CABINET	AGENDA ITEM No. 11
29 SEPTEMBER 2010	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton	
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BUDGET MONITORING REPORT FINAL OUTTURN 2009/10

R E C O M M E N D A T I O N S	
FROM : *Executive Director Strategic Resources*	**Deadline date :** September 2010

Cabinet is recommended to:

1. Note the final outturn position (based on expenditure at the end of March 2010) on the Council's revenue and capital budget;

2. Note the performance against the prudential indicators;

3. Note the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments; and

4. Note the financial uncertainty of local government financing in future years and how this could impact the Council.

1. ORIGIN OF REPORT

1.1. This report is submitted to Cabinet as a monitoring item. This report has been discussed by Audit Committee on 28 June 2010 as part of their approval of the Statement of Accounts.

2. PURPOSE AND REASON FOR REPORT

2.1. The purpose of this report is to inform Members of the final financial performance for revenue and capital at 31 March 2010.

2.2. This report also contains performance information on treasury management activities, the payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments.

2.3. This report is for Cabinet to consider under its Terms of Reference No. 3.2.7 "To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit".

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	**NO**

4. FINAL OUTTURN 2009/10

4.1. Corporate Overview

4.1.1. The financial year 2009/10 has been a challenging financial year with an array of one off and emerging pressures since Full Council approved the revenue and capital budget requirement for 2009/10 in February 2009. Early in the financial year, an analytical review concluded that high level risks and issues would require careful monitoring, review and appropriate management action to ensure that the financial position of the Council remained stable. Specific risks and issues included:

i. Continuing reduced trend in income streams such as planning fee income, rent and leases, fees and charges, sponsorship and advertising income;
ii. Demand led budgets such as looked after children, concessionary fares, revenue and benefits services;
iii. Emerging 'one off' pressures;
iv. The continued ability to meet the Council's ambitious savings programme;
v. The effective management of the overall capital programme to meet the Council's longer term objectives both within financial and people resources; and
vi. The Council's ability to generate capital receipts through asset disposal, mainly due to the slow down of development during the recession.

4.1.2. The external influences such as the ongoing recession, the impact of 'Baby P' on Children's Social Care budgets, the slow down of development and growth and the uncertainty of future local government funding underwent due diligence, particularly through the latter part of the financial year, incorporating outcomes into a five year financial plan from 2010. The Council is not alone in experiencing these external influences and along with all other local authorities and business the Council has been negatively affected by the recession and its consequences.

4.1.3. The Council has remained in good stead, proactively managing risks and issues within departments and corporately as set out previously to Corporate Management Team and Cabinet in earlier reports.

4.1.4. In summary, the Council has been able to manage the expectations as set out in the Medium Term Financial Strategy (MTFS) with no detrimental impact to services, such as service cuts, has taken remedial action where required to mitigate pressures including addressing ongoing pressures within setting the financial strategy for 2010-2015 and has ensured that the financial position of the Council has remained stable.

4.1.5. The financial position of the Council going forward in future years is likely to be more challenging, having been recognised by the budget deficits in the current MTFS from 2011/12 onwards. However, since the budget was set, a general election has changed the country's political landscape and inevitably brought further uncertainty for local government financing such as:

i. Coalition government announcing £6bn cuts to local government during 2010/11, including cuts of £1.165bn for local government;
ii. Impact of the emergency budget to be announced on 22 June 2010, including grant cuts in future of 25% in real terms (as opposed to the grant freeze assumed in the MTFS); and
iii. Continuing to deliver Business Transformation.

4.1.6. An initial assessment of the possible financial impact of these issues and the approach that the Council will follow in tackling them is considered separately on the agenda.

4.1.7. The Council remains committed to its strategy in delivering service efficiencies and improvements using a proactive approach to managing Council finances and delivering a longer term financial plan covering a rolling five year cycle.

4.2. **Financial Report - Revenue**

4.2.1 The Council's overall revenue position is £364k under spent, against a budget of £151,273k, an improvement of £1,192k since the adopted outturn was reported to Cabinet. This is in part due to the robust mechanisms put in place to mitigate the emerging pressures such as reduced income streams and demand led services, utilising the Council's reserves to meet one off costs as agreed during the setting of the MTFS 2010–2015 and slowing down non-priority spend or delaying projects and initiatives with no detriment to the MTFS. Alongside these actions, Children's Services and Operations successfully delivered their action plans. All risks were corporately managed over the last quarter of the financial year.

