SHEFFIELD CITY COUNCIL
Cabinet Report

10

Report of: Eugene Walker

Date: 20 June 2012

Subject: The City Council's Outturn Position for 2011/12

Author of Report: Allan Rainford; 35108

Summary: This report provides the month 12 monitoring statement on the City Council's Revenue and Capital Budget for 2011/12.

Reasons for Recommendations Approval required for the 2011/12 outturn position and decisions relating to the proposed investments in 2012/13.

Recommendations:

Please refer to paragraph 100 of the main report for the recommendations.

Category of Report: OPEN/~~CLOSED~~

Statutory and Council Policy Checklist

Financial implications
YES/~~NO~~ Cleared by: Eugene Walker
Legal implications
~~YES~~/NO Cleared by:
Equality of Opportunity implications
~~YES~~/NO Cleared by:
Tackling Health Inequalities implications
~~YES~~/NO
Human rights implications
~~YES~~/NO :
Environmental and Sustainability implications
~~YES~~/NO
Economic impact
~~YES~~/NO
Community safety implications
~~YES~~/NO
Human resources implications
~~YES~~/NO
Property implications
~~YES~~/NO
Area(s) affected
Relevant Scrutiny Board if decision called in
Strategic Resources and Performance
Is the item a matter which is reserved for approval by the City Council? YES/NO
Press release
~~YES~~/NO

THE CITY COUNCIL'S OUTTURN POSITION FOR 2011/12

PURPOSE OF THE REPORT

1. This report provides the outturn monitoring statement for the City Council's Revenue Budget and Capital Programme for 2011/12.

SUMMARY

2. The outturn position on the General Fund budget for 2011/12 is summarised in the table below.

Portfolio	Actual £000s	Budget £000s	Variance £000s
CYPF	115,097	119,036	(3,939)
PLACE	173,806	172,156	1,650
COMMUNITIES	182,708	188,618	(5,910)
DEPUTY CHIEF EXECUTIVE	17,586	18,572	(986)
RESOURCES	69,130	70,848	(1,718)
CORPORATE	(571,414)	(569,230)	(2,184)
Approved carry forwards	6,877		6,877
GRAND TOTAL	(6,210)	-	(6,210)
Additional carry forwards			6,210
ADJUSTED GRAND TOTAL			-

3. As part of the previous monitoring report, proposals to carry forward amounts totalling £6.9m were approved, including resources that were approved as part of the 2012/13 budget. As part of the analysis of the outturn position, Portfolios have identified a requirement to carry resources forward to 2012/13. Some of these resources relate to grants that will be required in the next financial year and some are required for one off costs and to support Services through the 2013/14 business planning process

4. Following analysis of the outturn position, it is proposed that the additional carry forward requests totalling £6.2m be approved:

	£000
Further Portfolio carry forwards (including support for elderly persons discharged from hospital)	2,800
Provision for support to 2013/14 business planning (including circa £1m for outcomes from Fairness Commission)	3,010
Funding for “Keep Sheffield Working”	200
Opportunity Sheffield and voluntary grant funding	200
Total Additional Carry Forwards	**6,210**

5. The change in the overall outturn position (£2.6m improvement since month 11) contains a number of movements in individual service positions. The key points are:

- As at Month 12, CYPF shows a full year outturn of a reduction in spending of £3.9m (excluding schools’ budgets). This is an improvement of £700k from the month 11 position.
- Place are showing an overspend of £1.6m, an improvement of £54k on last month’s position.
- Communities outturn position is a reduction in spending of £5.9m, compared to £4.5m last month. This is an improvement of around £1.4m, mainly resulting from of late receipt of income from Health (NHS Sheffield) which is carried forward to fund joint initiatives in 2012/13 (Right First Time Project).
- Resources outturn position of £1.7m reduction in spending is £500k higher than that reported at Month 11, due mainly to a late reduction in the rates charged for the Moorfoot building of £300k.
- Deputy Chief Executive’s outturn position of a reduction in spending of £986k indicates an improvement of £171k from month 11.

- The outturn position for the corporate budget is a £2.2m reduction in spending. This represents increased spending of £211k compared to last month: this is mostly due to the finalisation of the position on redundancy/severance costs.

INDIVIDUAL PORTFOLIO POSITIONS

CHILDREN YOUNG PEOPLE AND FAMILIES (CYPF)

Summary

6. As at Month 12, the Portfolio is reporting a full year outturn of a reduction in spending of £3.9m (excluding schools' budgets). This is an improvement of £700k from the month 11 position. The forecasted outturn position reflects the efforts made in the portfolio to reduce the overall spending in the current financial year to support the service areas with significant demand pressures and to support other budget pressures in 2012/13.

