

NFNPA RAPC 311/16

NEW FOREST NATIONAL PARK AUTHORITY

RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 21 NOVEMBER 2016

HALF-YEAR BUDGETARY CONTROL REPORT 2016/17

Report by: Nigel Stone, Chief Finance Officer

Purpose:

This report provides a summary of financial and treasury performance up to the end of September 2016, the first six months of the 2016/17 financial year.

1. Introduction

1.1 This report provides a summary of financial performance in the first six months of 2016/17, providing detail on potential variances and the responses to them. **Annex 1** sets out the summary financial position, including an indicative split of the 2016/17 budgets across the four aims; further detail is then provided on the Programme Fund (**Annex 2**), Authority-led Partnership Projects (**Annex 3**), Developer Contributions / Reserves (**Annex 4**) and Treasury Management performance is (**Annex 5**).

2. Current Position

2.1 The overall income and expenditure budgets for 2016/17 are £5.40m, as shown in Annex 1. This includes £1.37m from Authority-led partnership projects (externally-funded).

2.2 The overall expenditure position shows £2.30m spend over the first six months of the financial year (43% of budget). Without the partnership projects, spend was £2.01m from a budget of £4.03m (50%).

2.3 The overall income position shows £2.32m received (43% of budget) over the first six months of the financial year. Without the partnership projects, income was £2.01m from a budget of £4.03m (50%).

3. Budgetary Review Process

- 3.1 All budget holders were requested to scrutinise their mid-year budgetary position and provide details of known or potential over- or underspends; key responses and outcomes are detailed below.

4 Budget Analysis

- 4.1 Overall the figures after six months of the financial year, shown in detail in Annex 1, are very strong and no significant issues have emerged. However, there are a few variances and/or potential trends to be highlighted.

4.2 Potential Savings:

The Authority currently has a number of vacant posts which are accruing savings on the overall salary budget (above the level of provision already made within that budget). It is therefore currently projected that salaries could be £10-20,000 underspent at year-end.

4.3 Potential Pressures:

As detailed below in 8.1, the poor economic conditions are likely to lead to a £5,000 shortfall in our projected interest income.

National Parks England has approached all the NPA's with a proposal for a joint post to aid national Brexit discussions; the cost to each Authority is likely to be around £4,000.

A report has jointly been commissioned with the New Forest Trust on the future direction and sustainability of the New Forest Visitor Giving Scheme; the cost of the report was £3,500.

5. Sustainable Communities Fund (SCF) Monitoring

- 5.1 The SCF allocation for 2016/17 is £50,000 of which £30,000 has already been earmarked as a contribution towards the Our Past, Our Future Landscape Project. This funding has been paid over to the OPOF project.
- 5.2 As well as allocating the £20,000 of new funding, there is also an amount which has been allocated previously but is yet to be claimed – at the start of this year, the amount 'allocated but unclaimed' stood at c£78,000.
- 5.3 After six months of the year, over £69,000 has been claimed from the total funds available of £128,000.

6. Developer Contributions

- 6.1 As detailed in Annex 4, during the first six months of the financial year a further £50,000 has been received in respect of developer contributions and £341,000 spent/released. The vast majority of the expenditure relates to the Bransgore development which was completed in July; a further £21,000 is committed to this project (that being the retention amount).

7. Reserves Position

- 7.1 As detailed in Annex 4, the General Fund Reserve remains at £300,000 and is projected to do so until the end of the financial year.
- 7.2 Earmarked reserves are being utilised in line with the budget approved by the Authority in March 2016. This includes £83,000 from the Revenue Support Reserve (of which c£53,000 was a carry forward from 2015/16), up to £78,000 from the SCF Reserve, up to £77,000 from the ICT Replacement & Renewals Fund (see page 6) and £90,000 of cumulative smaller movements.

8. Treasury Management Position

- 8.1 The Treasury Management position is shown in detail in Annex 5, however the headline figure is that it is now projected that the Authority will receive around £10,000 from interest on its investments and holdings this year (a return of 0.4%); this represents a shortfall of £5,000 from the original projection which was based on a 0.6% return.

9. Budgetary Process for 2017/18

- 9.1 A number of budgetary confirmation requests for 2017/18, particularly from external partner organisations, are already beginning to emerge; Members have already seen and approved the funding request from the New Forest Marque (seeking clarity of finances to enable a post to be recruited) and further pressures around the Visitor Gift Scheme and New Forest Centre / Lyndhurst VIC are currently being considered. Wherever possible these requests will be integrated into the Authority's internal budget-setting processes which have also now commenced. These considerations will take place in conjunction with the wider strategic planning work and that to set the specific Business Plan objectives for next year.