Key Movements	**£000**	**£000**
Adopted Outturn		**828**
Corporate Solutions to Reduce Pressure	-71	
Service Action Plans to Reduce Pressure	-1,431	
Capitalisation of Redundancy Costs	-328	
Other Pressures and Management Actions	638	
Net Movement		-1,192
Final Outturn		**-364**

4.2.2 The main changes since probable outturn was published:

i. Reduced requirement to meet one off costs associated with re-opening Hereward College and the provision set aside for grants. Although there is no impact on the Council's revenue position, this has improved the Council's overall balances by £658k;

ii. Receipt of additional Housing Planning and Delivery Grant;

iii. Contingency budgets totalling £647k earmarked to meet specific one off pressures no longer required;

iv. The Council has benefited from a redundancy capitalisation direction granted by central government to meet the costs associated with statutory redundancy costs totalling £487k which has contributed to the improvement in the Council's overall balances;

v. Departments implementing local action plans such as vacancy management, freezing non business critical spend and delaying projects or initiatives in the short term with no consequences on service delivery.

4.2.3 In accordance with financial guidance, the Council has set aside specific reserves to meet commitments and current issues to mitigate risk exposure to the Council financially during 2010/11. Included within the above figures, £450k has been set aside to meet the costs associated with the formation of the Leisure Trust as presented to Cabinet during March 2010 and £400k has been set aside to contribute towards implementing the recommendations of the recent Children's Social Care inspection.

4.2.4 The Council has taken a balanced view of the above actions and understanding of its cost drivers, in particular those deemed to be one off and those continuing costs that would not be sustainable to manage through budget monitoring alone. Continuing costs have been considered as part of setting the MTFS.

4.2.5 The under spend is summarised in the table below at departmental level. A further breakdown is included in Appendix A.

4.2.6 The Dedicated Schools Grant shows an under spend of £774k against a budget of £131,395k. Schools Forum is responsible for decisions related to the Dedicated Schools Grant. This has been included for information purposes only. In accordance with accounting guidance, the under spend has been carried forward to next financial year:

Adopted Outturn £(k)	Final Revenue Outturn Position	Annual Budget £(k)	Final Outturn £(k)	Outturn Variance £(k)
405	Deputy Chief Executive	6,746	6,282	-464
-66	Legal & Democratic Services	3,697	3,376	-321
0	Children's Services	45,399	45,446	47
316	City Services	15,794	15,864	70
650	Operations	24,833	25,240	407
-477	Strategic Resources*	15,286	15,183	-103
0	Adult Social Care	39,518	39,518	0
828	**General Fund Total**	**151,273**	**150,909**	**-364**
	Transfer to Capacity Building Reserve			364
-828	Corporate Mitigations			
-2,173	(Deficit) to General Fund Balance			-2,242
6,000	General Fund Balance Brought Forward			6,000
3,827	General Fund Balance Carried Forward			**3,758**
228	**Dedicated School Grant Total**	**131,395**	**130,621**	**-774**

*Excludes re-profiling of VAT shelter income expected from Cross Keys. The shortfall will be met from the General Fund working balance as per the current MTFS with the working balance being replenished in future years.

4.3. Financial Report - Reserves

4.3.1 In setting the 2009/10 budget, the level of Council balances was considered sufficient in meeting the MTFS recognising the requirement to review the balances to ensure delivery of the Council's priorities. As part of setting the MTFS 2010/11 consideration was given to a five year financial review and in the context of uncertainty leading up to a general election and future funding arrangements. Subsequently the next table has been updated to reflect the current position going forward over the next five years.

4.3.2 The overall level of balances assumes that the under spend of £364k reported within revenue outturn position is transferred to the capacity building reserve. Although the current reported position is healthier than that reported earlier in the year, it is anticipated to diminish over the next five years due to some balances being specific to costs that will be incurred over the next five years.

4.3.3 The capacity building reserve is likely to be fully utilised in future years as pressures emerge and the uncertainty around local government financing. The five year overview assumes a position before any detailed work has been undertaken with regards to the £6bn cuts impact assessment.

Council Balances	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Balance at 31.03.10 £000	Estimated Balance at 31.03.11 £000	Estimated Balance at 31.03.12 £000	Estimated Balance at 31.03.13 £000	Estimated Balance at 31.03.14 £000	Estimated Balance at 31.03.15 £000	Estimated Balance at 31.03.16 £000
Departmental Reserves Total	**3,430**	**0**	**0**	**0**	**0**	**0**	**0**
Commercial Property Portfolio Reserves	**6,000**	**4,484**	**3,374**	**2,563**	**1,877**	**1,441**	**1,005**
Iceland Reserve	**838**	**0**	**0**	**0**	**0**	**0**	**0**
Provision of Grants Reserve	**250**	**0**	**0**	**0**	**0**	**0**	**0**
Parish Council Burial Ground Reserve	36	36	36	36	36	36	36
Insurance Reserve	2,408	2,308	2,208	2,108	2,008	1,908	1,808
Capacity Building Reserve*	2,557	2,037	2,242	2,242	2,242	2,242	2,242
Schools Capital Expenditure Reserve	1,307	1,307	1,307	1,307	1,307	1,307	1,307
Corporate Reserves Total	**6,308**	**6,828**	**5,618**	**4,707**	**3,921**	**3,385**	**2,849**
General Fund Working Balance	3,758	4,712	5,515	6,000	6,000	6,000	6,000
Total Reserves	**20,584**	**16,024**	**14,507**	**13,270**	**11,798**	**10,826**	**9,854**

