AUDIT COMMITTEE	AGENDA ITEM No. 4
29 JUNE 2015	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Cllr Andy Coles, Chair of Audit Committee	
Contact Officer(s): John Harrison, Corporate Director Resources Steven Pilsworth, Service Director, Financial Services		Tel. 452520 Tel. 384564

BUDGET MONITORING REPORT FINAL OUTTURN 2014/15

R E C O M M E N D A T I O N S	
FROM : Corporate Director Resources	**Deadline date : N/A**

That Audit Committee approve:

1. The reserves position for the Council.

That Audit Committee note:

2. The final outturn position for 2014/15 (subject to finalisation of the statutory statement of accounts) of a balanced position on the Council's revenue budget, after the use of £0.6m from reserves to support the budget, which is less than forecast as actions have reduced pressures;

3. The final outturn spending of £108.8m under the Council's capital programme 2014/15;

4. The performance against the prudential indicators;

5. The performance on treasury management activities, payment of creditors, collection performance for debtors, local taxation and benefit overpayments; and

6. The forecast budget gap of over £10m for 2016/17 is expected to increase with the update of national expenditure plans, and that Cabinet may need to review 2015/16 plans in light of the Budget to be released on 8th July.

1 ORIGIN OF THE REPORT

1.1 This report is submitted to Audit Committee with the final position for both the revenue budget and capital programme and requires the Committee to approve the reserves position as part of the Council's statement of accounts.

2 PURPOSE AND REASON FOR REPORT

2.1 The report provides Audit Committee with the outturn financial position for both the revenue budget and capital programme for 2014/15, subject to any changes required in the finalisation of the detailed statutory statement of accounts. The Committee is required to approve the reserves position as part of the statement of accounts.

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

2.3 The report is for Audit Committee to consider under its terms of reference No. 2.2.1.18 to review the annual statement of accounts, specifically, whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

3 TIMESCALE

Is this a Major Policy Item/ Statutory Plan	No	If yes, date for Cabinet meeting	N/A

4 FINAL OUTTURN 2014/15

4.1 Corporate Overview

4.1.1 The Council at its meeting in March 2014 approved a balanced budget for 2014/15 that supported the Council's key priorities to meet the changing characteristics of the city, its residents, businesses and those that visit the city. The approved budget included £19m of savings as a result of a £9m reduction in funding and increased demand for services creating pressures of £10m. The MTFS also outlined a number of risks that required to be monitored during the year.

4.1.2 Since the budget was set by Council in March 2014 the Council has experienced a variety of pressures against those budget plans. Audit Committee approved a one-off contribution of £3.2m from the capacity fund in June 2014 to mitigate pressures on Children's Services and Adult Social Care. There remained a £1.3m forecast overspend based on July 2014 figures.

4.1.3 During the year Corporate Management Team (CMT) received regular updates on the in-year budget position including tracking the delivery of savings approved as part of the budget and monitoring of identified risks. Through robust management action savings have been made to mitigate pressures, albeit some of the savings are one off actions, and the budget outturn has steadily improved. The November 2014 information upon which the probable outturn was based was for a £0.3m overspend with CMT committed to delivering a balanced position.

4.1.4 The Cabinet discussed the financial position regularly, with formal positions reported to Cabinet meetings held between September 2014 and March 2015 to ensure that pressures and risks were managed and taken account of in developing budget proposals for 2015/16 and future financial years. Financial plans were also considered by a cross-party budget working group.

4.1.5 Actions undertaken by the CMT and Cabinet have included:

- Departmental management teams have reviewed the budget position monthly and taken appropriate action including action plans to address budget issues. These have been acknowledged in corporate budget reports;
- The regular reports to CMT have included a summary of progress with savings proposals, additional pressures and risks using a red, amber and green approach with the focus on red and amber issues;
- Savings were brought forward as part of a two stage budget process for 2015/16 at December 2014 Council;
- The capital programme has been reviewed during the year, deferring projects into future financial years or removing projects that are no longer required. Any reduction in the amount that the Council requires to borrow to fund the capital programme has reduced the costs of financing borrowing which has been reflected in the revenue outturn position;
- Where possible all opportunities have been taken to capitalise expenditure relieving pressure on the general fund; and
- Review of reserves and provisions, in particular the commitments within the capacity reserve including to support transformation costs and as a risk contingency against exceptional in-year spending pressures.

4.1.6 The overall financial position for 2014/15 for the Council is detailed in this report. In summary, the Council has a balanced budget position and an improved reserves position. The capital programme spend is £108.8m.

4.1.7 In conclusion, the Council has successfully managed the financial challenges during 2014/15 by taking positive action and balancing the demands of local circumstances and the financial constraints of the national economic climate, with the outcome of delivering a balanced budget position.

