AUDIT COMMITTEE	AGENDA ITEM No. 5
28 JUNE 2010	PUBLIC REPORT

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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 :** 18 June 2010

1. That the final outturn position (based on expenditure at the end of March 2010) on the Council's revenue and capital budget is noted.
2. That the performance against the prudential indicators be noted.
3. That the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments be noted.
4. That the financial uncertainty of local government financing in future years and how this could impact the Council be noted.

1. ORIGIN OF REPORT

1.1. This report is submitted to Audit Committee on 28 June 2010 as part of the Statement of Accounts and then to Cabinet as a monitoring item. This report has been discussed at CMT (Corporate Management Team) on 15 June 2010.

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.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	

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 risk 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 Social Care budgets, 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 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 CMT / 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, taken remedial action where required to mitigate pressures including addressing ongoing pressures within setting the financial strategy for 2010-2015 and 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. At the time of writing this report, further detail has just been released with regards to the £1.165bn local government cuts to grants as part of the overall £6bn of cuts. An impact assessment is underway;
ii. Impact of the emergency budget to be announced on 22 June 2010;
iii. The MTFS assumed a grant freeze, recent announcements suggest this could be optimistic; and
iv. Continuing to deliver Business Transformation.

4.1.6. This report provides an overall financial position statement for the financial year 2009/10 and will contribute as a precursor of risks and issues to be considered on the financial impact of the Council in future years.

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 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 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 though 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 include 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 of 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 PWLB are 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 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.

6. ANTICIPATED OUTCOMES

6.1. To note the outturn position for the Council.

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

6.3. To note the actions that has been taken during 2009/10 and into the Medium Term Financial Strategy.

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.

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