10. Recommendation

It is recommended that Members note the current income and expenditure position, including the potential savings and pressures identified

Papers:

NFNPA/RAPC 311/16	Budgetary Control Report 2016/17
NFNPA/RAPC 311/16 Annex 1	Budget Monitoring 2016/17
NFNPA/RAPC 311/16 Annex 2	Programme Fund 2016/17
NFNPA/RAPC 311/16 Annex 3	Authority-led Partnership Projects 2016/17
NFNPA/RAPC 311/16 Annex 4	Developer Contributions and Reserve Balances
NFNPA/RAPC 311/16 Annex 5	Treasury Management Performance Report – 1 April to 30 September 2016

Equality and Diversity Implications:

There are no specific equality or diversity implications arising out of this report.

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Budget Monitoring 2016/17
Summary Accounts for the period 1 April – 30 September 2016

	Original Budget	Payments to date	% of Budget Spent
	£000	£000	
<u>Expenditure:</u>			
Employee Costs (Salary, Travel, Pensions etc)	2,674	1,339	50%
Programme Fund	300	168	56%
Sustainable Communities Fund	128	69	54%
Strategy & Planning	91	16	18%
Central Costs (split below)	842	419	50%
Subtotal	4,035	2,011	50%
Authority-led Partnership Projects	1,368	293	21%
Total Expenditure	5,403	2,304	43%

<u>Income:</u>			
National Park Grant	-3,089	-1,570	51%
Planning Income	-290	-142	49%
Shared Services	-306	-127	42%
Income Generation	-7	-6	86%
Investment & Interest Income	-15	-5	33%
Contribution from Revenue Support Reserve (estimated)	-83	-41	50%
Contribution from Other Earmarked Reserves (estimated)	-245	-122	50%
Subtotal	-4,035	-2,013	50%
Authority-led Partnership Projects	-1,368	-306	22%
Total Income	-5,403	-2,319	43%

Central Costs Split

	Latest Budget £000	Payments to Date £000	% of Budget Spent
Secretariat	47	35	74%*
Human Resources	73	38	52%
ICT Services	210	139	66%**
ICT R&R Fund	122	3	2%**
Member Services	55	27	49%
Finance & Audit Services	50	23	46%
Accommodation	200	107	54%
Business Support (e.g. insurance, printing, stationery)	85	47	55%
TOTAL	842	419	50%

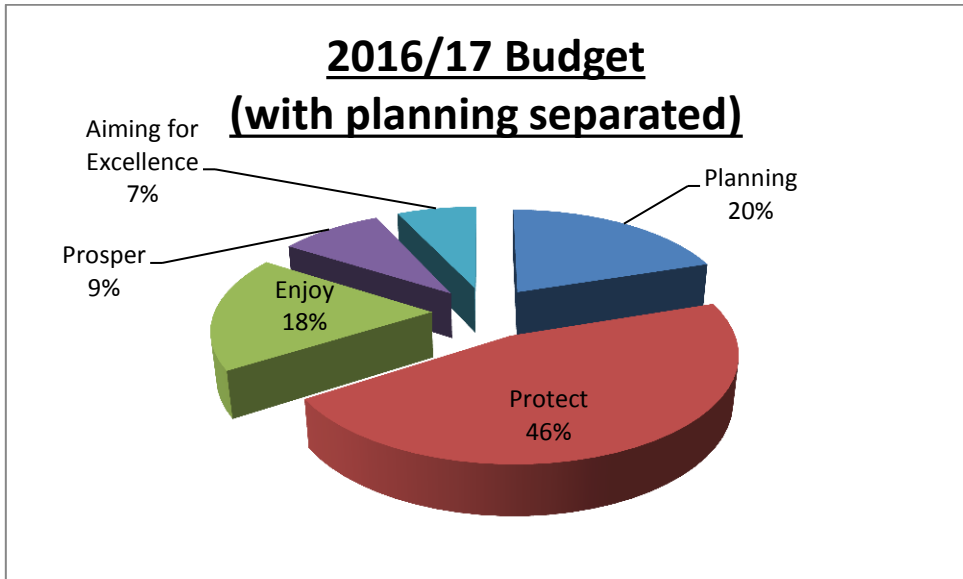
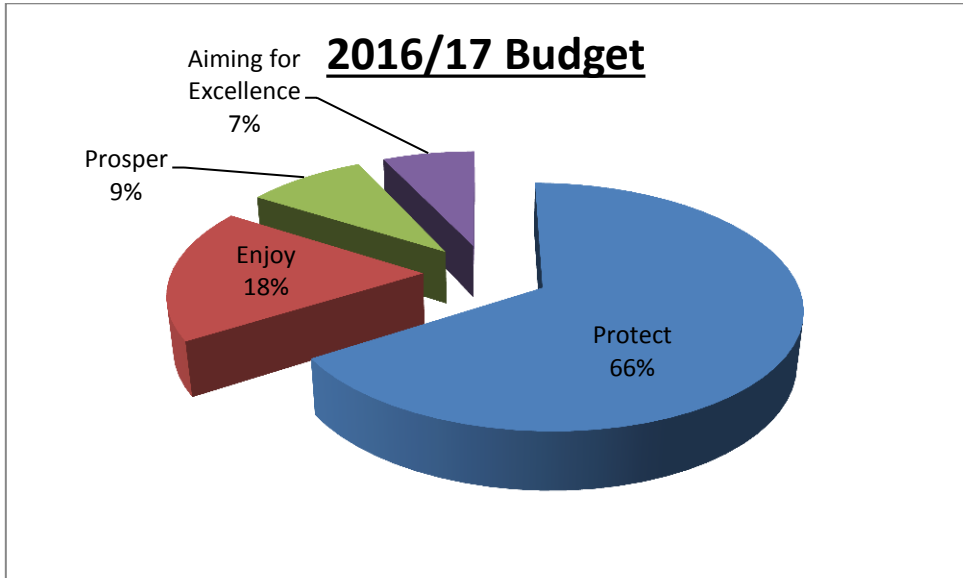
*This result is high at this stage of the year due to services paid for in advance e.g. National Parks England/UK memberships.