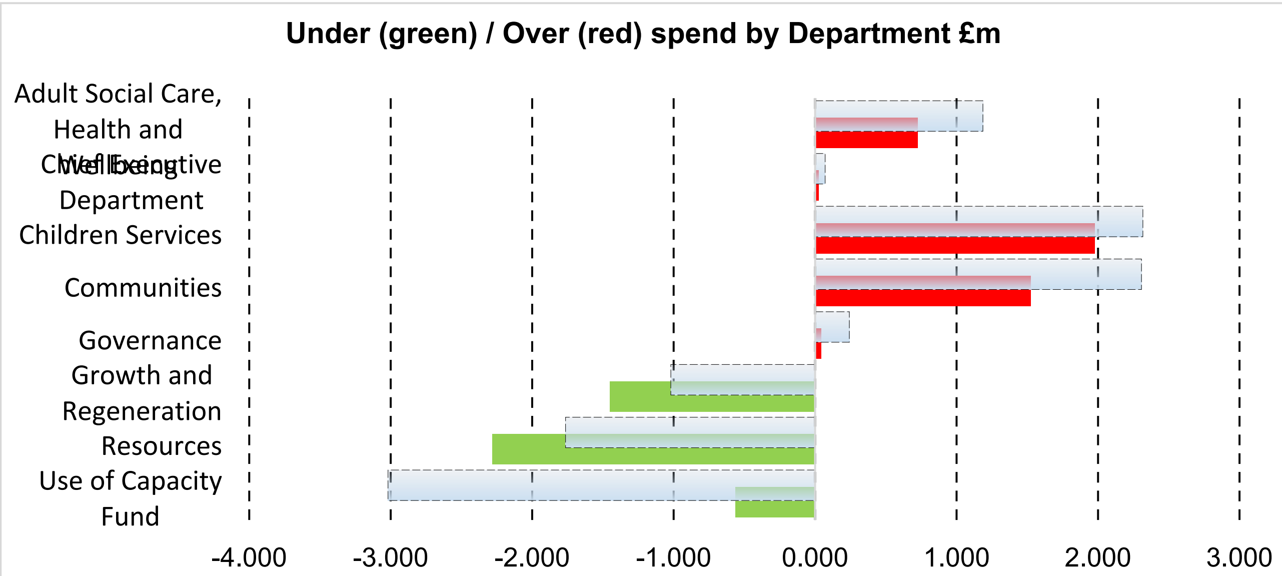
4.1.8 The Council's budget for 2015/16 includes spending reductions of £25.1m and a further budget gap for 2016/17 exceeding £10m. The budget gap is expected to increase when the government updates its national expenditure plans, a first indication of which might be given in the Chancellor's post-election budget on 8 July. Cabinet may need to review budget plans in light of this.

4.1.9 The Council remains committed to its strategy in managing Council finances effectively and efficiently over the medium term.

4.2 Financial Report – Revenue Outturn

4.2.1 The Council's overall revenue outturn position is a balanced position on the Council's revenue budget 2014/15 after drawing down £0.6m from reserves, which is less than the £3.2m set aside when closing the accounts last financial year to support social care pressures. The graph below summarises the revenue outturn position by the Directorates during 2014/15, with the position at probable outturn shown as empty bars.

Revenue outturn 2014/15



4.2.2 A breakdown of the outturn by Directorate and explanation of the major variations is provided in Appendix A.

4.2.3 The Dedicated Schools Grant shows an under spend of £5.5m against a budget of £118.2m. 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.

4.3 Financial Report – Reserves

4.3.1 The Council's departmental reserves and the capacity building reserve are monitored throughout the year as part of budget monitoring and feed into the budget setting process accordingly. The next table summarises the balance for all reserves at the end of 2014/15 and the estimated position at the end of 2015/16 before new commitments that may be required to deliver savings to close the 2016/17 budget gap.

	2014/15 £k	2015/16 £k
Earmarked Reserves		
Departmental Reserve	6,716	424
Schools Capital Expenditure Reserve	1,151	1,151
Future Cities Reserve	2,073	0
Insurance and Other minor reserves	4,364	4,373
Risk Management Contingency		657
Capacity Building Reserve	8,774	4,146
Subtotal - Earmarked Reserves	**23,078**	**10,751**
General Fund Balance	6,000	6,000

- Departmental Reserves – The amounts set aside by departments during the preparation of the accounts is in accordance with financial guidance to minimise risk exposure to the council in the following financial year.
- Schools Capital Expenditure reserves and Insurance and Other Minor reserves are held on behalf of others and sums that we are independently advised to hold, e.g. insurance reserve.
- Risk Management Contingency – This reserve was created in the 2015/16 budget process by transfer from the capacity building reserve.
- Capacity Building Reserve – This reserve is held to meet one off costs of service transformation and the delivery of savings within the MTFS. The balance on the capacity building reserve at March 2015 is £5.4m higher than forecast when the 2015/16 budget was set due to the reduced drawdown to balance the budget (£2.5m), a higher level of capitalisation (£1.2m), costs of change slipping into 2015/16 or no longer required (£1.4m), the release of additional other reserves (£0.2m) and other changes in the timing of spending commitments (£0.1m).
- General Fund – The general fund will be maintained at £6m and this is consistent with the current budget strategy.

4.3.2 The majority of reserve balances are set aside for specific purposes and a significant element will be required during 2015/16. They are therefore not additional monies, only a timing issue between financial years of when the commitments are likely to occur.

4.3.3 The capacity building reserve forecast reduces to £4.146m during 2015/16. It currently includes an initial estimate of change costs to support delivery of 2015/16 savings. Further commitments will be needed to provide investment to drive the level of savings to support the 2016/17 budget strategy.

4.4 Financial Report – Capital

4.4.1 The planned capital programme for the financial year was £260.8m. Slippage of expenditure from 2013/14 of £24.2m increased the agreed budget at 1 April 2014 to £285.0m. Throughout the year the capital programme was regularly reviewed and finally reduced to £127.9m through slippage and savings. Much of the slippage has been built into future budgets as part of setting the 2015/16 budget.

4.4.2 Capital expenditure during 2014/15 totalled £108.8m as shown in the summary table below:

Capital Programme 2014/15			
Capital Programme by Directorate	**Budget 01/04/2014**	**Revised Budget**	**Actual Expenditure**
	£000	**£000**	**£000**
Governance	69	69	20
Chief Executives	671	130	65
Adult Social Care	3,860	1,190	975
Communities	3,954	3,114	2,398
Growth & Regeneration	46,496	26,450	26,164
Resources - CHS	33,369	24,567	21,889
Resources - Renewable Energy	26,200	500	62
Resources - Other	75,080	61,387	52,963
Invest to Save	95,274	10,500	4,319
Total	**284,973**	**127,907**	**108,855**
Financed by:			
Grants & Contributions	37,081	34,545	35,561
Capital Receipts	9,764	1,887	2,905
Borrowing	238,128	91,475	70,389
Total	**284,973**	**127,907**	**108,855**

