

Gloucester City Council

Meeting:	Cabinet	Date:	2 April 2014
Subject:	Summary Financial Performance 2013/14 to date		
Report Of:	Cabinet Member for Performance and Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	None		

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Note: The special circumstances for non-compliance with Access to Information Rule 5 and Section 100B (4) of the Local Government Act 1972 (as amended) (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that the information was not available at the time of publishing the agenda.

1. Purpose of Report

1.1 This report summarises the expected year end position, for the period April 2013 to March 2014 for both revenue and capital expenditure. It also includes a summary of the Treasury Management activities up to quarter 3, as reported to the Audit and Governance Committee.

2. Recommendations

2.1 Cabinet is asked to **RESOLVE** that the report be noted.

3. Introduction and Summary

3.1 Cabinet members will be aware that the approved net revenue budget for 2013/14 is £16.5 million, including a £1.9million savings target. This is a significant annual reduction.

- 3.2 Against those challenging targets, overall forecast performance for the year shows a minor variance of £0.120m against the net budget, primarily as a result of some slippage in targeted savings – the full year impact of which will be fully achieved in 2014/15. In addition, some one-off costs of restructuring have been included in 2013/14, which will deliver ongoing savings in 2014/15 onwards.
- 3.3 Treasury Management activities throughout the year to date have been reported on a quarterly basis to Audit and Governance Committee and have been carried out in accordance with the Council's approved prudential indicators and in accordance with the approved Treasury Management Strategy.
- 3.4 The improved arrangements for prioritising and monitoring capital expenditure have continued throughout the year and a Capital expenditure summary is included with this report.
- 3.5 Overall therefore, the council has met the challenges positively, and is also well placed to deliver the ongoing savings requirements in future years, given the implementation of the financial services improvement plan throughout the year.
- 3.6 The month 9 report for revenue and capital expenditure in this format was presented to the last meeting of the Audit and Governance Committee and was welcomed for its clarity and appropriate level of information and variance analysis.

Revenue Expenditure

- 3.7 This report is intended to give both Members and Senior Managers a clear and concise view of the current financial position of the Council and accompany this with explanations for any expected variances and, where applicable, details of any corrective action being taken to resolve differences.
- 3.8 The financial position for each directorate is presented in a summary table showing the budget for the year as well as a forecast final position against budget for the end of the 2013/14 year.
- 3.9 Financial Services have produced this report in consultation with Service Managers, whose knowledge has been combined with current financial data to produce the prediction for the year end position. Where significant issues have been identified, follow up contact and discussions will take place between the service manager and financial services.
- 3.10 January figures have been used as the basis of the report but in some instances these have been updated with data from the end of Month 11 to give a more accurate position.
- 3.11 Service expenditure includes only those items which impact on the Council's bottom line position and not charges which are removed as part of statutory accounting adjustments at the end of the financial year. It therefore contains a true view of the Council's likely surplus or deficit against the general fund for revenue expenditure.

4. Revenue Expenditure - Council Summary

	2013/14 Budget £000	Year End Forecast £000	Forecast Variance £000
Chief Executive and Regeneration	2,051	1,886	(165)
Services and Neighbourhoods	8,125	8,460	335
Resources	(10,176)	(10,226)	(50)
GCC	0	120	120

- 4.1 The current year end estimate for the Council as a whole is to be overspent against budgets by £120k. If this position is realised at the end of the financial year then it will result in a reduction of the Council's General Fund balance of this amount.
- 4.2 In the Services and Neighbourhoods Directorate the savings on the Amey contract have been achieved part way through the year and Guildhall events are not expected to reach their budgeted level of surplus. The Services and Neighbourhoods Directorate is therefore predicted to be overspent by £335k. Further analysis and explanation is contained on the Services and Neighbourhoods page.
- 4.3 The Resources Directorate is predicted to be underspent for the year by £50k. Again, further details are included on the page for Resources.
- 4.4 An underspend of £165k is predicted for the Chief Executive and Regeneration Directorate.
- 4.5 The forecast year-end variances and outturn position contained within this report are based upon best estimates at the time of production. Where unfavourable variances are predicted service managers are working to mitigate the impact and reduce the variance where possible.
- 4.6 An outturn report will be produced at the end of the financial year and will be presented to members to give the final year end position for the Council and to approve any proposed transfers to or from earmarked reserves.