**ICT Services spend is higher than might be expected at this stage due to the annual software licences purchased at the start of the year. The budget for the Replacement & Renewals fund is high this year due to a significant amount of ICT equipment and systems being due, or past due, for replacement (including most of the staff computers, plotters, microfiche and website system). These are likely to be purchased in the latter half of the financial year.

2016/17 Original Budget (£4.03m – not including partnership projects) shown as ‘Protect, Enjoy, Prosper & Aiming for Excellence’

	Protect*	Enjoy	Prosper	Aiming for Excellence
	£000	£000	£000	£000
Employee Costs (allocated)	1,822	414	223	215
Programme Fund	110	155	35	-
Sustainable Development Fund (approximation)	90	26	12	-
Strategy & Planning	91	-	-	-
Central Costs (allocated)	565	134	73	70
TOTAL	2,678*	729	343	285

*Includes up to £0.8m of costs directly related to the Planning Service



Annex 2

Programme Fund 2016/17	Original Project Budget	Payments to date	% of Budget Spent	Notes on significant variations
	£000	£000		
PROTECT*				
Landscape Projects	7	0	0%	Various projects underway, no invoices to date
Ecology and Catchment Co-ordination	14	0	0%	Various projects underway, no invoices to date
Woodfuel and Woodland Projects	5	5	100%	Up-front contribution
Natural Environment Evidence Base (HBIC / WRC)	8	6	75%	
Our Past, Our Future (Landscape Partnership)	56	56	100%	Up-front contribution
FC Archaeology SLA	6	1	17%	
World War I Project	7	0	0%	
OTHER (Projects less than £5,000)	7	3	43%	
PROTECT SUBTOTAL	110	71	65%	
ENJOY*				
Access and Recreation	12	2	17%	Potential schemes being evaluated
Education	8	4	50%	
Educational Campaigns	7	3	43%	
Interpretation & Information	8	5	63%	
New Forest Centre Agreement	40	30	75%	
New Forest Show	6	3	50%	Very successful show in July 2016
Media and Promotion	25	8	32%	
Publications	24	7	29%	Park Life (x2) and the Pocket Guide
Partnership Publications	8	0	0%	For Essential Guide in Q4
Ranger Projects	8	5	63%	
People and Wildlife Ranger Projects	5	2	40%	
OTHER (Projects less than £5,000)	4	1	25%	
ENJOY SUBTOTAL	155	70	45%	

	Original Project Budget	Payments to date	% of Budget Spent	Notes on significant variations
	£000	£000		
PROSPER*				
New Forest Marque	15	15	100%	Up-front contribution
Sustainability Projects	8	0	0%	Potential projects being evaluated
Sustainable Tourism	6	9	150%	Additional costs from Visitor Gift Scheme evaluation report
OTHER (Projects less than £5,000)	6	3	50%	
PROSPER SUBTOTAL	35	27	77%	
TOTAL EXPENDITURE	300	168	56%	

*The designation of projects to 'Protect, Enjoy & Prosper' are for illustrative purposes only and do not constitute the total funding allocated to each area by the Authority (see Annex 1).