4.4.3 The Council and CMT have agreed to reduce and rephase some projects in the programme during the year to reduce the impact on financial resources or to reflect changing demographic needs. Other projects have been subject to delays which have led to budgets being slipped to 2015/16. Significant projects that contributed to the overall reduction of capital budget during the year from £285m to £127.9m include:

Growth & Regeneration

- £ 4.3m Public Realm
- £ 3.3m Affordable Housing
- £ 3.2m Roads & Bridges projects
- £ 3.0m Joint Venture

Resources

- £ 2.8m ICT Projects – rephasing and slippage
- £ 2.0m Cost of Disposals
- £ 3.3m Waste Management Strategy
- £ 8.9m New School Places

Invest to Save

- £84.8m Invest to Save
- £25.7m Renewable Energy project

4.4.4 The Invest to Save outturn of £4.3m in 2014/15 includes expenditure on delivering energy efficiency measures across the council's buildings portfolio including schools. The schemes are self-funding in two ways:

- Firstly, introducing energy efficiency measures through the replacement of plant inside the buildings driving down energy costs (for example in our swimming pools through new filters and a combined heat and power unit for the regional pool, more efficient lighting in car parks and replacing school boilers); and
- Secondly, putting solar panels on roofs to provide a cheaper source of energy for the buildings and an income stream by selling surplus energy to the grid (including schools and the central library).

4.4.5 The capital programme is financed through borrowing, capital receipts, grants and contributions. Although the amount of borrowing required has reduced due to slippage in the capital programme since the MTFS was approved, the Council will need to borrow £70.4m to fund 2014/15 capital expenditure.

4.5 Financial Report – Treasury Management Activity for 2014/15

4.5.1 The Council is required to operate a balanced budget, which means that cash raised through the year will meet cash expenditure. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

4.5.2 Another role of treasury management is to fund the Council's capital programme. The programme provides a guide to the borrowing needs of the Council and the planning of a longer term cash flow to ensure capital obligations are met. The management of long term cash may involve arranging short or long term loans or using longer term cash flow surpluses.

4.5.3 The treasury activity for the Council during 2014/15 is compliant with the Treasury Management Strategy approved in February 2014. Investment and borrowing activities include:

a. Investment – The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term and only invest with Barclays (the Council's current banking provider), the Debt Management Office and Local Authorities. As at 31 March 2015 the Council's external investments totalled £9.0m and have yielded interest at an average rate of 0.29% in the financial year 2014/15. Investments were placed for short periods to cover daily cash flow fluctuations.

b. Borrowing – In 2014/15 the Council increased its borrowing by £52m. Although £70m was required to fund the capital programme, due to timing issues surplus cash balances were utilised to off-set the actual borrowing requirement in the year. The borrowing has been taken out over a range of periods to best fit the Council's maturity profile of debt. Also the best possible interest rate has been sought in line with the budget for borrowing, including the continuation of the Council benefitting from reduced interest rates on long term PWLB loans by 20 basis points (0.2%) due to it submitting borrowing plans to government.

   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.

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 SoRP this now includes the liability for the Private Finance Initiative (PFI) agreement and the 2010 Code of Practice has revised the way the Council accounts for some leases which also impacts on the CFR.

4.5.5 In 2014/15 the CFR was:

	£000
Opening Capital Financing Requirement 1 April 2014	**365,748**
New Capital Expenditure Financed by Borrowing	70,389
Minimum Revenue Provision for Debt Repayment	(8,791)
Minimum Revenue Provision for PFI	(1,487)
Minimum Revenue Provision for Leases	(638)
Abortive costs for Wind & Solar Project	(2,808)
Closing Capital Financing Requirement 31 March 2015	**422,413**

4.5.6 As part of the setting of the treasury strategy, the Council sets annual prudential indicators to measure effectiveness of treasury management and reports against these indicators during the financial year. The indicators have not been breached during 2014/15.

4.5.7 Further information on the Council's capital financing arrangements can be found in the Prudential Indicators performance found in Appendix B along with an update on treasury management activity in Appendix C.

4.6 Financial Report – Performance Monitoring

4.6.1 An outline of performance against key indicators can be seen in Appendix C.

5. CONSULTATION

5.1 Detailed reports have been discussed in Departmental Management Teams.

6 ANTICIPATED OUTCOMES

6.1 To approve the reserves position of the Council.

6.2 To note the final outturn position for revenue and capital for 2014/15 for the Council.

6.3 To note the prudential indicators and performance figures for the Council.

7. REASONS FOR RECOMMENDATIONS

7.1 This monitoring report for the 2014/15 financial year forms part of the closure of accounts and decision making framework culminating in the production of 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, or human resource issues.

9.2 Members must have regard to the advice of the Section 151 Officer.

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 - REVENUE MONITORING REPORT AT END OF MARCH 2015

