

TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	22 November 2017
Subject:	Financial Update – Quarter Two Performance Report
Report of:	Simon Dix, Head of Finance and Asset Management
Corporate Lead:	Rob Weaver, Deputy Chief Executive
Lead Member:	Councillor R Furolo, Lead Member for Finance and Asset Management
Number of Appendices:	Four

Executive Summary:

The budget for 2017/18 was approved by Council in February 2017 with the reserves being approved at Executive Committee in June 2017. This report is the first quarterly monitoring report of the Council's financial performance for the year.

The report highlights a quarter 2 surplus of £315,331 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

Recommendation:

Executive Committee is asked to consider the financial performance information for the half year in 2017/18 and 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.

If the budget is in deficit at year-end then the Council will have to use reserves to fund the overspend, meaning that these resources are not available to fund other activities or future financial management of the Council's projected medium term budgets. The Council currently has a £450,000 General Fund balance, £330,000 to cover shortfalls in the medium term financial plan and a £250,000 retained business rates reserve.

Legal Implications:

None associated with the report.

Risk Management Implications:

A financial deficit will result in the utilisation of the limited reserves available to the Council. The

financial performance of the Council is monitored on a monthly basis and reported to Members quarterly. Active management of the budget takes place to reduce the projected deficit whilst maintain delivery of services.

Performance Management Follow-up:

Budgets will continue to be monitored on a regular basis by budget holders supported by Finance. Quarterly monitoring reports will be presented to Members with the outturn position reported to the Committee in June 2018.

Environmental Implications:

None.

1.0 INTRODUCTION/BACKGROUND

1.1 This report provides the Quarter 2 (Q2) monitoring position statement for the financial year 2017/18. 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 £315,331 surplus (£225,836 – 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	Services expenditure	Full Year Budget £	Budget £	Actual £	Underspend/ (overspend) £
	Employees	8,643,704	4,168,148	4,082,341	85,807
	Premises	518,412	329,093	320,804	8,290
	Transport	169,250	83,615	63,333	20,282
	Supplies & Services	1,816,164	1,074,198	1,060,017	14,181
	Payments to Third Parties	4,957,932	2,733,984	2,689,068	44,915
	Housing Benefits	19,627,180	10,551,573	10,501,573	50,000
	Income	(25,884,278)	(2,780,571)	(2,672,560)	(108,011)
	Support Services	(17,954)	0	0	0
	Capital Charges	992,592	0	0	0
		10,823,002	16,160,039	16,044,575	115,464

Corporate Codes

Treasury Mgt Activity	57,086	28,543	(60,272)	88,815
-----------------------	--------	--------	----------	--------

Investment Properties	(1,179,467)	(600,992)	(554,545)	(46,447)
Corporate Savings Targets	(60,000)	(30,000)	0	(30,000)
New Homes Bonus	47,300	0	0	0
Business rates	0	0	187,500	187,500
	9,687,921	15,557,590	15,429,759	315,331

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

2.3 The budget position in relation to the Heads of Service responsibility shows an underspend of £115,464 as at the end of September (£157,537 – Q1). As can be seen there are three main areas of savings - employees of £85,807, payments to contractors of £44,915 and the Housing Benefit service of £50,000.

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.

The underspend on payments to contractors is generated from small savings across all services, with the most significant saving being on the current MRF recycling contract as a result of a lower than anticipated gate fee per tonne.

The Benefits Service performance on ensuring that we keep up-to-date on processing claims and changes as well as targeting overpayments means that we are recovering more subsidy on our expenditure than was budgeted.

2.4 In terms of overspends being reported at the half year stage there are two significant overspends which need to be reported to Members. Planning income has been consistently below target during Q2 leading to a deficit of £146k against budget. Garden waste is also below budget which appears to be as a result of the changes to the charging structure whereby customers are making pro-rata payments for this financial year. This is expected to be a one-off issue relating to the change to a single renewal date for all customers and the introduction of a sticker system for bin collections. Car Parking and Licensing are performing well so far this financial year, which is offsetting the issues reported above.

2.5 Attached at Appendix A 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 £10,000, a short explanation for the reason for the variance has been provided.

2.6 Although the Head of Service's position is 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. This has the effect of reducing the underspend on services by £30,000

- 2.7** Also detailed under corporate budgets is the retained income from the Business Rates Scheme. This is showing a surplus of £187,500. This is a prudent prediction of the year-end position although it should be noted that there has been so far very little activity with regards to processing appeals either from past appeal listings or ones against the new 2017 list. The Council has set aside a significant provision to cover additional appeals which is hoped to be sufficient in meeting successful appeals, therefore allowing the Council to benefit from wider increases in business rates income.
- 2.8** The Council also has a target for the acquisition of additional investment property. The Council has bid on properties in Q1 and early Q2 but was unsuccessful on these particular occasions meaning that the Council is currently £46,447 behind target income for this area of activity. However, in recent weeks, Council has successfully acquired three new commercial properties at a cost of £13.6m. These new properties, once the transfers are completed, will generate nearly £820,000 of income per year and will mean that the Council exceeds its budget target for the current year.
- 2.9** We have now also added in the impact of treasury management activity during the year, which previously was only reported at year-end. So far this year we are £88,815 ahead of budget. Through access to cheap borrowing rates, and the use of more lucrative funds for our cash investments, our treasury management activity is providing a much better return than expected.
- 2.10** Taking into account the positive position on the corporate accounts, the overall position of the Council at the end of Q2 is a surplus of £315,331.

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 the refurbishment of the Council offices not starting in the expected timescales. There is also consistent underspend against expectations on disabled facilities grants.

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 balances will be spent in the future. Finance has asked for updates from all departments about their plans to ensure that earmarked reserves are either used for their intended purpose, or released back to the general fund.

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 1.08% on its investments which, at the end of September, totalled £17,575,000. This performance and level of return has generated interest of £77,000 in the first half of the year against the budget estimate of £13,800 resulting in a surplus of £63,200. This is considered to be an excellent return given the impact of the sustained low rates during the investment period and is commensurate with the risk taken on investments.

5.2 The Council's investment performance has been boosted by the investment of £2m into the CCLA property investment fund. The fund, which is supplemental to the Council's direct property investment, is now worth over £3/4 billion and is producing monthly income returns of circa 4.6%. There were upfront costs of joining the fund which has meant that the capital value of the original investment has reduced, which also impacts upon the reported rate of return, but given the longer term nature of this investment, officers are confident that the capital value will return to the investment level in the near future and growth will be enjoyed thereafter.

5.3 The Council's drive to invest in commercial property has resulted in a requirement to borrow funds to cover direct investments and day-to-day cashflow. The budget had anticipated a borrowing cost of £42,000 at the mid-year point but as a result of the delay in property purchase, the efficient management of borrowing requirements and the extremely low borrowing rates available to the council (0.25% for £10m), actual borrowing costs have only totalled £17,000, a saving of £25,000. Brokerage fees totalling £4,700 have also been incurred in the period, again substantially less than budgeted for.

5.4 Overall, the Council's treasury management activities in the first half of the year have been efficiently managed and resulted in a surplus of nearly £89,000 on budget. The Council has also taken steps to safeguard its professional investor status with the implementation of the MiFID II requirements.

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 2017/18 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 A – Quarter 2 Revenue Position by Service.
Appendix B – Quarter 2 Capital Position.
Appendix C – Quarter 2 Earmarked Reserves Update.
Appendix D – Mid-Year Treasury Management Report.