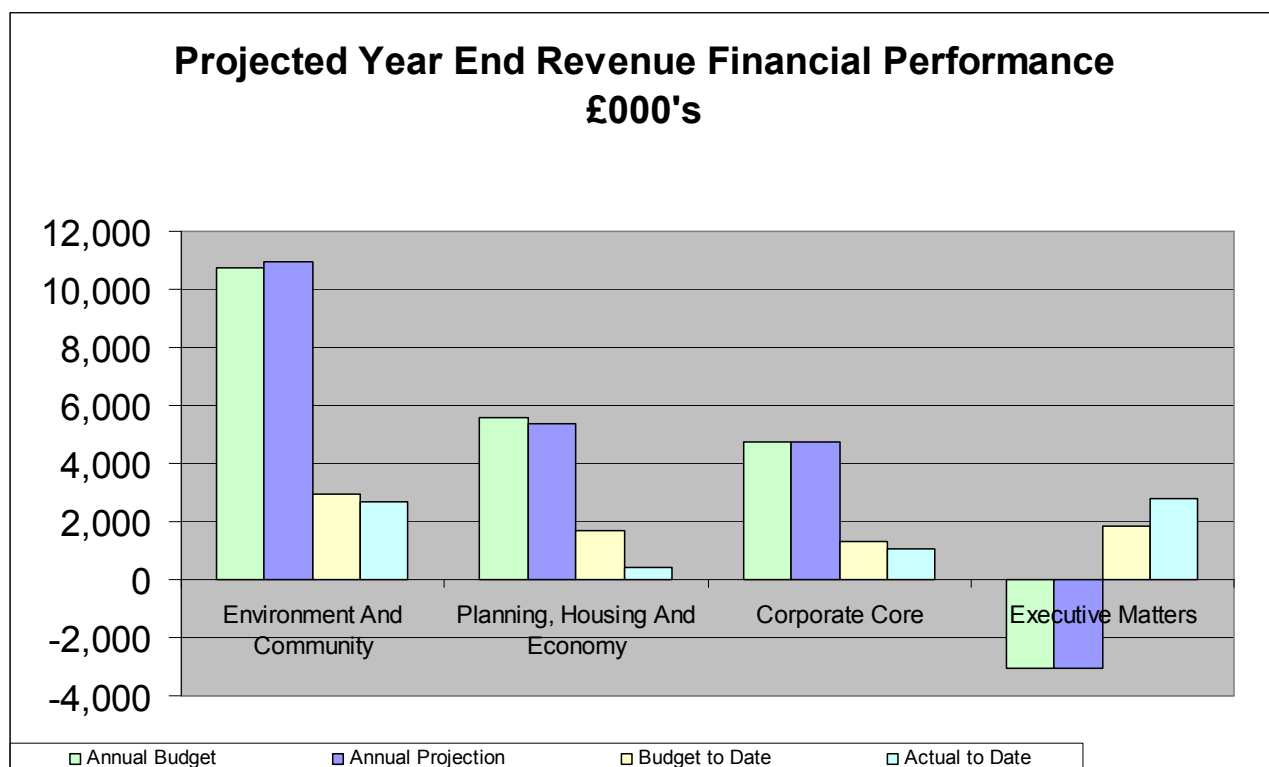
Background Information

Revenue and Capital Position at 30 June 2010

- 2.1 The Dashboard Revenue Report for June 2010 shows an underspend against budget of (£915K). This differs from the projected year end position detailed below through profiling of expenditure and income.
- 2.2 Total capital spend to June 2010, including commitments, amounts to £700K. This represents 5% of the total annual budget and 17% of the periodic budget. This is prior to adjustment for profiling and projects that are to be deferred. (Appendix 1)

Revenue Projected Outturn 2010/11

JUNE 2010 PROJECTIONS	Full- Year Budget 2010/11 £000's	Projected Out-turn 2010/11 £000's	Projection Variance 2010/11 £000's
DIRECTORATES			
Corporate Core	4,738	4,718	(20)
Environment & Community	10,758	10,961	203
Planning Housing & Economy	5,603	5,347	(256)
Net Expenditure Services	21,099	21,026	(73)
Reduction in Investment Income		80	80
	21,099	21,106	7
Net Revenue Projected Overspend 2010/11 @ June 2010			7



- 2.1 We are currently projecting to be on track to budget at the year end. This assumes that the reduction in investment income will be met from the earmarked interest rate reserve and the underspends in Q1 within the Corporate Core and Lanning Housing & Economy Directorates remain to offset income reductions in EAC.