Probable Outturn £k	New Department (showing previous department and service area)	Budget 2014/15 £k	Spend 2014/15 £k	Variance 2014/15 £k
0	ASC - Directors Office	438	439	1
629	ASC - Care Services	6,748	6,872	124
-298	ASC - ISP	35,303	35,489	186
241	ASC - Quality and Information	567	583	16
614	ASC - Finance and Organisational change	-1,898	-1,500	398
1,186	**TOTAL ADULT SOCIAL CARE, HEALTH AND WELLBEING**	**41,158**	**41,883**	**725**
0	Cex- Chief Execs Office	327	297	-30
71	Cex - Chief Execs Departmental Support	117	174	57
71	**TOTAL CHIEF EXECUTIVE'S DEPARTMENT**	**444**	**471**	**27**
2,317	CHS - Education and Resources	8,604	10,581	1,977
0	CHS - Safeguarding families and communities	0	0	0
	DSG	5,440	5,440	0
2,317	**TOTAL CHILDREN SERVICES**	**14,044**	**16,021**	**1,977**
1,702	CHS - Strategy, Commissioning and Prevention	20,336	21,501	1,165
971	ASC - Strategic Commissioning	2,836	3,208	372
0	Ops - Public Health	0	-11	-11
-366	Savings to be identified	0		0
	DSG	17,664	17,664	0
2,307	**TOTAL COMMUNITIES**	**40,836**	**42,362**	**1,526**
-175	Cex - Legal & Governance	5,029	4,845	-184
120	Cex - Communications	568	738	170
0	Cex - Human Resources	1,317	1,219	-98
-49	Ops - Neighbourhoods	612	458	-154
346	Ops - Commercial Operations	-1,564	-1,254	310
242	**TOTAL GOVERNANCE**	**5,962**	**6,006**	**44**
155	Cex - Growth and Regeneration	0	0	0
-1,175	OPS - Planning Transport and Engineering	15,075	13,624	-1,451
-1,020	**TOTAL GROWTH AND REGENERATION**	**15,075**	**13,624**	**-1,451**
0	SR - Director's Office	226	226	0
-3,174	SR - Corporate Services	21,427	17,341	-4,086
0	SR - Environment Capital	3,904	3,904	0
0	SR - Internal Audit	315	307	-8
0	SR - Insurance	1,284	1,113	-171
14	SR - Strategic Client Services	5,428	5,890	462
0	SR - Peterborough Serco Strategic Partnership	9,795	9,684	-111
0	SR - ICT	4,330	4,430	100
60	SR - Waste and Operational Services Management	12,618	12,674	56
0	SR - Cultural Services	3,565	3,512	-53
14	SR - Registration and Bereavement	-915	-1,034	-119
-93	SR - Westcombe Engineering	7	-89	-96
1,415	CHS - Resources	1,036	2,793	1,757
0	OPS - Planning Transport and engineering	155	145	-10
	DSG	-23,104	-23,104	0
-1,764	**TOTAL RESOURCES**	**40,071**	**37,792**	**-2,279**
-3,019	Capacity Fund Contribution		-569	-569
320	**OUTTURN – SURPLUS (-) / DEFICIT (+)**	**157,590**	**157,590**	**0**

Key Variances:

Adult Social Care, Health and Wellbeing - £0.7m overspend

- This includes one off project costs and interim support to support the delivery of an adult social care transformation programme totalling £1.5m and as reported to September Cabinet will be partly offset by a one off contribution from the capacity fund.
- A pressure of £0.2m relates to a recent legal case, known as the West Cheshire judgement. This means that Deprivation of Living (DOLS) assessments now need to be applied in domestic settings, such as extra care and supported living. Previously they were restricted mainly to residential and hospital settings.
- Further demographic pressures of £0.2m, are offset by overachievement of savings targets (£0.6m) and other departmental actions (£0.6m).

Chief Executive Department - balanced

- Specialist HR work to support formulation of the budget proposals offset by other departmental actions.

Children Services - £2.0m overspend

- Demand for children social care services and the complexity of the cases has increased within Peterborough meaning that the demand for these services is over and above the budget, which has been addressed in future financial years. These costs relate to the recruitment and retention of social workers including agency social workers to meet increased workloads, essential to support vulnerable children.

Communities - £1.5m overspend

- The increased demand in children social care cases within Peterborough increases pressure on providing placements for children coming into local authority care resulting in an overspend of £0.7m. The council has a statutory duty to provide care.
- The continued costs of supporting independent living clients within adult social care supporting people budget is £0.2m overspent.
- Adult social care commissioning services includes transformation costs of £0.8m which will be offset by a one off contribution from the capacity fund.
- The income target for selective licensing is showing a £0.2m pressure.
- Partly offset by staffing savings of £0.2m and other departmental action/savings of £0.2m.

Governance - £0.0m balanced

- The Coroners and Justice Act 2009 requires the council to employ a medical examiner. There has been a delay nationally in implementing the reforms and therefore there is a one off saving in 2014/15 of £0.2m.
- The council held local elections around the same time as the European elections during May 2014. A one off saving of £0.1m has arisen following a reimbursement of costs for the European elections.
- Following the 2014 elections, the costs of current Members has not increased, a one off saving of £0.1m has been confirmed. Savings in future financial years is dependent on the annual review of the members allowance scheme and may be impacted by the result of the local elections.
- Achieving income budgets within commercial operations is a challenge for the council, with a shortfall of £0.2m on car parking income and £0.1m on market income.
- There is also a £0.3m cost pressure relating to temporary staffing offset by other departmental actions (£0.2m).

Growth and Regeneration - £1.5m underspend

- An underspend of £0.4m relates to a contract saving mechanism within the concessionary fares budget which is not due for review until 2016 and demand and increased costs being lower than budgeted for.
- There are employee savings of £0.6m, additional net income and grant income of £0.3m and other departmental actions of £0.2m.

Resources - £2.3m underspend

- Since the budget was set, the funding assumption for the adoption reform grant has reduced resulting in a pressure of £0.6m on the council's financial position. It has also now been identified that there is a shortfall in the Education Services grant of £0.2m.
- The support and education budgets transferred into the Resources department during 2013/14. Some of the budgets are demand led resulting in pressures in the following areas:
  - An increase in home to school transport provision requirements for secondary schools places caused an overspend of £0.5m.
  - An overspend of £0.1m on the secondary school public finance initiative (PFI) contract energy costs being in excess of inflationary increases.
  - Increased demand for services to support children social care including business support and legal services of £0.3m after being partly offset by departmental actions.
- A refresh of the capital programme projects since the budget was set coupled with a reduction in forecast interest rates for the remainder of this year and borrowing requirements impacting on the minimum revenue provision has identified a one off underspend of £3.6m.
- The council has received one off income relating to the former agreement with Cross Keys for VAT shelter income of £1.0m
- There have been further savings identified of £0.1m reduced business rate levy payment, a dividend received from ESPO of £0.1m and a trading surplus of £0.1m at Westcombe Engineering.
- Additional income from an unexpected rise in bereavement services for the period December 2014 to March 2015 of £0.1m
- The council has increased the sundry debt provision by £0.6m, although it remains committed to recovering outstanding debt

Appendix B – Treasury Management Strategy – Prudential Indicators – 2014/15

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

- Capital expenditure plans are affordable,
- All external borrowing and other long term liabilities are within prudent and sustainable levels,
- Treasury management decisions are taken in accordance with professional good practice.