4.7 The position reported at the end of Month 9 was an estimated overspend of £24,000. The changes between then and this report are a downwards estimate of the final position on income from the Green Garden Waste scheme of £45,000 and an increase in the expected cost of BT&T throughout the year of £28,000. Both of these changes have arisen as a result of more accurate estimation as the end of the financial year becomes closer.

5. Chief Executive and Regeneration Directorate

	2013/14 Budget	Year End Forecast	Forecast Variance
	£000	£000	£000
Chief Executive	160	225	65
Regeneration and Economic Development	560	772	212
Development Services	(1)	(482)	(481)
Legal and Democratic Services	1,122	1,133	11
Marketing Gloucester	210	238	28
Total	2,051	1,886	(165)

- 5.1 The Directorate of Chief Executive and Regeneration is currently forecasting to spend under its budgeted total by £165k.
- 5.2 Development Services are forecasting positive variances in the area of parking, details of which are explained below. Also within this area a saving of £91k is expected on building control due to lower than budgeted employee costs whilst maintaining income levels on target with budgets. Overall, this has resulted in a saving against budget this year of £481k.
- 5.3 Off Street Parking is predicted to overachieve against budget for the year. Income levels are predicted to be approximately on target but third party payments and premises related costs are currently projected to be below budget by £153k and £109k respectively. These variances are being monitored closely with the Asset Manager in order to determine the true level of savings at the end of the year.
- 5.4 Regeneration and Economic Development is predicted to over spend by £212k. This includes the cost of utilities for Council buildings which have a forecast overspend of £86k. Investment Properties are currently predicted to be under their targeted income level by approximately £121k. This is a similar position to last year.
- 5.5 The figure of £65k on the Chief Executive's Line includes costs incurred earlier this financial year as part of the Realignment of the Management Resource process.

6. Services and Neighbourhoods Directorate

	2013/14 Budget £000	Year End Forecast £000	Forecast Variance £000
Director (includes Rugby World Cup)	276	284	8
Public Protection	(396)	(571)	(175)
Neighbourhood Services	5,744	6,078	334
Housing Services	967	870	(97)
Commercial Services	878	1,092	214
Contact Centre and Customer Services	656	707	51
Total	8,125	8,460	335

- 6.1 The Directorate is currently predicted to be overspent by a total of £335k.
- 6.2 The Amey contract for Neighbourhood Services achieved its budgeted savings part way through the year. The result of this is that the full year impact of the savings is not realised in 2013/14. This was the expected outcome but it allows there to be a full year's impact in 2014/15. The impact in 2013/14 is a forecast overspend against budgets for this contract of £221k.
- 6.3 The income target for Bulky Waste collections is not going to be met this year. Prudent predictions for the end of the year indicate a change in the income shortfall by a further £45K compared to previous projections. Analysis of the financial position in previous years suggests that this shortfall is historic and is therefore indicative of a possible future budget pressure.
- 6.4 The events programme at the Guildhall, within Commercial Services, remains an ongoing budget pressure. The original budget for 2013/14 budgeted the Guildhall to achieve a surplus of £240k in the events sector. The current projection is that the events will indeed achieve a surplus, but of £27k, a shortfall of £213k. Financial Services have been working with staff at the Guildhall and are improving the monitoring of financial performance and looking to work towards challenging but achievable income budgets. A commercial review of operations within cultural services is also due to commence shortly, which is expected to further drive income levels in these areas.

6.5 The Contact Centre has expanded in the year as a result of a review of the service and this has resulted in a small projected overspend on employee costs. The current prediction is for this to be approximately £51k. Over time, this will be met with savings in other services as the Customer Channel Strategy is further implemented.

7. Resources Directorate

	2013/14 Budget	Year End Forecast	Forecast Variance
	£000	£000	£000
Audit	161	165	4
Business Improvement	1,846	1,901	55
BT & T	1,111	1,177	66
Director	107	130	23
HR and OD	299	336	37
Finance and Corporate Expenditure	(13,700)	(13,935)	(235)
Resources	(10,176)	(10,226)	(50)

7.1 An underspend of £50k is currently forecast for the Directorate.

7.2 Finance and Corporate Expenditure includes expenditure on the finance function as well as expenditure and income not attributable to service areas, including Central Government Funding. Indications suggest that income from the business rates retention scheme will be higher than originally anticipated. This increased income means that this area is expected to under spend by £235k. This will be used to offset other budgetary pressures across the Council. In this particular area the most significant budgetary pressure is the reduction in investment interest earned by the council given the current challenging economic conditions. The current Treasury management strategy is to redeem investments when they have matured and repay external borrowing. This will create a saving for the Council as the repaid borrowing will have been at higher interest rates than those that would have been achieved had the matured sums been reinvested. It does, however, inevitably contribute to a decline in investment income. This is predicted to fall short of targets by approximately £186k in the current year. The budget setting process for 2014/15 has taken account of this issue so this will not recur as a budget pressure in future years.