*NB - The capacity building reserve as at 31 March 2010 includes the under spend of £364k
The capacity building reserve assumes £2m 2010/11 and £205k 2011/12 MTFP capacity bids will be fully utilised

4.3.4 The following table provides a summary of reserve balances since the estimated position was published within the MTFS:

Summary of Balances (Movement between MTFS and actual position 31 March 2010	MTFS (Full Council) £k	Net in year Movement £k	New £k	Actual Balance £k
General Fund Working Balance	3,827	-69	0	**3,758**
Earmarked Reserves:				
- Insurance	2,341	-13	80	**2,408**
- Capacity Building Reserve	247	2,778	-468	**2,557**
- Departmental (Includes Peterborough College of Adult Education reserve)	1,728	-215	1,917	**3,430**
- Schools Capital Expenditure Reserve	2,080	-1,416	643	**1,307**
- Commercial Property Portfolio	0	0	6,000	**6,000**
- Provision for Grants	0	0	250	**250**
- Iceland Reserve	0	0	838	**838**
- Parish Council Burial Ground Reserve	42	-6	0	**36**
Total Reserves	**10,265**	**1,059**	**9,260**	**20,584**

i. General Fund Working Balance – As reported previously to Cabinet and in alignment with the MTFS, this has reduced from the £6m working balance due to re-phasing of income received from Cross Keys now expected over future years. Based on the information on income streams from Cross Keys, it is expected that this fund will be fully replenished during 2012/13, although future year estimates are dependent on refreshing Cross Keys business plan;

ii. Insurance reserve - A year end adjustment has been made to the accounts;

iii. Capacity Building Reserve – The improved position is the result of releasing in excess of £1.4m from the schools capital expenditure reserve in accordance with accounting regulations, £658k previously set aside to meet one off costs associated with the re-opening of Hereward College and provision for grants, a release of provision no longer required, the revenue under spend of £364k and the release of miscellaneous reserves requests that were previously set aside to meet pressures during 2009/10;

iv. Schools Capital Expenditure Reserve – This reserve is earmarked for schools and managing future year's capital spend through the Council's capital programme. As the Council meets schools capital spend through the capital programme, it enables the release of funds within this reserve to be transferred to the capacity building reserve for Council use. There is no impact on school funding.

v. Commercial Property Portfolio – This reserve has been created to meet the future costs associated with the Council's property portfolio following the recession and continuing impact of void and vacant properties. The balance is committed over the next five years to meet costs and will therefore be run down gradually over the next five years. It is not expected to incur a burden for council tax payers;

vi. Provision for Grants – As reported to Cabinet previously, this is the residual amount now required to meet the outcome of audit certification of grants; and

vii. Iceland Reserves – The Council had a total of £3m invested in two Icelandic owned banks which went into administration in October 2008. A reserve has been set up to meet the costs of the loss based on the best estimate as at May 2010, an improvement from earlier in the financial year. Potentially, the cost to the Council could reduce further as work is ongoing to agree a final recovery rate and it is therefore prudent to create a reserve to meet the final shortfall.

4.4. **Financial Report - Capital**

4.4.1 The capital programme for 2009/10 as agreed in the Medium Term Financial Strategy (MTFS) was £78.9m. The final slippage of schemes from 2008/09 was £26.3m. This is mainly the result of delays with projects and new capital being added since the MTFS which resulted in a revised capital programme as at 1 April 2009 of £105.2m.

4.4.2 Throughout 2009/10, the capital programme has been refreshed to reflect the current position and the revised budget of £67.4m - shown in the next table - is after slippage and deferral of projects into future financial years has been applied. A total of £37.8m of capital schemes has either slipped or been deferred which includes the Waste project, Hampton Secondary School and Affordable Housing.

4.4.3 The capital programme is financed through borrowing, capital receipts, grants and contributions. Given that the capital programme has reduced through slippage and deferral of projects this has reduced the amount of borrowing originally anticipated since setting the MTFS. However, if the schemes continue in future years, borrowing would still be required to fund these schemes and the revenue impact would need to be considered as part of refreshing the current MTFS.

4.4.4 Additionally, the Council was anticipating £6.4m in capital receipts to support the capital programme. The actual receipts received that can be applied to the capital programme have been lower £1,151k due to the general market conditions throughout the recession. It is noted that £5m of capital receipts has been contractually ‘committed’ subject to meeting conditions within the contracts. However this capital receipt income will not be expected now until during 2010/11 subject to satisfying the conditions imposed within the contracts. In accordance with accounting regulations, these capital receipts can only be applied to the capital programme once all of the conditions have been satisfied during the financial year in which they occur. Although the actual receipts have been lower, this has not been an issue due to the overall slippage within the capital programme.

