

Corporate Financial Monitoring

Report of the Finance and Resources Portfolio Holder

Recommended:

1. That the financial position for each Service and the key revenue areas contained in the Annex to the report be noted.
2. That the Treasury Management update in paragraph 4 of the report be noted.

Recommendation to Council

3. That the 'Upper limit for total principal sums invested for over 364 days' be updated as detailed in paragraph 4.11 of the report.

SUMMARY:

- This report reviews the Council's revenue spending for the first quarter of the 2024/25 financial year.
- It also examines the main differences between the original estimate for 2024/25 and actual spend to 30 June 2024 and provides explanations for significant variances.
- Overall, net expenditure to 30 June 2024 was £94,000 higher than budgeted at this stage of the year. This adverse variance comprises lower income and additional costs of £185,000 due to service-related activities partially offset by £91,000 more income from the Council's investing and borrowing activities.

1 Introduction

- 1.1 As part of responsible financial stewardship, it is recommended that the financial performance of the Council should be reviewed regularly.
- 1.2 Revenue budget monitoring is carried out every month for all services and presented to Cabinet regularly throughout the year.
- 1.3 This report examines the income and expenditure of each service over the first quarter of the year. The Annex shows the financial summaries of each service to 30 June 2024 together with an explanation of any significant variances.
- 1.4 Several key areas of income and expenditure, not all apparent within individual services have also been analysed and are also shown in the Annex.

- 1.5 The report also contains a Treasury Management Update for the first quarter of the year.

2 Background

Profiling of Income and Expenditure

- 2.1 Not all income and expenditure is incurred equally over the year. For example, some costs (e.g. software maintenance costs) are paid annually in one transaction, and others are stepped throughout the year (e.g. rental income is invoiced quarterly in advance). The manner that income or expenditure is received or incurred over the course of the year is referred to as its profile.
- 2.2 In order to make the analysis more relevant, the actual income and expenditure to 30 June is being compared against its profiled budget position at this time.
- 2.3 The profile of salary costs reported in the annex have been adjusted to reflect that the budgeted pay award in 2024/25 was not approved by the end of the quarter.

Analysis of income and expenditure

- 2.4 The Annex shows, by service, an analysis of original budget, profiled budget to date, actual expenditure to date and the variance between profiled budget and actual income / expenditure.
- 2.5 The Annex also shows an analysis of key areas of income and expenditure within the budget that are traditionally subject to variations in the year.

3 Analysis of Financial Performance

3.1 Chief Executive's Office and Human Resources

The Chief Executive's Office and Human Resources shows net expenditure to the end of June of £268,000 against a profiled budget of £238,000. This represents an adverse variance of £30,000 to date.

Higher than estimated employee costs and additional costs of the payroll system are the reason for this variance.

3.2 Community and Leisure

The Community and Leisure service shows net expenditure of £136,000 compared with a profiled net expenditure estimate of £210,000 – a favourable variance of £74,000.

Higher than budgeted income from The Lights and managed sports facilities and lower than budgeted premises costs are partially offset by higher than budgeted staff costs.

3.3 Environmental Service

Environmental Service shows net expenditure to the end of June of £772,000 against a profiled estimate of £709,000. This is an adverse variance of £63,000.

Income from the sale of dry mixed recycling is £142,000 lower than budgeted. This is due to the price per tonne falling by 35% year on year.

Additional employee costs due to agency staff covering vacancies have been partially offset by lower than budgeted transport costs, specifically the costs of HVO and repair costs, and additional income from garden waste and glass recycling.

3.4 Finance and Revenues

The Finance and Revenues service shows net expenditure of £854,000 against a profiled estimate of £900,000, which is a favourable variance of £46,000.

This is due to employee costs and supplies and services being under budget.

3.5 Housing and Environmental Health

The Housing and Environmental Health service has net expenditure of £762,000 against a profiled estimate of £820,000. This is a favourable variance of £58,000.

This is due to employee costs being under budget which are partially offset by additional bed and breakfast costs.

3.6 Legal and Democratic

The Legal and Democratic service is showing net expenditure of £162,000 against a profiled estimate of £171,000, which is a favourable variance of £9,000.

Lower than budgeted transport costs and higher than budgeted legal fee income are partially offset by higher than forecast employee costs.

3.7 Planning and Building

The Planning and Building service shows net expenditure to the end of June of £540,000 against a profiled budget of £380,000. This represents an adverse variance of £160,000 to date.

This is due to lower than estimated planning application and building control income and unavoidable legal costs and planning appeal costs mainly regarding a public enquiry, which are partially offset by lower than budgeted employee costs.

Investigations suggest that planning application numbers and the associated fees are being held back due to the new requirements for biodiversity net gain. This is expected to be a temporary issue with increased applications coming through later in the year.

