

NFNPA RAPC 348/17

NEW FOREST NATIONAL PARK AUTHORITY

RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 13 NOVEMBER 2017

HALF-YEAR BUDGETARY CONTROL REPORT (including Treasury Performance Report) 2017/18

Report by: Nigel Stone, Chief Finance Officer and Chris Pathmadeva, Finance and Procurement Officer.

Purpose:

This report provides a summary of financial performance up to the end of September 2017, the first six months of the 2017/18 financial year.

1. Introduction

1.1 This report provides a summary of financial performance in the first six months of 2017/18, providing detail on potential variances and the responses to them. **Annex 1** sets out the summary financial position, **Annex 2** includes indicative splits of the 2017/18 budgets across the four aims and the statutory accounting format; further detail is then provided on the Programme Fund (**Annex 3**), Authority-led Partnership Projects (**Annex 4**), Developer Contributions / Reserves (**Annex 5**) and Treasury Management performance (**Annex 6**).

2. Current Position

2.1 The overall income and expenditure budgets for 2017/18 are £5.30m, as shown in Annex 1. This includes £1.19m from Authority-led partnership projects (externally-funded).

2.2 The overall expenditure position shows £2.54m spend over the first six months of the financial year (48% of budget). Without the partnership projects, spend was £2.16m from a budget of £4.11m (52%).

2.3 The overall income position shows £2.47m received (47% of budget) over the first six months of the financial year. Without the partnership projects, income was £2.03m from a budget of £4.11m (49%).

3. Budgetary Review Process

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

4. Budget Analysis

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

4.2 Potential Savings:

Although no specific savings have been identified at this stage, it is very likely that the cumulative small savings across the budget lines could add up to around £5-10,000 as it has in previous years.

4.3 Potential Pressures:

As Members will be aware from the first budgetary monitoring report this year, the salary budget is 'reduced' by 2% each year to allow for some vacancy savings, however the Authority currently has a number of staff off on maternity and the additional costs of these are more than counteracting the vacancy factor. Consequently salaries are still currently around £20,000 over where would be expected at this point in the year; the variance will be closely monitored through the remainder of the financial year.

The Our Past, Our Future Landscape Partnership Scheme (OPOF), funded largely by the Heritage Lottery Fund, still has a shortfall in match funding. The Project Manager has undertaken a full review and will be reporting back to its Programme Board on 9 November – an oral update on progress will be given at the Committee meeting. There is potential for the Authority to be asked for some further funding to bridge this gap, therefore enabling the project to unlock the full HLF funds; this situation is being closely monitored by the Chief Finance Officer.

5. Sustainable Communities Fund (SCF) Monitoring

- 5.1 The SCF allocation for 2017/18 is £50,000 of which £30,000 has already been earmarked as a contribution towards the OPOF 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£28,000.

- 5.3 After six months of the year, over £36,000 has been claimed from the total funds available of £78,000.

6. Developer Contributions

- 6.1 As detailed in Annex 5, during the first six months of the financial year a further £23,000 has been received in respect of developer contributions and £16,000 spent/released.

7. Reserves Position

- 7.1 As detailed in Annex 5, 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 2017. This includes £70,000 from the Revenue Support Reserve (of which c£45,000 was a carry forward from 2016/17), up to £28,000 from the SCF Reserve, up to £109,000 from the ICT Replacement & Renewals Fund and £80,000 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 £7-9,000 from interest on its investments and holdings this year (a return of 0.3%); this represents a shortfall of up to £2,000 from the original projection which was based on a 0.4% return.
- 8.2 There are some important regulatory changes due to come into force in January 2018 which will affect which investment products the Authority is allowed to use – it is likely the Authority will no longer be able to use its Money Market Fund. The situation is currently under review and further detail is provided in the treasury section on page 17 of this report.