Annex 3

Authority-led Partnership Projects 2016/17

	Authority Direct Financial Contributions	Partner Financial Contributions	Total Project Budget	Total Payments to date	Payments as % of budget	Notes on significant variations
	£000	£000	£000	£000		
HLF Our Past, Our Future	89	1,201	1,290	242	19%	Funding to be spent by all partners – On track
New Forest Remembers	7	23	30	1	3%	Remaining funding does not have to be spent this year
Pedall	0	6	6	3	50%	Currently applying for new funding
Family Trees Project	0	10	10	5	50%	Funding received from Tesco “Bags of Help” scheme
Higher Level Stewardship	0	60	60	21	35%	On track
Land Advice Service	5	68	73	21	29%	On track
TOTAL	101	1,368	1,469	293	20%	

On average, for every £1 the Authority contributes it generates a further £14 from partner organisations.

Annex 4

Developer Contributions:

	Affordable Housing	Open Space	Ecological Mitigation
	£000	£000	£000
Starting Balance	827	137	14
Funds Received	10	16	24
Funds Spent / Released	(316)	(25)	0
Current Balance	521	128	38

Note: £21,000 of the Affordable Housing balance is allocated to the Brangore project

Current Reserve Balances:

	Starting Balance	Projected Movement	Closing Balance
	£000	£000	£000
General Fund Reserve	300	0	300
Earmarked Reserves:			
Revenue Support Reserve	163	(83)	80
Capital / Major Projects Reserve	817	0	817
Planning / Risk Reserve	150	0	150
Sustainable Communities Fund	78	(78)	0
ICT R&R Fund	77	(77)	0
Other	573	(90)	483
TOTAL	2,158	(328)	1,830

Annex 5

TREASURY MANAGEMENT PERFORMANCE REPORT – 1 APRIL TO 30 SEPTEMBER 2016

1. Introduction

- 1.1 This report covers the period 1 April to 30 September 2016 for the Authority's treasury management activities.

2. Strategy for 2016/17

- 2.1 The Authority approved the Treasury Management Strategy for 2016/17 on 24 March 2016 (NFNPA 497/16).
- 2.2 Within the strategy, the overriding principle is the security of the Authority's investments. The Authority also requires sufficient liquidity to be maintained in the investments and specific approval of categories of acceptable investments and investment counterparties. These are monitored on a regular basis.

3. Summary of interest rates

- 3.1 In recent months money market investment rates have fallen, with the current average ranging from 0 – 0.5%.
- 3.2 There is still a variation in interest rates between one type of counterparty and another, however all rates are still historically low and often well under 1%.
- 3.3 The Authority has a facility with a money market fund where deposits can be placed, this is a low risk fund where money is invested in a basket of highly credit rated instruments and is an instant access account. It also has an account with the Treasury's Debt Management Office, again a very low risk fund, invested for usually one or two months at a time but with instant access if required. Both of these accounts have been used extensively in the year to date.
- 3.4 There has been one change in the Bank of England (BoE) base rate during the year to date:

Date	Bank Base Rate
At 1 April 2016	0.50%
4 August 2016 (cut)	0.25%
30 September 2016	0.25%

4. Market background

4.1 UK economy

The UK is still experiencing growth in the economy, with a better-than-expected rise of 0.5% for the quarter ending in September 2016; however the BoE recently described this as 'losing speed'. Consequently the BoE base rate was cut by 0.25% in August, to now sit at just 0.25%, and quantitative easing was also increased. Unemployment is still continuing to fall (now 1.66m or 4.9%), which the Office for National Statistics commented was "suggesting continuing confidence in the economy".

Inflation in recent times has been at or below zero; however it has risen sharply in recent months up to 0.6% in August and then 1.0% in September. Following the Brexit decision in the summer, the Pound has fallen by around 20% against the Dollar and Euro. Many economists are also still expressing concerns over the continued 'uncontrolled' increases in the housing market.

Given the economic position summarised above, most economists are expecting the base rate to be reduced further this year to 0.1% and not to rise back above 0.5% until 2019 or 2020.