3.8 Planning Policy and Economic Development

The Planning Policy and Economic Development service is showing net expenditure of £687,000 against a profiled estimate of £690,000. This represents a favourable variance of £3,000.

3.9 Property and Asset Management Service

The Property and Asset Management service has generated net income of £2.817M against a profiled estimate to the end of June of £2.846M – an adverse variance of £29,000.

This is mainly due to lower than estimated rental income from rent reviews which have not yet been completed and lower than estimated project consultancy income, partially offset by lower employee costs.

3.10 Strategy and Innovation

The Strategy and Innovation service is showing net expenditure of £727,000 against a profiled estimate of £722,000 to the end of June. This is an adverse variance of £5,000.

3.11 Corporate and Democratic

The Corporate and Democratic cost centres show expenditure of £433,000 compared with the profiled estimate of £344,000. This is an adverse variance of £89,000.

This is mainly due to unbudgeted legal fees in respect of an injunction. This will be monitored and may be offset by a draw from contingency, if required.

3.12 Key areas of income and expenditure

The Annex also shows an analysis of significant items in the Council's budget. These can be spread across several services or cost centres.

While not necessarily under the direct control of one budget manager it is important that these items are reviewed regularly in total as they provide a good indication of the overall variances within the budget.

4 Treasury Management Update

- 4.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 requires that Members be updated on treasury management activities at least quarterly.

Annual Investment Strategy

4.2 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Council on 29 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

4.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's low-risk appetite.

Creditworthiness

4.4 There have been few changes to credit ratings over the quarter ending 30 June 2024. Officers continue to closely monitor these and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment Counterparty Criteria

4.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirements of the treasury management function.

Investment performance

4.6 Income from investments during the quarter to the end of June 2024 was £1.147M against an estimated income of £1.056M, a favourable variance of £91,000.

4.7 The main reason for this favourable variance is that the average return on investment was 4.76% compared to a budgeted return of 4.37%.

4.8 The average return on investment for the period was 4.76%. The average benchmark rate for the same period was 5.12%, resulting in a small underperformance against the benchmark of 0.36%. This is due to investments taken out prior to the sharp increase in interest rates at the beginning of 2022. All investments taken out in the quarter to 30 June 2024 have exceeded benchmark rates at the time of investment.

Approved Limits

4.9 One of the approved limits within the Annual Investment Strategy was breached during the quarter ended 30 June 2024.

- 4.10 This was the 'Upper limit for total principal sums invested for over 364 days (amount subject to being not more than 50% of the portfolio size at the time the investment was placed)' of £35M. During the quarter, the total invested for over 364 days reached £45M from a total average portfolio of £95.3M. Each of the investments was carefully considered at the time it was placed taking into account security, liquidity and yield. All of the investments are with other local authorities, and therefore the risk to the Council is minimal, and £25M of the £45M will be returned before the end of March 2025.
- 4.11 To allow the treasury function increased flexibility and access to higher interest rates as rates are forecast to fall, it is recommended that the approved limit be changed to exclude local authorities as these are a safe investment and that the approved limit be amended to:
- Upper limit for total principal sums invested for over 364 days (amount excludes investments in local authorities and subject to being not more than 50% of the portfolio size at the time the investment was placed)' of £35M.

Borrowing

- 4.12 The Council did not undertake any borrowing during the quarter ending 30 June 2024. It is not anticipated that any further borrowing will be undertaken during this financial year.

Compliance with Treasury and Prudential Indicators

- 4.13 The prudential and treasury indicators for the year 2024/25 were approved by Council on 29 February 2024. During the quarter ending 30 June 2024, the Council has operated within these prudential indicators, with the exception of the approved limit detailed in paragraph 4.10.
- 4.14 There are no additional changes required to the approved prudential indicators.
- 4.15 All treasury management operations have also been conducted in full compliance with the Treasury Management Practices.

5 Risk Management

- 5.1 This report is for information purposes, so the Council's Risk Management approach does not need to be applied.

6 Resource Implications

- 6.1 An adverse variance of £94,000 in the first quarter of the year has been identified in this report. There is a mixture of adverse and favourable variances across the services and these will continue to be monitored throughout the year and reviewed as part of the budget-setting process for 2025/26.

7 Equality Issues

7.1 This report is for information purposes, so the Council's EQIA process does not need to be applied.

8 Other Issues

8.1 There are no other issues to consider.

9 Conclusion and reasons for recommendation

9.1 Overall, net expenditure is £94,000 higher than forecast at 30 June. There are a number of areas with large variances between the profiled budget and the actual income / expenditure to date.

9.2 The report does not make any recommendations for changes to budgets at this stage in the year and therefore the recommendation is that the current budget position be noted.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
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Report to:	Cabinet	Date:	21 August 2024