9. Recommendation

It is recommended that Members:

- 1 note the current income and expenditure position, including the potential savings and pressures identified**
- 2 note the potential modifications to our treasury position/strategy as a result of the upcoming regulatory changes.**

Papers:

| | |
|---------------------------|--|
| NFNPA/RAPC 348/17 | Budgetary Control Report 2017/18 |
| NFNPA/RAPC 348/17 Annex 1 | Budget Monitoring 2017/18 |
| NFNPA/RAPC 348/17 Annex 2 | 2017/18 Budget Formats |
| NFNPA/RAPC 348/17 Annex 3 | Programme Fund 2017/18 |
| NFNPA/RAPC 348/17 Annex 4 | Authority-led Partnership Projects 2017/18 |
| NFNPA/RAPC 348/17 Annex 5 | Developer Contributions and Reserve Balances |
| NFNPA/RAPC 348/17 Annex 6 | Treasury Management Performance Report – 1 April to 30 September 2017 |

Equality and Diversity Implications:

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

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Annex 1

Budget Monitoring 2017/18
Summary Accounts for the period 1 April – 30 September 2017

| | Original Budget | Payments to date | % of Budget Spent |
|---|-----------------|------------------|-------------------|
| | £000 | £000 | |
| <u>Expenditure:</u> | | | |
| Employee Costs (Salary, Travel, Pensions etc) | 2,780 | 1,410 | 51% |
| Programme Fund | 352 | 212 | 60% |
| Sustainable Communities Fund | 78 | 36 | 46% |
| Strategy & Planning | 80 | 37 | 46% |
| Central Costs (split below) | 822 | 462 | 56% |
| Subtotal | 4,112 | 2,157 | 52% |
| Authority-led Partnership Projects | 1,192 | 385 | 32% |
| Total Expenditure | 5,304 | 2,542 | 48% |

| | | | |
|--|---------------|---------------|------------|
| <u>Income:</u> | | | |
| National Park Grant | -3,142 | -1,596 | 51% |
| Planning Income | -295 | -146 | 49% |
| Planning Grants | -45 | 0 | 0% |
| Shared Services | -324 | -139 | 43% |
| Income Generation | -10 | -6 | 60% |
| Investment & Interest Income | -9 | -3 | 33% |
| Contribution from Revenue Support Reserve (estimated) | -70 | -35 | 50% |
| Contribution from Other Earmarked Reserves (estimated) | -217 | -109 | 50% |
| Subtotal | -4,112 | -2,034 | 49% |
| Authority-led Partnership Projects | -1,192 | -438 | 37% |
| Total Income | -5,304 | -2,472 | 47% |

Central Costs Split

| | Latest Budget £000 | Payments to Date £000 | % of Budget Spent |
|---|-------------------------------|--------------------------------------|----------------------------------|
| Secretariat | 49 | 45 | 92% |
| Human Resources | 76 | 31 | 41% |
| ICT Services | 163 | 91 | 56% |
| ICT R&R Fund | 138* | 67 | 49% |
| Member Services | 60 | 30 | 50% |
| Finance & Audit Services | 53 | 28 | 53% |
| Accommodation | 204 | 121 | 59% |
| Business Support (e.g. insurance, printing, stationery) | 79 | 49 | 62% |
| TOTAL | 822 | 462 | 56% |

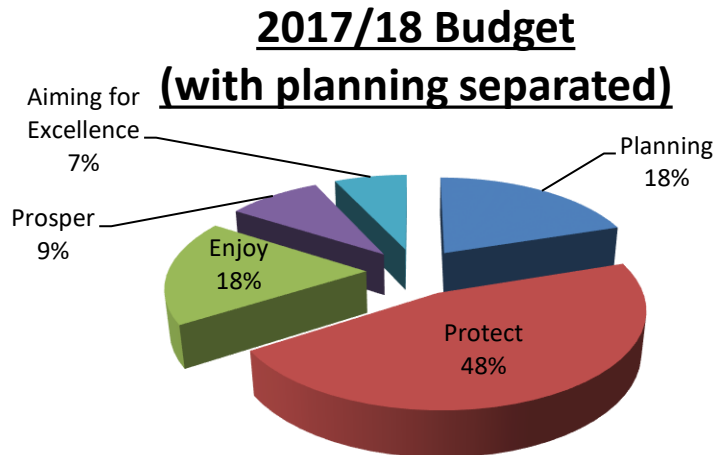
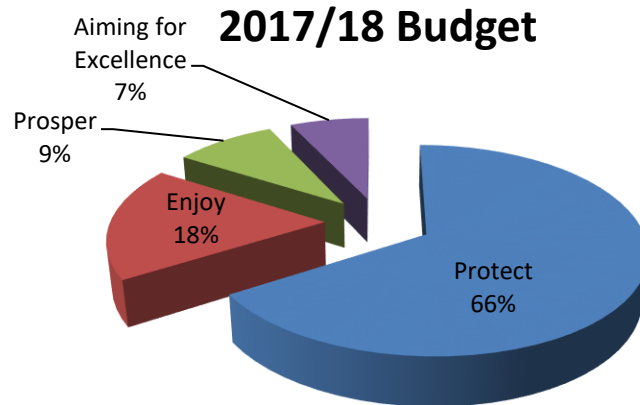
* The budget for the Replacement & Renewals fund is high this year due to a significant amount of ICT equipment and systems being due, or past due, for replacement (including most of the staff computers, plotters, microfiche and website system).

