

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	23 November 2016
Subject:	Financial Update – Quarter Two Performance and Half Year Treasury Management Report
Report of:	Head of Finance and Asset Management, Simon Dix
Corporate Lead:	Deputy Chief Executive
Lead Member:	Lead Member for Finance and Asset Management
Number of Appendices:	Four

Executive Summary:

The budget for 2016/17 was approved by Council in February 2016 with the reserves being approved at Executive Committee in July 2016. This report is the second quarterly monitoring report of the Council's financial performance for the year.

The report highlights a quarter 2 surplus of £186,421 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

It is also a requirement of the CIPFA Treasury Management in the Public Services: Code of Practice 2011 that treasury activities are reported to Members at least twice yearly. The report summarises the half year treasury management activity position.

Recommendation:

- 1. To scrutinise the financial performance information for the second quarter of 2016/17.**
- 2. To approve the use of the reported surplus to fund the one-off costs of the management restructure and to use the balance available to support the Medium Term Financial Strategy (MTFS) reserve.**
- 3. To note the half year treasury management report.**

Reasons for Recommendation:

The Executive Committee is responsible for recommending the budget to Council and for the management and delivery of the approved budget during the financial year.

The quarterly financial report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any corrective action to be taken if required.

Resource Implications:

As detailed within the report. No additional resource implications identified as a result of the reported budget position as at the end of September 2016.

Legal Implications:

None associated with the report.

Risk Management Implications:

The financial performance of the Council is monitored on a monthly basis and reported to Members quarterly.

Performance Management Follow-up:

Budgets will continue to be monitored on a regular basis by budget holders supported by Finance. Further finance reports will update the Committee on a quarterly basis, with the outturn position reported to the Committee in July of the following year.

Environmental Implications:

None.

1.0 INTRODUCTION/BACKGROUND

1.1 This report provides the half year monitoring position statement for the financial year 2016/17. The purpose of this report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any action to be taken if required.

2.0 REVENUE BUDGET POSITION

2.1 The Financial Budget Summary for Q2 shows a £186,421 saving (£56,194 at Q1) against the profiled budget. Below is a summary of the expenditure position for the Council split out between the main expenditure types.

2.2	Full Year Budget	Q2 Budget Position	Q2 Actual Position	Savings / (Deficit)	Budget Variance %
Group budget Summary					
Employees	8,203,541	4,015,620	3,889,273	126,347	3.1
Premises	533,016	346,602	324,809	21,793	6.3
Transport	145,429	72,293	61,589	10,704	14.8
Supplies & Services	2,031,861	997,087	1,020,367	(23,280)	(2.3)
Payments to Third Parties	4,870,390	2,750,191	2,770,087	(19,896)	(0.7)
Transfer Payments - Benefits Service	18,989,000	10,208,486	10,168,602	39,884	0.4
Income	(25,154,349)	(12,124,015)	(12,279,942)	155,927	(1.3)
Support Services	0	0	0	0	0.0
Capital Charges	470,506	0	0	0	0.0

Treasury Mg Activity	(120,000)	0	6	(6)	100.0
	9,969,394	6,266,264	5,954,791	311,473	4.97
Corporate budgets					
Salary & Procurement savings	(80,500)	(40,264)	0	(40,264)	100.0
New Homes Bonus	47,407	23,712	0	23,712	0.0
Retained Business Rates income	(260,000)	(130,000)	(21,500)	(108,500)	83.5
	9,676,301	6,119,712	5,933,291	186,421	3.05

Note: With regards to savings and deficits, items in brackets are overspends

2.3 The budget position in relation to the Heads of Service responsibility shows an underspend of £311k (£112k in Q1) as at the end of September. As can be seen there are two main areas of savings, employees of £126k and income of £186k. This is traditionally the areas where underspend against the Council budget are generated.

Employee costs savings are generated mainly through staff vacancies and maternity leave. Services have managed vacancies in the short term with limited use of agency staff and help from current staff to cover work. In development services, agency staff have been funded from government grants as work is carried out by them on large scale development projects in the Borough.

Income is up against budget with planning income continuing to be higher than expected, along with licencing income. The Council sets a budget which is realistic, but does not rely on income targets that may not be achievable or sustainable in the medium term.

Underspends from recovery of benefits expenditure is also contributing to a positive position against the budget. A prudent budget was set in 2016/17 for this; given a significant overspend in 2015/16 which was reported to Members.