Overall Position of the Capital Programme 2009/10 as at March 2010

Capital Programme by Directorate:	MTFS 2008 to 2010 £000	Revised 1st April 09 Budget £000	Revised budget at March 2010 £000	Actual Outturn £000
Adult Social Care	517	617	587	344
Deputy Chief Execs	10,323	13,342	968	926
Children's Services	27,225	37,896	25,449	19,403
City Services	1,958	3,503	1,879	2,053
Operations	25,043	31,728	21,511	21,185
Strategic Resources	13,796	18,158	17,070	17,923
Total Expenditure	**78,862**	**105,244**	**67,464**	**61,834**
Financed by:				
Grants & Contributions	27,438	47,858	34,588	33,223
Capital Receipts	5,020	9,347	524	524
Capital Receipts Set Aside	(4,734)	(4,734)	-	-
Right To Buy Receipts	1,820	1,820	627	627
Supported Borrowing	7,696	7,696	7,696	7,696
Borrowing	41,622	43,257	24,029	19,764
Total Resources - required	**78,862**	**105,244**	**67,464**	**61,834**

4.5. Financial Report – Treasury Management Activity for 2009/10

4.5.1 The Treasury Management Strategy was fully revised during the year to take into account the revision of the prudential code and the lessons learnt from the Icelandic Banks. The main objectives of the Strategy are to reduce the revenue cost of the Council's debt in the medium term, to seek to reschedule debt at the optimum time and to invest cash balances with dependable institutions at interest rates higher than the cost of borrowing.

4.5.2 In summary, therefore, the following actions were taken during 2009/10:

i. Investments were placed in accordance with the restricted lending list implemented in October 2008 following the economic crisis. The current lending list ensures investments are secure but interest returns are low due to the limitation of institutions used and also the level of the bank base rate. However during 2009/10 the Council's investment performance has exceeded the benchmark by 1.35%. This is largely due to fixed term deposits placed in 2008/09 for one year at higher rates before the decline in interest rates over the last 18 months.

ii. Investments were placed for short periods to cover cash flow deficits in anticipation of a rise in the bank base rate, a rise in market rates and an extension of the lending list to include all of the UK institutions included in the Treasury Strategy.

iii. As borrowing rates continued to be higher than investment rates in 2009/10, the cash balances were used to finance the capital programme instead of borrowing. This has resulted in a fall in the overall investment balance held but has also saved on borrowing costs that extra long term borrowing would have incurred.

4.5.3 The 2009/10 treasury management activities are summarised as follows:

	Strategy	Action
a)	Exploit long-term funding opportunities at interest rate levels that are below short-term rates forecast / anticipated over the foreseeable future.	Borrowing has been avoided by running down the cash balances whilst borrowing costs remain higher than investment return

	Strategy	Action
b)	Consider rescheduling of fixed or variable rate loans to maximise interest rate savings and minimise the impact on Council budgets.	Consideration has been made to rescheduling debt however there have been no suitable opportunities to do this. The difference between the repayment rate and the rate of a new loan has not resulted in a net discount to the Council and no savings were to be made. The Public Works Loans Board (PWLB) is proposing to the reduce the differential between loan borrowing rates and prepayment rates and this may lead to opportunities for rescheduling in the future
c)	Consider repayment of external loans or avoid new borrowings when it is in the best financial interest to do so.	As investment returns remained below the cost of borrowing during the financial year, cash balances were used to finance the capital programme and no new borrowing was required
d)	Invest with credit worthy organisations to limit exposure against loss.	The Council has continued with the lending list implemented in October 2008. Currently the Council only lends to the UK Government, local authorities and our own bank, Barclays.
e)	To achieve the optimum investment return commensurate with security, liquidity requirements (access to funds), debt management alternatives (avoidance of borrowings, premature repayments etc), if these would generate savings in the medium term.	Cash balances have been used to finance capital expenditure to minimise counterparty risk and as an alternative to diminishing investment returns. Even allowing for the non-performing Icelandic deposits, the Council's investments have yielded 1.77% compared to the benchmark of 0.42%

4.5.4 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. In accordance with the 2009 Statement of Recommended Practice (SoRP) this now includes the liability for the Private Finance Initiative (PFI) agreement.

4.5.5 Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B.

4.5.6 In 2009/10 the CFR was:

	£000
Opening Capital Financing Requirement 1 April 2009	**198,013**
New Capital Expenditure Financed by Borrowing	27,460
Minimum Revenue Provision for Debt Repayment	(7,465)

Closing Capital Financing Requirement 31 March 2010	**218,008**

4.6. **Financial Report – Performance Monitoring**

4.6.1 Performance monitoring information is shown in Appendix C.

5. CONSULTATION

5.1. Detailed reports have been discussed in Departmental Management Teams. This report has also been discussed by Audit Committee on 28 June 2010 as part of its approval of the Statement of Accounts.