Annex 2

2017/18 Original Budget (£4.11m – 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) | 1,888 | 434 | 233 | 225 |
| Programme Fund | 129 | 179 | 44 | - |
| Sustainable Development Fund (approximation) | 55 | 15 | 8 | - |
| Strategy & Planning | 80 | - | - | - |
| Central Costs (allocated) | 558 | 128 | 69 | 67 |
| TOTAL | 2,710* | 756 | 354 | 292 |

*Includes up to £0.75m of costs directly related to the Planning Service



2017/18 Budget position in Authority's formal reporting format

| | Budgeted Net Cost of Services 2017/18 | | Actual Expenditure April - Sept | Actual Income April - Sept | Net Actual April - Sept |
|---|--|--|--|---|------------------------------------|
| | £000 | | £000 | £000 | £000 |
| Conservation of the Natural Environment | 507 | | 664 | -343 | 321 |
| Conservation of Cultural Heritage | 347 | | 227 | -26 | 201 |
| Recreation Management and Transport | 293 | | 174 | -91 | 83 |
| Promoting Understanding | 530 | | 271 | 0 | 271 |
| Rangers, Estates and Volunteers | 136 | | 112 | -20 | 92 |
| Development Control | 633 | | 540 | -249 | 291 |
| Forward Planning and Communities | 504 | | 292 | 0 | 292 |
| Corporate and Democratic Core | 488 | | 262 | 0 | 262 |
| SUBTOTAL | 3,438 | | 2,542 | -729 | 1,813 |
| National Park Grant | -3,142 | | | -1,596 | |
| Investment & Interest Income | -9 | | | -3 | |
| Use of Reserves | -287 | | | -144 | |
| TOTAL | 0 | | | -2,472 | |

Annex 3

| Programme Fund 2017/18 | Original Project Budget | Payments to date | % of Budget Spent | Notes on significant variations |
|--|--------------------------------|-------------------------|--------------------------|--|
| PROTECT* | £000 | £000 | | |
| Landscape Projects | 5 | 0 | 0% | Projects underway but no invoices yet |
| Ecology and Catchment Co-ordination | 14 | 0 | 0% | Work with Freshwater Habitats Trust |
| Woodfuel and Woodland Projects | 5 | 5 | 100% | Upfront grant payment |
| Natural Environment Evidence Base (HBIC / WRC) | 8 | 6 | 100% | All invoiced in Q2 |
| Our Past, Our Future (Landscape Partnership) | 56 | 56 | 100% | Upfront grant payment |
| FC Archaeology SLA | 6 | 3 | 50% | |
| Green Halo | 25 | 12 | 48% | |
| OTHER (Projects less than £5,000) | 10 | 7 | 70% | |
| PROTECT SUBTOTAL | 129 | 89 | 69% | |
| ENJOY* | £000 | £000 | | |
| Access and Recreation | 12 | 12 | 100% | |
| Health and Wellbeing | 5 | 2 | 40% | |
| Education | 8 | 6 | 75% | |
| Educational Campaigns | 7 | 1 | 14% | |
| Interpretation & Information | 8 | 5 | 63% | |
| New Forest Centre Agreement | 40 | 20 | 50% | Grant quarterly in advance |
| Media and Promotion | 23 | 15 | 65% | |
| Publications | 24 | 0 | 0% | Significant spend usually in Q3 and Q4 |
| Partnership Publications | 8 | 2 | 25% | Significant spend usually in Q3 and Q4 |
| Ranger Projects | 31 | 25 | 81% | Includes purchase of replacement van |
| People and Wildlife Ranger Projects | 5 | 1 | 20% | |
| OTHER (Projects less than £5,000) | 8 | 5 | 62% | |
| ENJOY SUBTOTAL | 179 | 94 | 53% | |