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

3 The Code requires the Council to set a range of Prudential Indicators for the next five financial years. During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Annual Treasury Management Strategy.

Indicator One: Estimates and actual Capital Expenditure 2014/15

This indicator is the actual capital expenditure for the financial year.

	Indicator	Actual
Capital Expenditure	£260.8m	£108.8m

Indicator Two: 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.

	Indicator	Actual
CFR	£594.1m	£422.4m

Indicator Three: Affordability (1) Estimate of actual ratio of financing costs to net revenue stream

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt. This ratio has been revised to reflect the impact of finance lease adjustments.

	Indicator	Actual
Financing costs to revenue stream	7.1%	5.9%

Indicator Four: Affordability (2) Estimate of the incremental impact of capital investment decisions on 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 on 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.

	Indicator	Actual
Incremental impact on Council Tax	(£72.13)	(£82.17)

Indicator Five: Net Debt and the CFR

This indicator ensures that over the medium term debt will only be for capital purposes and the Council should ensure that gross debt does not, except in the short term, exceed the total of CFR in the preceding year or for the current and next two financial years.

	Indicator	Actual
Gross Debt	£525.8m	£346.4m
% of Gross Debt to CFR	88.5%	82.0%

Indicator Six: External Debt Prudential Indicator

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, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

	Indicator	Actual
Authorised Limit for external debt	£817.3m	£306.0m
Operational Boundary for external debt	£666.7m	£306.0m

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 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 and the PFI agreement.

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, should this occur it would be reported immediately to members of the Audit Committee and an explanatory report taken to the next committee meeting.

The following indicators take into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicators provide flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

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

	Indicator	Actual
Upper limit for variable rate exposure	£195.0m	£0

Indicator Eight: Fixed Interest rate exposure

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

	Indicator	**Actual**
Upper limit for fixed rate exposure	£779.8m	£306.0m

Indicator Nine: Prudential limits for 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**	**Actual Borrowing**
Under 12 months	40%	11%
1 – 2 years	40%	4%
2 – 5 years	80%	7%
5 – 10 years	80%	5%
Over 10 years	100%	73%

Indicator Ten: Total Investments for periods longer than 364 days

Authorities are able to invest for longer than 364 days; this 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.

The Corporate Director Resources has therefore sought the advice of Capita Asset Services, the Council's treasury advisors, who recommended that, given the structure of the Council's balance sheet and its day to day cash needs, it would be reasonable to maintain the limit for investments with life spans in excess of 1 year to £25m. Consequently, it is proposed to keep the limit for investments that may be deposited for more than 1 year at £25m for 2014/15 and later years.

In accordance with the approved Treasury Management Strategy the Council currently has no investments of more than 364 days.

Appendix C – Performance Monitoring

1. Treasury Management Update – March 2015

1.1 Economic Update

The following paragraphs are based on information from the Council's Treasury Advisors (Capita Asset Services)

1.1.1 Having slowed towards the end of 2014, the economic recovery does appear to have turned upwards in the early part of 2015. Whilst there has been a slight reduction in the service sector, both manufacturing and construction are improving. The Quarter 4 Gross Domestic Product (GDP) figures indicate that recovery has become more balanced. Indications are that export growth will remain slow, and, to counter the strength of sterling, exporters have further cut sterling prices to remain competitive.

1.1.2 Employment figures are improving with unemployment down to 5.7%. Consumer Price Index (CPI) Inflation also fell to a record low of 0.3% due mainly to transport costs, although this was partly off-set by price rises in clothing. With gas price cuts expected and the impact of reduced oil prices still to be fully reflected, analysts expect a temporary period of deflation during 2015.

1.1.3 General business lending has seen a steep downward curve as firms are repaying more external debt than they are taking out. Business confidence remains high overall. The market expects the first base rate increase to be in Quarter 1 2016.

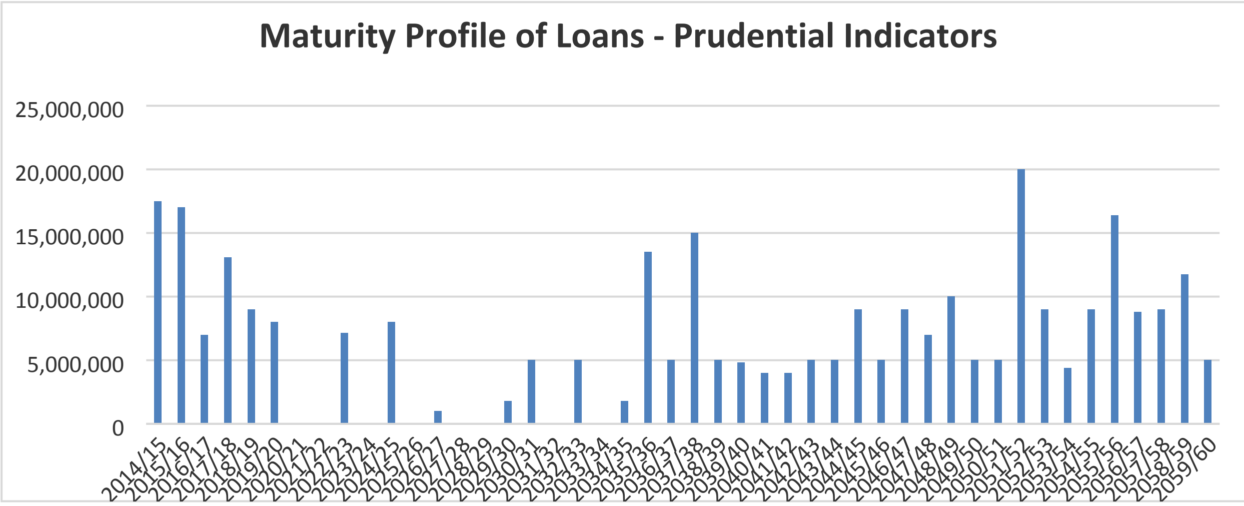
2.1 Borrowing

2.1.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.