6. ANTICIPATED OUTCOMES

6.1. Cabinet notes the outturn position for the Council.

6.2. Cabinet notes the performance against the prudential indicators for the Council.

6.3. Cabinet notes the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments.

6.4. Cabinet notes the financial uncertainty of local government financing in future years and how this could impact the Council.

7. REASONS FOR RECOMMENDATIONS

7.1. This monitoring report for 2009/10 financial year is part of the process for producing the Statement of Accounts.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1. None required at this stage.

9. IMPLICATIONS

9.1. This report does not have any implications effecting legal, human rights act or human resource issues.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985).
Detailed monthly budgetary control reports prepared in Departments.

Appendix A

Adopted Outturn Variance £(k)		Annual Budget £(k)	Final Outturn Forecast £(k)	Outturn Variance £(k)
	DEPUTY CHIEF EXECUTIVE'S DEPARTMENT			
-25	Chief Execs Department	431	422	-9
-66	Legal & Democratic Services	3,697	3,376	-321
113	Deputy Chief Executive Unit	2,196	2,078	-118
-91	Delivery	2,482	1,988	-494
369	Communications	854	1,050	196
-26	Strategic Improvement	394	283	-111
151	Human Resources	389	461	72
-86	Action Plan / Use of Balances	0	0	0
339	**CHIEF EXECUTIVE DEPARTMENT TOTAL**	**10,443**	**9,658**	**-785**
	DIRECTOR OF CHILDREN'S SERVICES			
491	Resources, Commissioning and Performance	12,149	9,878	-2,271
204	Learning & Skills	7,245	7,855	610
-281	Family and Communities	7,279	6,570	-709
1347	Children's Social Care	18,726	21,143	2,417
-1761	Action Plan / Use of Balances	0	0	0
0	**CHILDREN'S SERVICE TOTAL (GENERAL FUND)**	**45,399**	**45,446**	**47**
	DIRECTOR OF CITY SERVICES			
-104	Building & Technical	-203	-117	86
-146	Street Scene & Facilities	506	322	-184
0	Property, Design and Maintenance	-246	-285	-39
0	Other Trading Activities and Business Support	2,056	2,248	192
273	Maintenance	13,616	13,384	-232
360	Westcombe	65	312	247
-67	Action Plan	0	0	0
316	**CITY SERVICES TOTAL**	**15,794**	**15,864**	**70**
	DIRECTOR OF OPERATIONS SERVICES			
93	Business Support	1,382	1,460	78
251	City Operations	-416	-399	17
522	Cultural Services	4,457	5,082	625
39	Directors Office	619	559	-60
-62	Environment and Transport	12,670	11,787	-883
1484	Neighbourhoods	4,740	5,253	513
453	Planning Services	1,381	1,498	117
292	Balancing - Shortfall	0	0	0
-2422	Action Plan / Use of Balances	0	0	0
650	**OPERATIONS SERVICES TOTAL**	**24,833**	**25,240**	**407**
	DIRECTOR OF STRATEGIC RESOURCES			
0	Director's Office	262	115	-147
-78	Business Support	687	536	-151
3237	Corporate Services	11,384	10,499	-885
665	Strategic Property	-4,263	-3,526	737
17	Transactional Services	56	79	23
-81	Insurance	935	853	-82
21	Internal Audit	2	16	14
42	HR Payroll	347	374	27
-76	Procurement	-509	390	899
125	Business Transformation	2,761	2,454	-307
0	Waste Management	70	35	-35
-409	ICT	1,182	1,310	128
333	Customer Services	1,795	2,091	296
-28	Revenue and Benefits	577	23	-554
0	Trading Accounts	0	-66	-66
-4245	Corporate Pressures / Action Plan / Use of Balances	0	0	0
-477	**STRATEGIC RESOURCES TOTAL**	**15,286**	**15,183**	**-103**
	ADULT SOCIAL CARE TOTAL	**39,518**	**39,518**	**0**
828	**GENERAL FUND TOTAL**	**151,273**	**150,909**	**-364**
228	**DEDICATED SCHOOL GRANT TOTAL**	**131,395**	**130,621**	**-774**

Appendix B

Prudential Indicators for 2009/10

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable,

(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;

(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires each authority to set a range of Prudential Indicators for the next financial year and the two succeeding ones. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Management Strategy. The outturn for the Prudential Indicators for 2009-10 and where applicable the impact on 2010/11 are set out in this appendix.

The 2009 Statement of Recommended Practice (SoRP) introduced a new accounting policy with regards to how Private Finance Initiative (PFI) arrangements are accounted for. The new accounting policy results in PFI related assets being brought on to the Council's Balance Sheet, in the Council's case three secondary schools, which in turn impacts the Council's capital financing.

Performance against the following Prudential indicators are shown as originally estimated in the 2009/10 Medium Term Financial Strategy (MTFS) and are revised for the impact of the PFI adjustment.