4.2 Global economy

Eurozone growth slowed to just 0.3% in the quarter to the end of September and is seemingly following a similar pattern to the UK economy. Eurozone unemployment is still high at 10.1% and inflation is starting to rise (now up to 0.4%).

There are also increasing concerns that other major economies (most importantly the US and China) are also showing signs of reduced growth and other underlying weaknesses.

5. Investments

- 5.1 The Authority's investment funds fall into two categories.
- 5.2 Some of the funds available will not be spent during the year. These are therefore core funds and available to be invested for longer periods if the increased return is greater than the corresponding risk.
- 5.3 Other funds are of a more cash flow nature and are likely to be invested for shorter durations up to 1-3 months.
- 5.4 For 2016/17 the Authority has decided to hold low risk, often instant access, investments as the increased interest returns are not deemed sufficient to

offset the additional risks and costs associated with longer or more complex investments. In reality this means the Authority will generally split its holdings between a Money Market Fund, with the Debt Management Office (Treasury) and in its Lloyds Current Account.

- 5.5 The interest earned on these cash-flow investments for the period to 30 September 2016 was equivalent to an **annual rate of return of 0.37%**.
- 5.6 The original estimate for interest earnings for 2016/17 was £15,000 based on an average forecast interest rate of 0.6%. **Given the current rates of return and the likelihood of further rate reductions, the latest forecast would be around £10,000 in interest earnings for the year.**
- 5.7 A list of investments at 30 September 2016 is shown at **Annex 1**.
- 5.8 All temporary investments have been invested according to the parameters set within the Authority's Treasury Policy Statement.

6 Investment benchmark

- 6.1 In order to measure the performance of the Authority's investments it is necessary to compare the earnings to a benchmark. The benchmark is established by taking a daily figure published by the money markets and averaging this over the period being measured.
- 6.2 The cash-flow investment is compared with the interest rate paid for 3 month money at the London Interbank Bid (LIBID) rate. It should be noted that this benchmark is set at the highest level, for example, investments for periods of less than 3 months are compared to the 3 month rate. Some of these investments will be invested overnight or for just one month and will not always therefore compare favourably with 3 month LIBID.
- 6.3 These rates are averaged over the year to date and are expressed as an annualised figure. The LIBID rate is the rate that major UK banks will pay for money deposits on the London Interbank market.
- 6.4 The table below shows the performance of the Authority's investments to 30 September 2016 compared to the benchmark. The performances are shown as annualised figures.

	Cash Flow Investments
	%
Benchmark Return (annualised)	0.27
Actual Return (annualised)	0.37
Return above Benchmark	<u>0.10</u>

- 6.5 As at 30 September 2016, cash-flow interest earnings exceeded the benchmark by an annualised 0.10%; this equates to £2,500 for the period.

7. Current Investment Policy

- 7.1 Following the continuing sensitivity of the banking sector investments are made in the UK investment sector only. Counterparties are the Nationwide Building Society, UK High Street Banks, Local Authorities and a Money Market Fund for periods from overnight to 1 year.
- 7.2 Investment limits are £1m with each institution currently; the exception being the Authority's own bank for which the limit will be £2m, of which up to £1m can be held without instant access.
- 7.3 This policy is monitored daily and reviewed periodically.

8. Investment instruments

- 8.1 All of the investments are made in money market deposits.
- 8.2 Money market deposits earn a yield that is made up entirely of interest earnings. There is no capital appreciation. No Gilts or Certificates of Deposits are used.

9. Compliance with the CIPFA code of practice

- 9.1 All treasury functions and debt management procedures, which were undertaken during the period, complied with the existing CIPFA Code of Practice on Treasury Management, as set out in the Authority's Treasury Policy Statement, and the Treasury Management Strategy for 2016/17.

10. Conclusions

- 10.1 Temporary interest earnings of £10,000 are forecast for the 2016/17 financial year, a shortfall of £5,000 from the original projection. This is due to reducing interest rates available within the low-risk investment categories specified by the Authority's current Treasury Strategy.

Treasury Performance Report Appendix 1

Investments & Holdings at 30 September 2016

Counterparty	Principal	Interest Rate	Investment Date	Maturity Date
	£	%		
Money Market Fund (MMF)	1,000,000	0.30	Instant Access	
Debt Mgmt Office (DMO)	1,000,000	0.15	Instant Access*	
Lloyds Current Account	733,000	0.40	Instant Access	
Total	2,733,000			

*Although invested for a set period (usually one or two months), DMO funds can be accessed instantly if required