| | Original Project Budget | Payments to date | % of Budget Spent | Notes on significant variations |
|-----------------------------------|-------------------------|------------------|-------------------|---------------------------------|
| PROSPER* | £000 | £000 | | |
| New Forest Marque | 25 | 25 | 100% | Upfront grant payment |
| Sustainability Projects | 5 | 0 | 0% | |
| Sustainable Tourism | 6 | 2 | 33% | |
| Sustainable Transport | 5 | 1 | 20% | |
| OTHER (Projects less than £5,000) | 3 | 1 | 33% | |
| PROSPER SUBTOTAL | 44 | 29 | 66% | |
| | | | | |
| TOTAL EXPENDITURE | 352 | 212 | 60% | |

*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 4

Authority-led Partnership Projects 2017/18

| | 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 | | |
| Our Past, Our Future (HLF) | 89 | 911 | 1,000 | 318 | 32% | Funding to be spent by all partners – On track, but not limited by financial years |
| New Forest Remembers | 0 | 23 | 23 | 0 | 0% | Remaining legacy funding does not have to be spent this year |
| Pedall (Big Lottery) | 0 | 133 | 133 | 8 | 6% | Project just getting underway - two post-holders have started. |
| Higher Level Stewardship | 0 | 60 | 60 | 37 | 62% | |
| Land Advice Service | 5 | 65 | 70 | 22 | 31% | On track |
| TOTAL | 94 | 1,192 | 1,286 | 385 | 30% | |

On average, for every £1 the Authority contributes it generates a further £13 from partner organisations

Annex 5

Developer Contributions:

| | Affordable Housing | Open Space | Ecological Mitigation |
|------------------------|---------------------------|-------------------|------------------------------|
| | £000 | £000 | £000 |
| Starting Balance | 535 | 68 | 46 |
| Funds Received | 0 | 0 | 23 |
| Funds Spent / Released | 0 | (12) | (4) |
| Current Balance | 535 | 56 | 65 |

Current Reserve Balances:

| | Starting Balance | Projected Movement | Closing Balance |
|----------------------------------|-------------------------|---------------------------|------------------------|
| | £000 | £000 | £000 |
| General Fund Reserve | 300 | 0 | 300 |
| Earmarked Reserves: | | | |
| Revenue Support Reserve | 139 | (70) | 69 |
| Capital / Major Projects Reserve | 817 | (20) | 797 |
| Planning / Risk Reserve | 150 | 0 | 150 |
| Sustainable Communities Fund | 28 | (28) | 0 |
| ICT R&R Fund | 109 | (109) | 0 |
| Other | 493 | (60) | 433 |
| TOTAL | 2,036 | (287) | 1,749 |

Annex 6

TREASURY MANAGEMENT PERFORMANCE REPORT – 1 APRIL TO 30 SEPTEMBER 2017

1. Introduction

- 1.1 This report covers the period 1 April to 30 September 2017 for the Authority's treasury management activities.

2. Strategy for 2016/17

- 2.1 The Authority approved the Treasury Management Strategy for 2017/18 on 23 March 2017 (NFNPA 519/17).
- 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 further, with the current average ranging from 0 – 0.4%.
- 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 0.5%.
- 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 no changes in the Bank of England (BoE) base rate during the year to date:

| Date | Bank Base Rate |
|-------------------|-----------------------|
| At 1 April 2017 | 0.25% |
| 30 September 2017 | 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 0.4% for the quarter ending in September 2017; however this is slightly down on the growth of recent years. The BoE base rate is still currently 0.25% but many are expecting a rise up to 0.5% in early November. Unemployment is still continuing to fall but, at the same time, earnings are also falling (by 0.4% in 2016/17).