- 2.2 The overspend in Environment and Community primarily relates to car park income shortfalls. Income is currently £87k underachieved, which projected to the year end, is £348k. This is offset by Excess Charge Notice income overachieved by £22k, which projected to the year end is (£88k), leaving a net £260k. Car parking income is down nationally; however, proposed changes to fees and charges have been put forward and will partly mitigate these losses if implemented. Other underspends within the directorate reduce the projected overspend to £203K as detailed above.
- 2.3 The underspend in Corporate Core of £20K relates to projected underspends of £11k in Finance and £9K in Legal & Democratic Services.
- 2.4 The underspend in Planning, Housing and Economy of £256K relates to planning fee income for the first three months being significantly above estimate however this will be carefully monitored over the coming months to ascertain any impact of the economic downturn. Additionally there is additional rental income and recovery of consultancy costs within Regeneration & Estates.
- 2.5 Investment Income: After the first 3 months we are currently showing an under recovery of Investment income of £20K. This is primarily due to the performance of Investec which is currently under review. Therefore at this stage we are projecting an under recovery of £80K for the year.

Capital Projection 2010/11

- 2.6 Total capital spend to June 2010, including commitments, amounts to £700K. This represents 5% of the total annual budget and 17% of the periodic budget.

JUNE 2010 PROJECTIONS	Full-Year	Projected	Projection
	Budget	Out-turn	Variance
	2010/11	2010/11	2010/11
	£000's	£000's	£000's
DIRECTORATES			
Corporate Core	101	36	(65)
Environment & Community	2,619	1,792	(827)
Planning Housing & Economy	12,342	7,998	(4,344)
	15,062	9,826	(5,236)
<u>Analysed:- (See appendix 1)</u>			
Approved Deferral from CMT / Exec Away Day			767
Additional Deferrals (June Dashboard)			4,094
Net Deletions			375
		As above	5,236

- 2.7 The projected spend for capital schemes as at June 2010 is £9.8M.
- 2.8 A detailed review of the Capital programme was conducted and is detailed in Appendix 1. Approval is sought from the Executive for Slippage (Deferrals) identified in Appendix 1.
- 2.9 Of the £4,09m identified as additional deferrals, due to the delay in the commencement of the Bicester Town Centre Development – only £1m (1st Tranche) of the approved £5M programme will be required in 2010/11.

Annual Treasury Performance 2009/10

- 2.10 The actual return on investments for 2009/10 was £2.03m compared with a budget of £2.82m, a negative variance of £0.79m. The budget was based on an average investment balance of £84m and an interest rate of 3.35 %. The actual average balance was £75m which attracted an average return of 2.70%.
- 2.11 Our Treasury Management Annual Report can be seen in Appendix 2.

Treasury Performance Q1 2010/11

- 2.12 The first quarter of 2010/11 saw:
- The new coalition government enact a fiscal squeeze set to be the most severe since the end of the 1930's, through its Emergency Budget on the 22nd June;
 - Activity indicators suggest that the recovery picked up a little pace in the first quarter;
 - High street spending recovered after a weak start to the year;
 - The labour market showed some tentative signs of improvement;
 - The UK's trade position deteriorated, despite the weak pound;
 - CPI inflation remained above target, however the measure of underlying inflation fell;
 - The Monetary Policy Committee maintained QE and kept Bank Rate on hold at 0.5%;
 - The equity rally went into reverse over concerns about the shape of the global recovery;
 - The recovery in the US remains fairly strong, but remains weak in the euro-zone.

The key development of the first quarter was the Emergency Budget delivered on the 22nd June which unveiled plans by the new Chancellor to severely tighten fiscal policy. According to the new (and independent) Office for Budget Responsibility, cyclically adjusted net borrowing – the portion of borrowing that will not disappear with economic growth – will now fall from 8.7% of GDP in the fiscal year just gone to 0.8% in 2014-15.

The Budget directed the bulk of the fiscal tightening at households and the public sector instead of private companies. Key measures within the Budget included a rise in the standard rate of VAT from 17.5% to 20%, to take effect in January 2011. Plans for social security payments were also scaled back. However, the burden on lower income households was partly offset by an increase in the income tax personal allowance by £1,000 to £7,475 from April 2011 from which high earners will not benefit.