1. Indicator One: Adoption of the CIPFA Code of Treasury Management in the Public Services

The Council adopted the CIPFA Code of Treasury Management in the Public Services in 2002, and the revised code in February 2010. Treasury Management Practices (TMP's) have been established with advice from Sector Treasury Services and applied to the Council's treasury management activities.

2. Indicator Two: Estimates and actual Capital Expenditure 2009/10

	2009/10 Prudential Indicator £m	2009/10 Actual Expenditure £m
Capital Expenditure	78.9	61.8

This indicator is the estimated and actual capital expenditure for the year based on the Capital Programme for that period.

3. Indicator Three: Estimates of actual capital financing requirements and net borrowing

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. It is calculated from various capital balances in the Council's Balance Sheet.

	2009/10	PFI	Revised 2009/10
	£m	£m	£m
Prudential Indicator	185.4	50.0	235.4
Actual	168.0	50.0	218.0

4. **Indicator Four: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream**

The net revenue stream is the authority's net revenue budget funded from Council Tax and Government grants. The actual revenue financing was £264m, including DSG. Actual financing costs were £15m

	2009/10	PFI	Revised 2009/10
	%	%	%
Prudential Indicator	4.70	0.75	5.45
Actual	4.36	0.75	5.11

5. **Indicator Five: Affordability (2) Estimate of the incremental impact of capital investment decisions on the Council Tax**

This indicator is intended to show the impact of the Council's decisions about capital investment on the level of Council Tax required to support those decisions over the medium term.

The calculation of this indicator has been done of the basis of the amount of the capital programme that was financed from borrowing. The calculation is based on the interest assumption for borrowing that was included in the capital financing budget. The revenue costs are divided by the estimated Council Tax base for the year:

	2009/10	PFI	Revised 2009/10
	£	£	£
Prudential Indicator	20.93	-	20.93
Actual	18.06	-	18.06

The overall impact of the PFI arrangement for this Prudential Indicator is zero. This is because the change in accounting treatment has no additional impact on the Council's revenue expenditure.

6. **Indicators Six: External Debt Prudential Indicators**

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent". The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year. The limits also incorporated margins to allow for exceptional short-term movements in the Council's cash flow, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However the Council can revise the limit during the course of the year.

"Other long term liabilities" include items that would appear on the balance sheet of the Council under that heading. For example, the capital cost of finance leases would be included.

The Operational Boundary is a measure of the day to day likely borrowing for the Council, whereas the Authorised Limit is a maximum limit. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated, as a potential symptom of a more serious financial problem.

	2009/10	2009/10	Revised 2009/10
	Prudential Indicator	Actual- exc. PFI	Actual inc. PFI
	£m	£m	£m
Authorised Limit for external debt -			
borrowing	250.0	134.5	134.5
other long term liabilities	4.0	1.0	51.0
Total	**254.0**	**135.50**	**185.50**
Operational Boundary for external debt -			
borrowing	195.0	134.5	134.5
other long term liabilities	3.0	1.0	51.0
Total	**198.0**	**135.5**	**185.5**

7. Indicator Seven: Variable interest rate exposure

This indicator places an upper limit on the total amount of net borrowing (borrowing less investment) which is at variable rates subject to interest rate movements. The intention is to keep the variable rate borrowing below 25% of the total gross borrowing.

The limit is expressed as the value of total borrowing less investments

	2009/10	2009/10
	Prudential Indicator	Actual
	£m	£m
Upper limit for variable rate exposure	46.0	0

8. Indicator Eight: Fixed Interest rate exposures

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit (100%), allows flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflects a position where the great majority of borrowing is at fixed rate which provides budget certainty. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the great majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	2009/10 Prudential Indicator	2009/10 Actual
	£m	£m
Borrowing	250.0	134.5
Investment	-	(13.4)
Total	**250.0**	**121.10**

9. Indicator Nine: Prudential limits for the maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing, and reflected the relatively beneficial long term rates that were expected to be available over the next few years. The limits were as follows:

Period	Upper Limit Estimate	Lower Limit Estimate	Actual
Under 12 months	30%	0%	13%
1 - 2 years	30%	0%	1%
2 - 5 years	80%	0%	0%
5 - 10 years	80%	0%	0%
over 10 years	100%	10%	86%

10. Indicator Ten: Total Investments for periods longer than 364 days

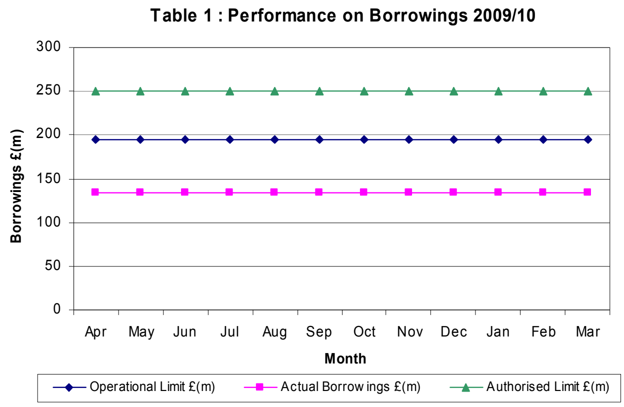
Authorities are able to invest for longer than 364 days, which can be advantageous if higher rates are available; however it would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs

Principal sums invested for over 364 days (per maturity date)	2009/10 Prudential Indicator £m	2009/10 Actual £m
Upper limit	25.0	-

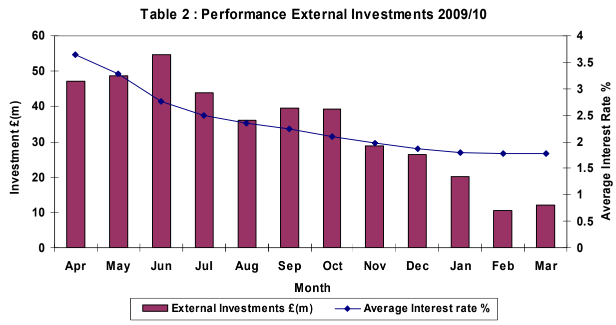
PERFORMANCE MONITORING DATA

<u>Treasury Management</u>

Treasury management activities cover borrowings raised to finance the Council's capital expenditure and investment of its cash balances. The Council's external debt as at 31 March 2010, which is all at fixed rate, was £134.5 million at an average rate of 4.57%. This average rate can be compared to the Bank Base Rate, 0.5% from 5 March 2009, and interest receivable on investments. The actual total external debt of £134.5 million can be compared against the Council's Authorised Limit for borrowing of £250 million which must not be exceeded, and the Operational Boundary (maximum working capital borrowing indicator) of £195 million.

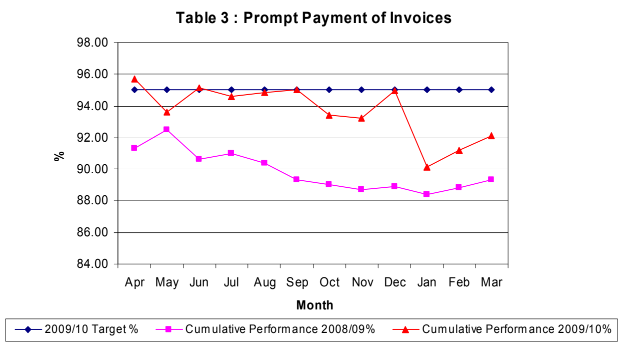


At 31 March 2010 external investments totalled £12.2 million and have yielded interest at an average rate of 1.77% in the financial year 09-10. This amount excludes the Icelandic investments. The performance of the investments is above the target benchmark 7 day rate of 0.42%. This high performance of interest returns will decline as the investments made before the bank base rate cut to 0.50% mature and are replaced.



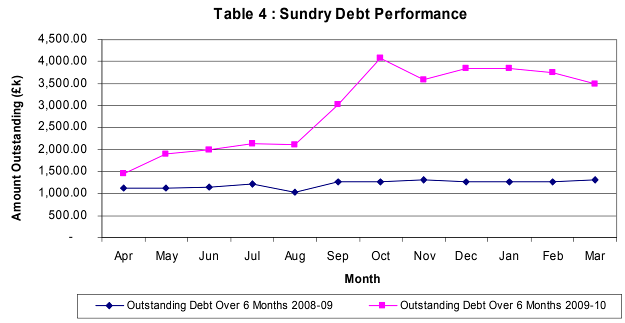
<u>Prompt Payment (Invoices paid within 30 Days)</u>

The cumulative performance (93.80%) for the prompt payment of invoices for 2009/10 in comparison to the cumulative performance for 2008/09 is shown in Table 3.

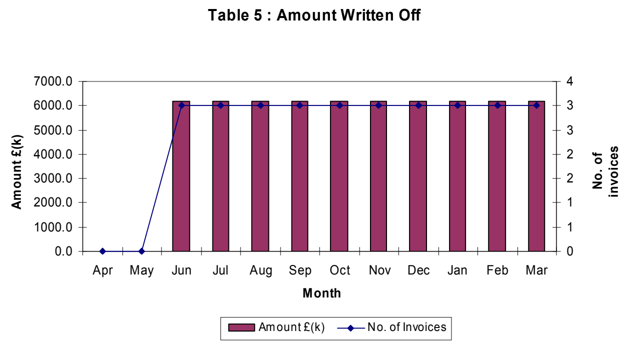


Sundry Debt Performance

The outstanding sundry debt figure for debt in excess of 6 months old at the end of 2009/10 is £3.5m. The impact of the recession has resulted in delayed payment of invoices by customers, non payment or rescheduling of the amount due into instalments. During 2009/10 the debt function has been overhauled and centralised from April 2010 to improve debt management. Action is currently ongoing to identify uncollectable aged debt and process these for write off in appropriate cases.