2.1.2 The Council's borrowing as at 31 March was £346.4m. The actual total external debt is measured against the Council's Authorised Limit for borrowing of £817.3m, which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £666.7m. The table below shows a breakdown of the borrowing:

Borrowing	31 Mar 2014 Amount (£m)	31 Mar 2014 Average Interest Rate	31 Mar 2015 Amount (£m)	31 Mar 2015 Average Interest Rate
Long Term:				
Public Works Loan Board	149.4	4.38%	234.4	4.09%
Market Loans	17.5	4.53%	17.5	4.53%
Local Enterprise Partnership	0.1	0.00%	3.1	0.00%
Short Term:				
Local Authorities	87.0	0.9%	51.0	1.58%
Total 'Market' Borrowing	**254.0**		**306.0**	
Public Finance Initiative & Leases	40.1		40.4	
Total Borrowing	**294.1**		**346.4**	

2.1.3 The graph below shows the maturity profile of the Council's debt as at 31 March 2015:



*Please note 2014/15 includes £17.5m of market loans which are repayable in the long term but are classed as current year loans due to a callable option in the loan agreement.

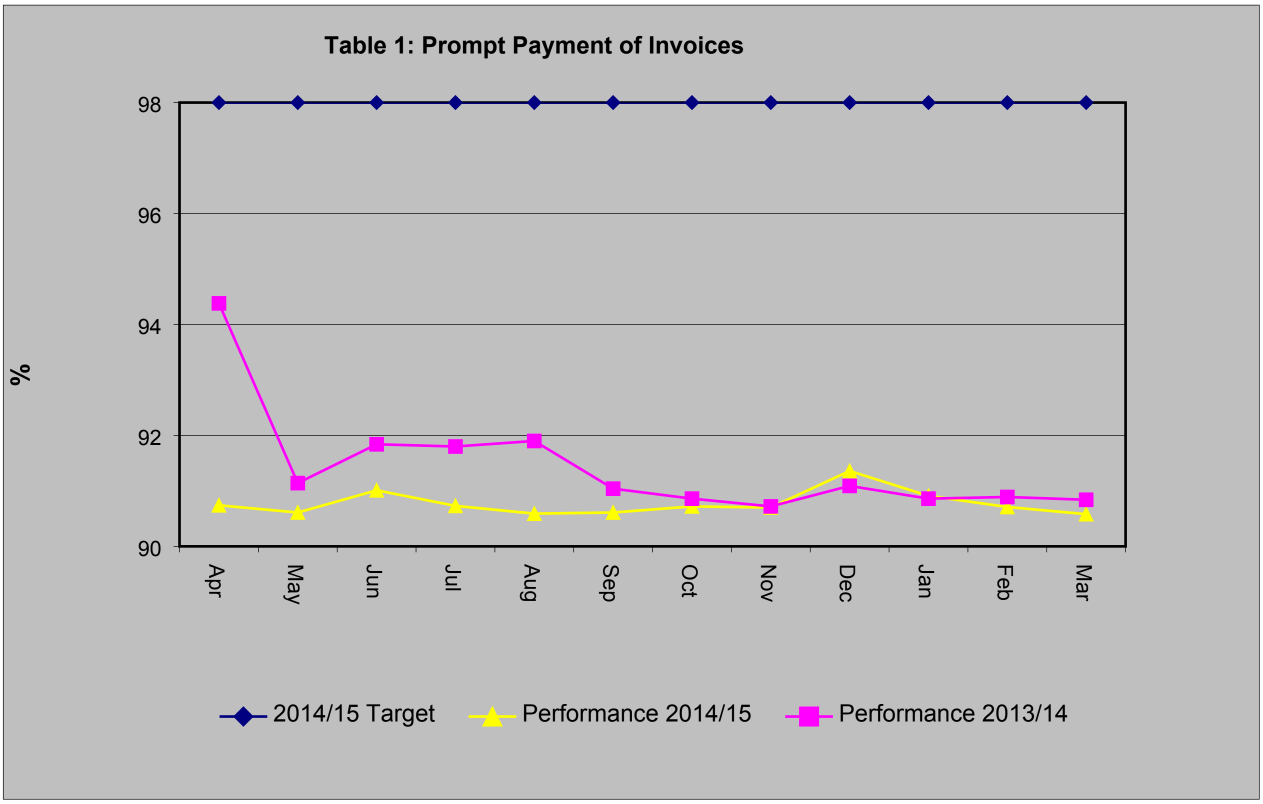
3.1 Investments

3.1.1 The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with Barclays (the Council's banking provider), Bank of Scotland, the Debt Management Office and Local Authorities.

2. Prompt Payment of Invoices (Invoices paid within 30 Days)

The cumulative position on prompt payment of invoices as at 31 March 2015 was 90.58 % which is below the target of 98% and 0.26% below the previous year's performance (90.84%). The current year performance is shown alongside the equivalent figures for 2013/14 in table 1.