Inflation in recent years has been at or below zero; however it has risen sharply in recent months up to 3% in September. Following the Brexit decision last summer, the Pound is down by around 10% against the Dollar and Euro having regained some ground this year. 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 increased soon to 0.5% but that further increases in the near future would be unlikely or at least very slow.

4.2 Global economy

Eurozone growth was a healthy 0.6% in the quarter to the end of September and is seemingly following a similar pattern to the UK economy, although currently with higher unemployment levels.

The US had very strong growth of 0.75% in the last quarter, the best for three years, and has set a target of 3% GDP growth year-on-year. China also had a strong quarter with growth of 1.7% and an expected annual rise of 6.5% this year.

5. Investments

5.1 The Authority's investment funds fall into two categories:

Funds available that we know will be unlikely to be spent during the year because they are earmarked for longer-term projects, our minimum reserve and developer contributions. These are therefore core funds and available to be invested for longer periods if the increased return is greater than the corresponding risk.

Other funds are of a more cash flow nature and are likely to be invested for shorter durations up to 1-3 months.

5.2 For 2017/18 the Authority has decided to continue 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.

- 5.3 The interest earned on these cash-flow investments for the period to 30 September 2017 was equivalent to an **annual rate of return of 0.28%**.
- 5.4 The original estimate for interest earnings for 2017/18 was £9,000 based on an average forecast interest rate of 0.4%. Given the current rates of return, the latest forecast would be around £7-9,000 in interest earnings for the year.
- 5.5 A list of investments at 30 September 2017 is shown at **Annex 1**.
- 5.6 All temporary investments have been invested according to the parameters set within the Authority's Treasury Policy Statement.

6 Investment benchmark

- 6.5 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.
- 6.6 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.
- 6.7 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.
- 6.8 The table below shows the performance of the Authority's investments to 30 September 2017 compared to the benchmark. The performances are shown as annualised figures.

| | Cash Flow Investments |
|-------------------------------|----------------------------------|
| | % |
| Benchmark Return (annualised) | 0.27 |
| Actual Return (annualised) | 0.28 |
| Return above Benchmark | <u>0.01</u> |

- 6.9 As at 30 September 2017, cash-flow interest earnings exceeded the benchmark by an annualised 0.01%; this equates to £120 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. Important Upcoming Regulatory Changes

- 8.1 Following the problems with investments such as was seen with the Icelandic banks, the government has reviewed how public sector investments should be managed. The recommendations were to tighten the rules on how smaller authorities can invest their funds with the goal of reducing their ability to use any high or medium risk products.
- 8.2 As a result, from January 2018 all public authorities with investment portfolios of less than £10m will not now be classed as 'professional investors' but as 'retail investors' – this will include our Authority. This classification severely restricts the types of investments available to us and is likely to preclude investments such as Money Market Funds (which we currently use).
- 8.3 The Chief Finance Officer is in contact with our MMF provider on this issue and will alter our investments accordingly if that is no longer available to us. As a short-term measure this is likely to be opening up a further very-low-risk bank savings account to hold those funds in. Furthermore he will undertake a full review of the investment strategy and our options going forward; these could include pooling fund with others to share risks and gain slightly higher rewards, although risk will always be measured over reward as clearly set out in our Treasury Strategy.

9. Investment instruments

- 9.1 All of the investments are made in money market deposits.
- 9.2 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.

10. Compliance with the CIPFA code of practice

- 10.1 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 2017/18.

11. Conclusions

- 11.1 Temporary interest earnings of £7-9,000 are forecast for the 2017/18 financial year. Any shortfall would be due to reducing interest rates available within the low-risk investment categories specified by the Authority's current Treasury Strategy and the upcoming changes in our available investments as set out in section 8 of the report.

**Treasury Performance Report
Appendix 1**

Investments & Holdings at 30 September 2017

| Counterparty | Principal | Interest Rate | Investment Date | Maturity Date |
|-------------------------|------------------|----------------------|------------------------|----------------------|
| | £ | % | | |
| Money Market Fund (MMF) | 1,000,000 | 0.19 | Instant Access | |
| Debt Mgmt Office (DMO) | 750,000 | 0.10 | Instant Access* | |
| Lloyds Current Account | 783,000 | 0.15 | Instant Access | |
| Total | 2,533,000 | | | |

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