7.3 The Council has received permission from the Department for Communities and Local Government to charge some restructuring costs to capital funding sources. This relieves the pressure on budgets by £55k in the area of corporate expenditure.

- 7.4 Financial Services has incurred additional costs of the necessary interim staff who have been helping to deliver the Financial Services Improvement Plan during the restructuring of the department. Given the new structure being implemented and the staff appointments made during the year, the future use of interim staff in this area will be much more limited, so the position will not recur.
- 7.5 The Human Resources and Organisational Development have incurred additional external legal and support costs as a result of disciplinary issues during the year. This has resulted in a predicted overspend of £37k. These costs are not going to continue at their current rate and will not therefore create an ongoing pressure.
- 7.6 Within Business Transformation and Technology the cost of computer software maintenance is expected to exceed budgets over the course of the year but savings are predicted in other areas to compensate. One area of saving is the purchase of computer hardware which is under the threshold for capitalisation. Additional expenditure during the year, to ensure full compliance with Public Sector Network (PSN) standards has been a necessary requirement during the year. The forecast for the whole section for the year is an overspend of £66k.

8. Capital Programme

- 8.1 The Capital Programme has a budget for the year, including Housing Expenditure, of £14.02 million. At the end of December £4.56 million of this had been spent. The areas of major capital expenditure are £2.2 million on Housing (both General Fund and HRA) and £294k to date on the Kings Square project.
- 8.2 Capital projects that do not spend their allocated budgets during 2013/14 are likely to continue into 2014/15. The long term nature of capital projects mean that spending often spans different financial years.
- 8.3 Full details of the capital expenditure to the end of quarter 3 can be found in Appendix 1.

9. Treasury Management Activities 2013/14, Quarter 3

- 9.1 A comprehensive quarterly report on Treasury Management activities was approved by the Audit and Governance Committee on 17th March 2014, which can be summarized as follows:
- 9.2 The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 10th April 2013. It sets out the Council's investment priorities as being Security of capital; Liquidity; and Yield.

Investments

- 9.3 The Council aims 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 cashflow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information.
- 9.4 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2013.
- 9.5 Investment rates available in the market have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was £8.5m. 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.
- 9.6 The Council outperformed its benchmark for investment performance during quarter 3 by 2.6bps. The budgeted investment return for 2013/14 is £45,770 and performance for the year to date is in line with the budget.

New Borrowing

- 9.7 The 25 year PWLB target rate for new long term borrowing for the quarter remained at 4.40%. No borrowing was undertaken during the quarter.
- 9.8 To minimise investment risk, the Council has reduced external investments in lieu of new external borrowing. This was achieved by reducing the overall debt liability by repaying £5,000,000 of external debt. However, this policy will require ongoing monitoring in the event that upside risk to gilt yields prevails.
- 9.9 The Council has not borrowed in advance of need during the quarter ended 31st December 2013 and has no intention to borrow in advance in 2013/14.
- 9.10 Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 31st December 2013, no debt rescheduling was undertaken.

Prudential Indicators

- 9.11 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. During the financial year to date the Council has operated within the treasury and prudential indicators set out in

the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

- 9.12 As at 31st December 2013 the council remained 'underborrowed' by £0.1m in accordance with current plans. This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

10.0 Financial Implications

- 10.1 As detailed in this report.
(Financial Services have been consulted in the preparation this report).

11.0 Legal Implications

- 11.1 None specific to this report.
(Legal Services have been consulted in the preparation this report).

12.0 Risk & Opportunity Management Implications

- 12.1 A lack of budgetary monitoring can lead to weaknesses in financial control and management. Timely, relevant and accurate budget monitoring is a necessary element of good financial management.

13.0 People Impact Assessment (PIA):

- 13.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

14.0 Other Corporate Implications

Community Safety

- 14.1 There are no community safety implications arising out of the recommendation in this report.

Sustainability

- 14.2 There are no sustainability implications arising out of the recommendation in this report.

Staffing & Trade Union

14.3 There are no staffing and trade union implications arising out of the recommendation in this report.

Background Documents:

Treasury Management Strategy Statement (TMSS) for 2013/14