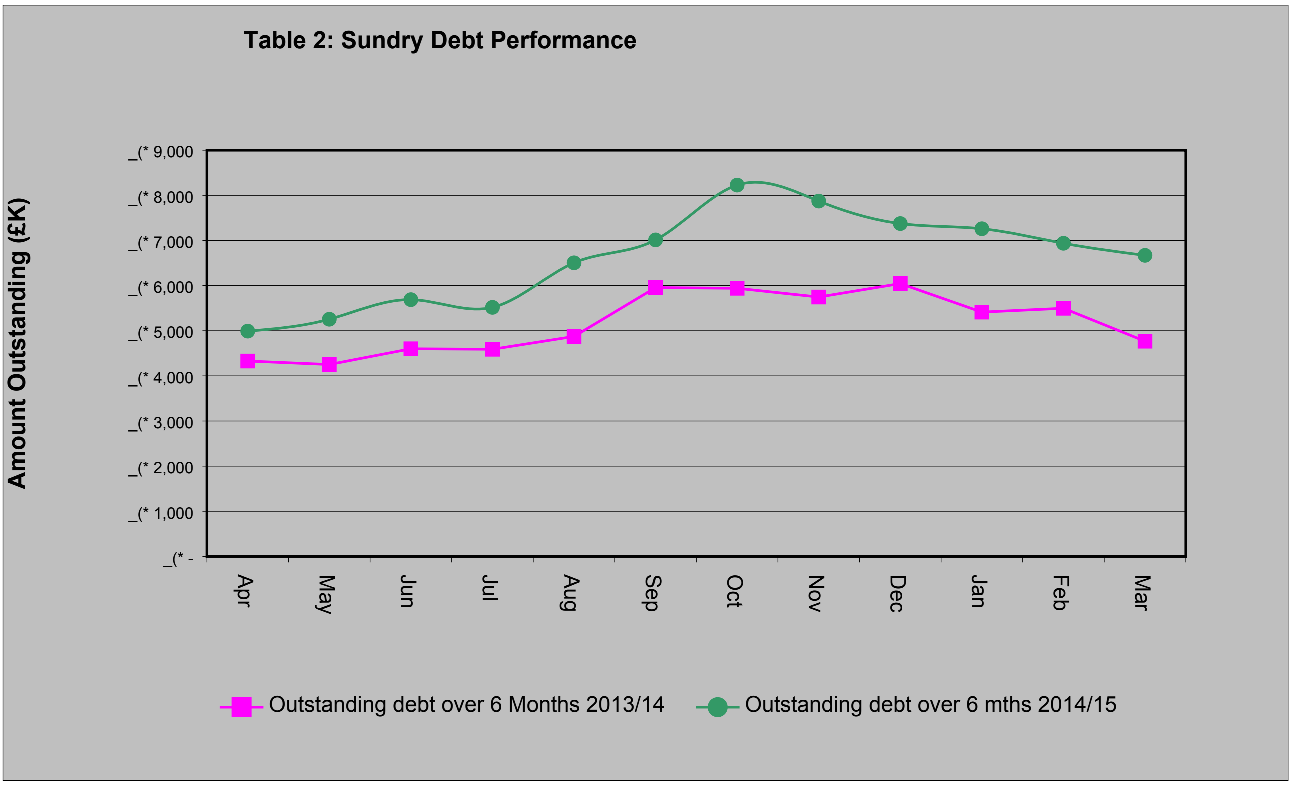
Performance against the prompt payment of invoices indicator has been adversely affected by current business processes which require intervention from officers across the council. It is anticipated that when the council changes financial system during 2015/16 business processes will be improved.



3. Sundry Debt Performance

The total outstanding sundry debt at 31 March 2015 is £14.35M, although £3.67M is not overdue and 53.52% is less than six months old. Of the overall debt, £6.67M is in excess of six months old compared to £4.77M at the end of 2013/14. Table 2 shows both years. The amount of debt written off for 2014/15 to 31 March 2015 is £35K.

The Sundry Debt team continue to prioritise and target the higher value debts, whilst at same time ensure that all stages of the recovery process are tight and that debts are progressed quickly. A review is underway to recover older debt.