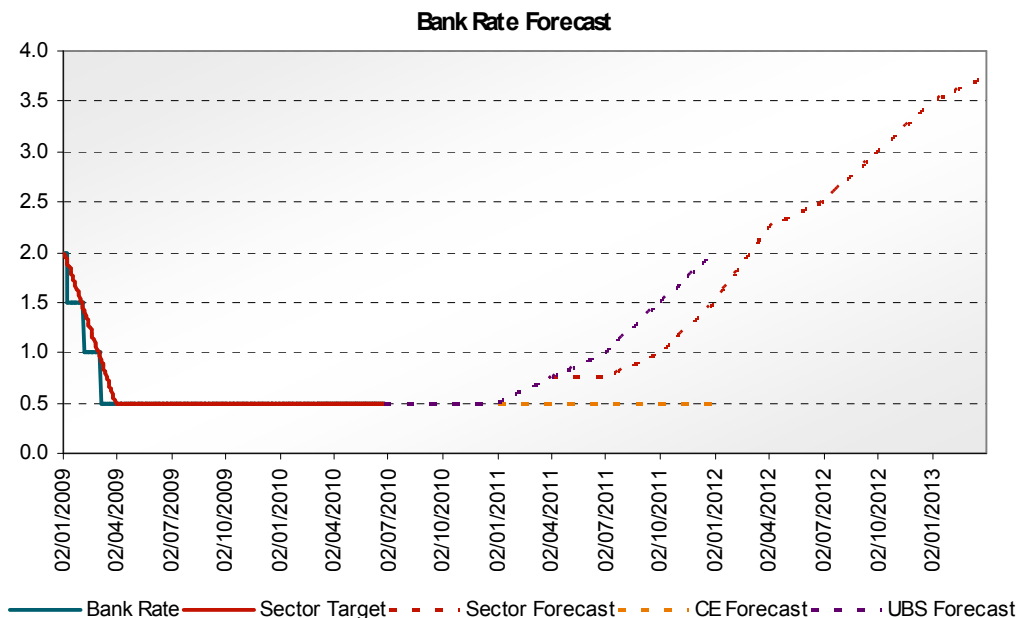
Meanwhile, activity surveys suggested that the recovery gathered pace in the first quarter after the economy's 0.3% expansion. Encouragingly, the labour market has shown some tentative signs of improvement. The number of people claiming unemployment benefit fell by 32,000 in April and 31,000 in May, leaving the total at 1.48m. Employment also rose by 5,000 in the three months to April. However, the workforce increased at a faster rate, so that the total number of unemployed according to the wider ILO measure still rose by 23,000 in the three months to April.

The UK's trade position continued to deteriorate, despite the support provided by the lower pound. The trade in goods and services deficit widened from £3.2bn to £3.3bn in April. Exported goods volumes fell again, this time by a monthly 0.5%. However, the export orders balances of the activity surveys continued to suggest that volumes would pick up soon.

Inflationary pressures have finally begun to ease. CPI inflation rose from 3.4% to a recent peak of 3.7% in April before falling back to 3.4% in May. Temporary factors, such as the rise in the rate of VAT to 17.5% in January and the rise in oil prices last year, continued to support above-target inflation.

The Monetary Policy Committee (MPC) continued to keep Bank Rate on hold at 0.5% and to maintain its stock of asset purchases. The Bank of England's quarterly Inflation Report in May also projected inflation to be below the 2% target at the two year horizon, suggesting that rates will remain on hold for a considerable period. Some MPC members expressed concern that the recent bout of high inflation could lead to a permanent shift in inflation expectations if it persisted much longer.

Sector have made the following predictions as to the Bank Rate Forecast going forward.



2.13 Previously our counterparty list has been contracting and we have taken the decision not to invest with any of the Santander banks. Therefore finding homes for cash has been difficult. Our current investment strategy has a cash

limit of £8m with any bank or cumulative total if the bank is part of a group. This represents 10% of our current average portfolio.

Sector, our treasury advisors, have proposed that we have a percentage limit of 20% (this equates to £15m based on our £75m average portfolio) with any one bank. This would mean that we could put more deposits with the UK banks.

- 2.14 The actual return on investments for the quarter to June 2010 was £317k compared with a budget of £337k a variance of £20k. The primary reason for the variance is the poor performance of Investec's £20m portfolio which was £73k below budget.

2010/11 Budget by Fund Manager

	Amount Managed	Avg rate %	Interest Receivable	Monthly equivalent
TUK	25,000,000	3.31%	826,513	68,876
Investec	20,344,370	1.97%	400,000	33,333
In House	15,000,000	0.81%	122,240	10,187
	60,344,370	2.24%	1,348,753	112,396

- 2.15 The actual return on investments by Fund manager can be seen below:

	Amount at 30 June 2010	Q1 Interest Budget	Q1 Actual Interest	Variance	Rate of return
TUK	25,000,000	206,628	230,393	23,764	4.11%
Investec	20,344,343	100,000	26,163	(73,837)	0.40%
In House	26,333,425	30,560	61,230	30,670	0.98%
Total	77,677,768	337,188	317,786	(19,403)	1.80%

The investment portfolio in-house and TUK as at 30th June 2010 is as follows:

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Natwest	8,000,000	0.85%		Call
RbsM&F	7,400,000	0.45%		MMF
Clydesdale	7,000,000	0.80%		Call
SantanderUK	4,500,000	1.00%	30/04/2010	02/09/2010
Kent Reliance Bs	1,000,000	1.15%	08/04/2010	17/09/2010
Nottingham Bs	1,000,000	1.20%	08/04/2010	17/09/2010
Bank of Scotland	2,500,000	1.30%	17/05/2010	17/11/2010
Skipton Bs	1,000,000	1.23%	01/06/2010	07/02/2011
West Bromwich Bs	1,000,000	1.15%	01/06/2010	07/02/2011
Newcastle Bs	1,000,000	1.65%	02/03/2010	01/03/2011
Principality Bs	1,000,000	1.45%	18/05/2010	15/03/2011
Yorkshire Bs	1,000,000	1.20%	29/06/2010	15/03/2011
Norwich & Peterborough Bs	2,500,000	6.20%	30/03/2009	30/03/2011
Barclays	5,000,000	6.35%	28/10/2008	28/10/2011
Lloyds Tsb	4,000,000	1.71%	02/03/2009	02/03/2012
Barclays	3,000,000	2.50%	01/05/2009	01/05/2012
Hsb	5,000,000	5.65%	24/07/2008	24/07/2013
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
GiltirBank	2,000,000	5.72%	26/10/2006	26/03/2011
GiltirBank	2,000,000	5.74%	06/02/2007	08/02/2011
GiltirBank	2,500,000	6.30%	31/08/2007	30/03/2011
Total Investments	£62,400,000	2.58%		
Total Investments - excluding Icelandic exposure	£55,900,000	2.19%		
Total Investments - Icelandic Exposure Only	£6,500,000	5.95%		

2.16 The interest rate decline has been monitored and as a result an interest rate risk reserve of £600k was created in 2008/09. As part of the review of reserves in conjunction with the preparation of the 2009/10 statutory accounts, the reserve balance has been reduced to £200k. The £400k has been used to fund the loss of interest due to 0.5% Bank of England base rate which had been fixed for 14 months. The latest projections show that this is adequate to meet the budgeted shortfall.

2.17 The Council's Treasury Advisers, Sector, provides the following forecast for the 2nd quarter of 2010 onwards.

Sector's Interest Rate View	NOW	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.50%	2.00%	2.25%	2.75%	3.00%	3.50%
5yr PW IB Rate	2.29%	2.50%	2.60%	2.80%	2.95%	3.20%	3.45%	3.80%	4.15%	4.40%	4.50%	4.65%
10yr PW IB View	3.58%	3.80%	3.85%	4.00%	4.20%	4.40%	4.50%	4.70%	4.75%	4.90%	4.90%	5.05%
25yr PW IB View	4.31%	4.45%	4.50%	4.55%	4.70%	4.80%	4.90%	5.05%	5.15%	5.20%	5.25%	5.25%
50yr PW IB Rate	4.29%	4.45%	4.55%	4.60%	4.75%	4.85%	4.95%	5.05%	5.25%	5.25%	5.30%	5.30%

Key Issues for Consideration/Reasons for Decision and Options

3.1 This report illustrates the Council's performance against the 2010/11 Revenue and Capital Budget and includes the Annual Treasury Report 2009/10.

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 consider 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 strategy has been subject to regular review with Members, Corporate Management Team and PWC at the end of the 2009/10 financial year.

Implications

Financial:

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

Efficiency Savings – There are no efficiency savings arising from this report however the budget 2010/11 was based on a number of efficiencies. In addition to our own internal efficiency targets we also have to meet the Governments 4% efficiency target – National Indicator 179. Not all of our efficiencies can be counted towards this target and the finance team are therefore undertaking an exercise to allow progress against the Government target to be monitored.

Comments checked by Karen Muir, Corporate System Accountant 01295 221559

Legal:

Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by Liz Howlett, Head of Legal and Democratic Services 01295 221686

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 avoided in 2009/10.

Comments checked by Rosemary Watts, Insurance and Risk Manager, 01295 221566.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor James Macnamara
Portfolio Holder for Resources

Document Information

Appendix No	Title
Appendix 1	Capital Programme 2010/11 – Slippage / Deferral
Appendix 2	Treasury Management Annual Report 2009/10
Background Papers	
2010/11 Budget Booklet 2010/11 Capital Asset Strategy Medium Term Financial Strategy 2010/11 Investment Strategy CIPFA Treasury Management Code of Practice	
Report Author	Karen Curtin, Head of Finance Karen Muir Corporate System Accountant Jessica Lacey Technical Accountant
Contact Information	01295 221551 karen.curtin@cherwell-dc.gov.uk