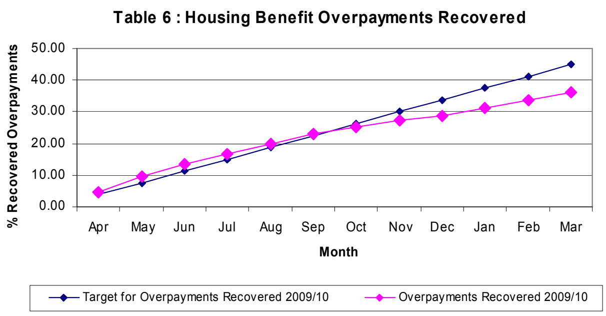


The total amount of write offs completed during 2009/10 totalled £6,172. Due to a revision of debt management processes, debt write off has remained static. However, it is anticipated that the centralised debt processes will identify older debt for write off and therefore the Council's debt provision has been revised to reflect uncollectable aged debt based upon best estimate.



Housing Benefit Overpayments

Table 6 shows the total amount of housing benefit overpayments recovered against the target rate of 45%.



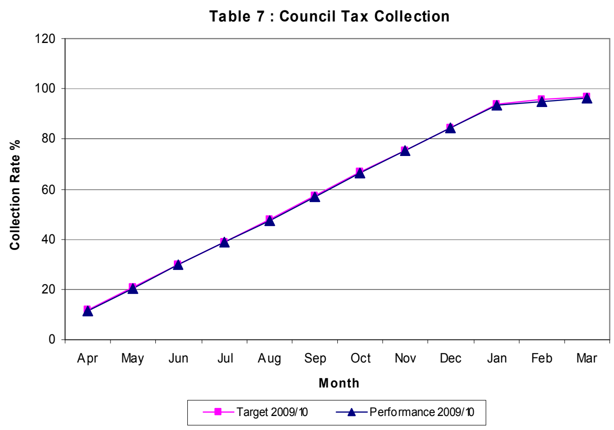
Work continues in this area to improve current performance, the Council carried £1.914m over at 31 March 2009 and raised a further £1.757m of overpayment debt during the year. Of the total debt £1.327m has been recovered this year, equating to 37.79% of in year identified and previous year balances collected. This is an increase of 0.13% on the collection rate for 2008/09. The benefit caseload increased by 1,338 during 2009/10 the largest increase being in working age claimants. These claim types give rise to a larger number of overpayments due to the greater number of changes to entitlement that are recorded for this group.

Council Tax and Business Rates Collection

The following tables 7 and 8 show the performance for collection of Council Tax and Business Rates for the period to date.

Council Tax

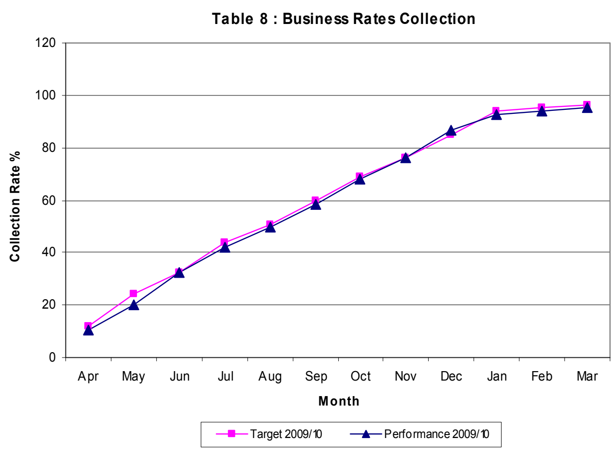
The collection rate for Council Tax at the end of the financial year 2009/10 is 96.06% against a target of 96.5% (down 0.44%). Compared with the collection rate for the previous year when the collection rate was 96.24% (down 0.12%).



The economic downturn faced in 2008/09 has affected the ability to increase collection rates in 2009/10 as council tax payers are still paying previous years arrears and delaying current year payments. There can be little doubt that this has affected the ability to improve upon the previous years collections although proactive recovery actions are being taken by the recovery team the impact of these has not been as effective as anticipated. An end to end review of the recovery process and the methods used is being undertaken in 2010/11 to implement improvements in collection. This will be undertaken in conjunction with the move to the new structure for the service.

Business Rates

The collection rate for Business Rates at the end of the financial year 2009/10 is 95.7%. This is 2.5% down on the target and 1.2% down on the previous year. The impact of the changes in legislation introduced on 1 April 2008 that introduced charges for previously exempt properties are still having an impact as organisations and individuals owning these properties in many cases do not have the financial resources to pay the charge and in the current economic climate are unable to find a tenant for the property. This change increased the overall amount that needed to be collected by some £8m on accounts where it was always known there would be significant problems with collection. In addition to this the continuing economic situation is undoubtedly continuing to have a direct impact on the level of business rates collected.



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