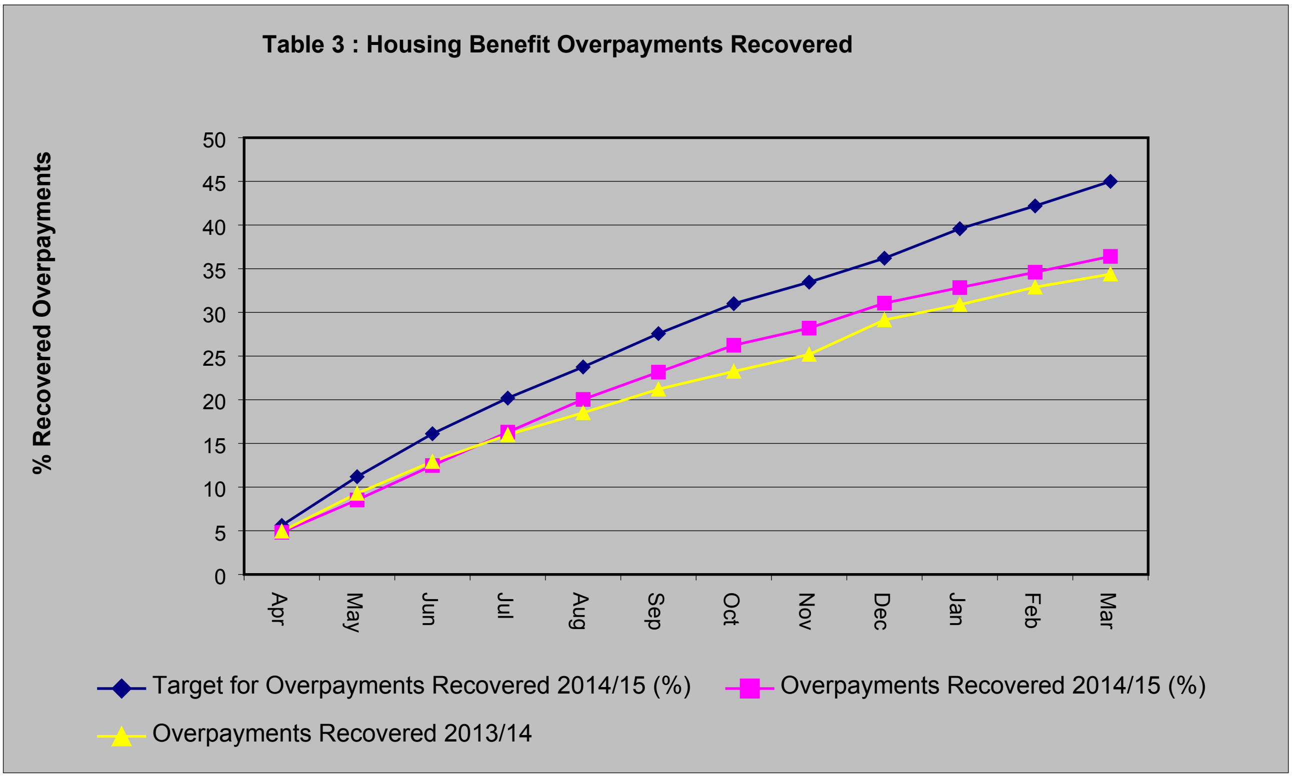


4. Housing Benefit Overpayments

Table 3 shows the total amount of housing benefit overpayments recovered against the cumulative target rate set for 2014/15 and the 2013/14 figures.

Housing benefit overpayment collection as at the 31 March 2015 was 36.41% which is below the target of 45.0% but 2.03% higher than the figure for March 2014 (34.38%).

The focus for 2015/16 will be around maximising recovery, using the powers available, for example direct attachment of earnings (DEA). Also £69K was recovered via attachment of benefit (AOB) in 2014/15 (an increase of £49K from the previous year). The work position in respect of Housing Benefit is significantly better than 12 months ago and therefore the number and value of overpayments will reduce.



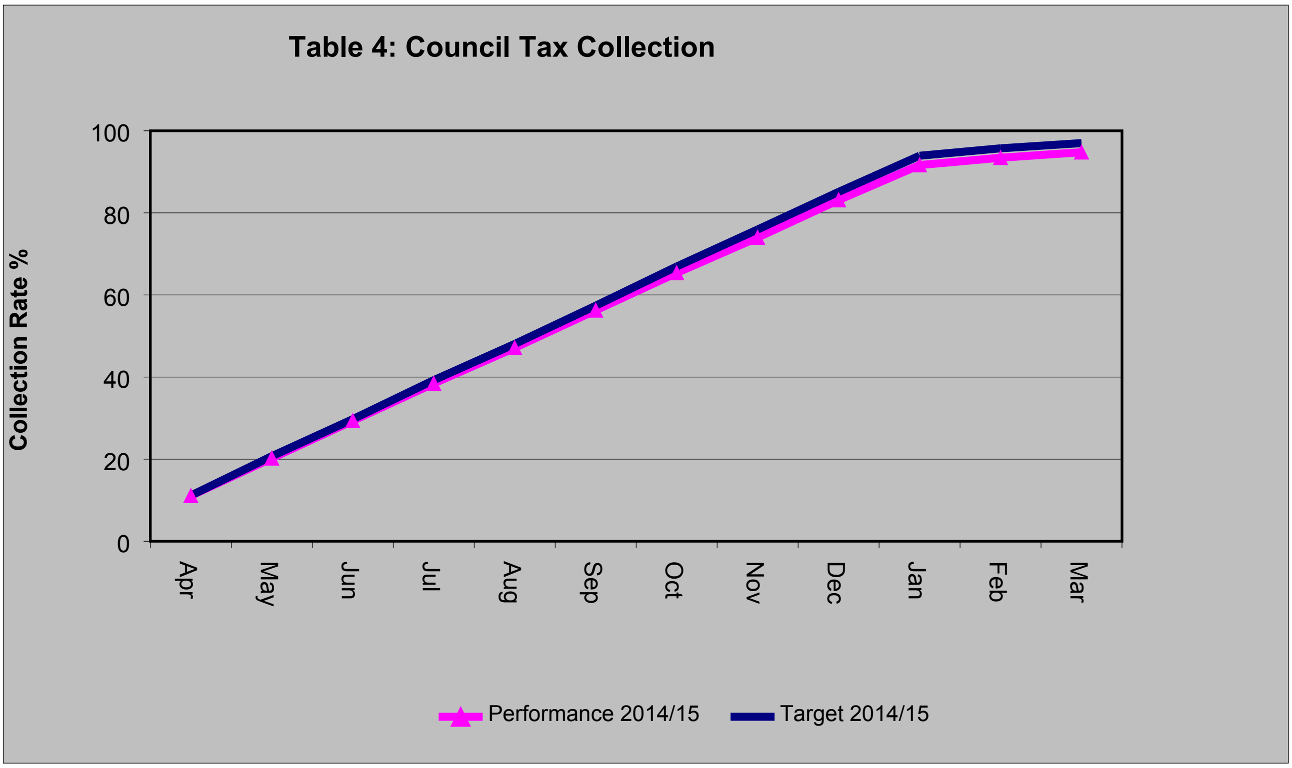
5. Council Tax and Business Rates Collection

Tables 4 and 5 show the performance for the collection of Council Tax and Business Rates for the period to date.

6. Council Tax Collection

In year council tax collection at 31 March 2015 is 94.78%, which is 0.48% less than the amount collected by this stage in 2013/14.

The administration of the council's local council tax support scheme remains challenging and continues to impact overall council tax collected in the year. However, proactive work continues in terms of recovery of outstanding amounts from previous years. As at 31 March 2015 a further 1.91% of 2013/14 council tax has been collected and now stands at 97.17% (2013/14, 95.26%)



7. Business Rates

The in-year collection of business rates as at 31 March 2015 was 97.78%, which is 0.53% above the target set and an increase of 0.86% compared with 2013/14. This was the best collection rate achieved in Peterborough since 2007/08.

Under the business rate retention scheme introduced in April 2013 the council benefits from any growth in business rates and it is all the more important to ensure robust collection.