2.4 Attached on Appendix 1 is a summary of the position for each Head of Service, which shows the current variance against their budget. Where the main types of expenditure headings within the Head of Service's responsibility have a variance over £10k, a short explanation for the reason for the variance has been provided.

2.5 Although the Head of Service's position appears to be significantly underspent, the budget report also recognises the need to achieve savings from the base budget in terms of salaries and procurement savings. These savings targets are currently held on the corporate budget codes on the ledger. No savings are recognised against these plans as they accumulate through the year within service groupings.

2.6 Also detailed under corporate budgets is the retained income from the Business Rates Scheme. This is showing a deficit of £108k. This is a prediction of the year end position and has been recognised in full at the half year stage. The budget projection was that a surplus

above the business rates income target which would contribute £260k to the budget. The projection of business rates income for the year still continues to be effected by the high level of appeals being granted on properties within the Borough.

- 2.7** Taking into account the deficits on the corporate accounts, the overall position of the Council at the end of quarter two is a surplus of £186,421. It is recommended the Executive approve the use of £72,000 of this surplus to fund the cost of the management restructure as agreed by Council on 20 September and the remaining £114,000 is set aside in the Medium Term Financial Strategy (MTFS) reserve to support the use of reserves which will be required to balance the Council's annual budget.

3.0 CAPITAL BUDGET POSITION

- 3.1** Appendix 2 shows the capital budget position as at Q2. This is currently showing a significant underspend against the profiled budget.

- 3.2** The underspend is as a result of certain projects such as purchase of capital investments not being completed in the expected timescales. There is also some slippage in spend in relation to capital grants and disabled facilities grants. Plans are in place and being implemented to spend this before the year end.

As reported in Q1 the overspend on Council owned buildings is showing as being overspent in relation to the leisure centre. However this is planned as the additional funding is coming from revenue resources.

4.0 RESERVES POSITION

- 4.1** Appendix 3 provides a summary of the current usage of available reserves.

- 4.2** Reserves have been set aside from previous years to fund known future costs and the strategic planning of the authorities operation. The information in the Appendix does not take account of reserves which have been committed, but not yet paid.

- 4.3** Whilst the Q2 position shows that there remains a significant balance on the reserves, the expectation is that the remaining balance will be spent in the future.

5.0 MID YEAR TREASURY MANAGEMENT REPORT

- 5.1** At the half year point of the financial year, treasury investment activities have resulted in an average return of 0.83% on its investments in short term deposits. This is where the Council holds the majority of its investments. Other investments are seeing returns of between 0.25% to 1.35% depending on length and amount of investment. The full year projection predicts investment returns of £113,000 against the budget estimate of £120,000. This is considered to be a reasonable return given the impact of the Brexit vote and also the fall in the interest Base rate to 0.25% during the year. At the time the budget was set, forecasts had expected interest rates to rise during this time.

5.2 At the start of the year the Council had no borrowing. Given the falling level of capital receipts, now that the leisure centre has been completed and the commitment for a new vehicle fleet, the Council now finds that it will need to borrow to fund new capital investments. A report has already been approved by Council (presented on the 19/09/2016) for an increase in the level of borrowing, predicted to be in the region of up to £20m in the current financial year, to fund capital investment opportunities. This is the result of the Council implementing a commercial programme to identify ways of increasing income, as grant income from Central Government is reduced. The impact of this borrowing is that the Council will have to service the interest cost from revenue funds. This has been taken into account when considering the individual business case for each potential investment opportunity.

6.0 CONSULTATION

6.1 Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

7.0 RELEVANT COUNCIL POLICIES/STRATEGIES

7.1 Budget monitoring is on the approved budget for 2016/17 which has been prepared in line with the Medium Term Financial Strategy.

8.0 RELEVANT GOVERNMENT POLICIES

8.1 None.

9.0 RESOURCE IMPLICATIONS (Human/Property)

9.1 None.

10.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

10.1 None.

11.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

11.1 None.

12.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

12.1 None.

Background Papers: None.

Contact Officer: Simon Dix, Head of Finance and Asset Management
Tel: 01684 272005 Email: Simon.dix@teWKesbury.gov.uk

Appendices: Appendix 1 – Quarter 2 Revenue Position by Group.
Appendix 2 – Quarter 2 Capital Position.
Appendix 3 – Quarter 2 Earmarked Reserves Update.
Appendix 4 – Semi Annual Treasury Management Report.