7. The key reasons (described in greater detail under commentary) for this position are:

   - Business Strategy: a £1.8m reduction in spending, due to savings in management reviews, additional grant income and reduced expenditure. This outturn has reduced by £175k from the previous months forecast.
   - Children & Families: a £1.2m overspend, this has reduced by £100k from the previous month.
   - Children's Commissioner: a £500k reduction in spending, with no change from the previous month.
   - Inclusion & Learning Services: a £160k reduction in spending, with no significant change from previous month.
   - Lifelong Learning, Skills & Communities: a £2.6m reduction in spending, this has increased by £800k from the previous month. A grant of £500k was received in the final week of the year to fund activity over the next three years relating to Employment & Skills and this will be carried forward.
   - The overall CYP under-spend also reflects the management savings and vacancies held subject to the implementation of new structures

Financials (Non – DSG activity)

Service	Actual	Budget	Variance
	£000s	£000s	£000s
BUSINESS STRATEGY	46,129	47,962	(1,833)
CHILDREN & FAMILIES	56,558	55,371	1,187
CHILDREN'S COMMISSIONER	4,653	5,156	(503)
INCLUSION & LEARNING SERVICES	3,051	3,214	(163)
LIFELONG LEARN, SKILL & COMMUN	4,706	7,333	(2,627)
GRAND TOTAL	115,097	119,036	(3,939)

Commentary

DSG and Non DSG Budgets

8. The reasons for the under and over spends have been well documented in previous monitoring reports, therefore this report concentrates on the changes since the previous month.

Business Strategy

9. A £1.8 m reduction in non-DSG spending, due to savings in management reviews, additional grant income and reduced expenditure. This outturn has reduced by £175k from the previous month due to an increased overspend on the SEN transport budget and a number of minor variances across the service.

10. The DSG element is under-spent by £2.6m, although this is carried forward to the next financial year. This has increased by £1.3k from month 11. The main reasons for this are £570k under-spent on Free Early Learning funding, £324k in Contract Services which is mainly due to an improvement in the School Meals position resulting from the capitalisation of spend on catering premises and equipment and a reduction in the year end accruals due to prudent forecasting, £340k due to an under-spend in the Schools Contingency budgets – which will be transferred in 2012/13 subject to the required evidence being presented by the schools.

Children & Families

11. A £1.2m overspend, this has reduced by £100k from the previous month and is the result of minor variances within individual service areas.

Children's Commissioner

12. A £500k reduction in spending, with no change from the previous month.

Inclusion & Learning Services

13. A £160k reduction in spending, with no significant change from previous month.

Lifelong Learning Skills & Communities

14. A £2.6m reduction in spending, this has increased by £800k from the previous month. A grant of £500k was received in the final week of the year to fund activity over the next three years relating to Employment & Skills and this will be carried forward.

Use of Reserves

CYPS non-DSG Reserves

15. CYPF has in place non-DSG reserves which have been built up as a result of planned reduction is spending. The balance on non DSG reserves at 1st April 2011 was £800k.

16. Reserves utilised during the year amount to £800k. Of the remaining £400k, £333k is related to Aldine House and it has previously been agreed to retain this to support the service from fluctuations in demands. The balance will be reviewed and returned to revenue. .

School DSG Reserves

17. The central DSG reserve at 1st April 2011 was £5.4m. During 2011/12 £2.2m of these reserves were drawn down - £1.6m of which was utilised to supplement the Individual Schools Budget and a further £0.6m to deliver the Vocational Skills Programme. The central DSG budget has under spent to the value of £3m: the cumulative balance at 31st March 2012 is therefore £6.2m. All the balance is earmarked for specific projects in future years.

18. £18.3m reserve was held by individual schools as at 1st April 2011; schools will contribute £0.7m to this reserve in 2011/12 as a result of in year under spends, this will bring the total reserves held by Schools to £19m. The overall balance on DSG reserves including those held centrally, amount to £25m.

PLACE

Summary

19. Place Revenue outturn is £1.6m over budget, being an improvement of £54k this period. The key outturn variances from budget were :-

- Business Strategy & Regulation - £426k reduction in spending, primarily on waste management due to increased profit share on the sale of materials, reduced landfill and savings on garden waste (£288k).
- Design & Project Management - £691k over budget due to a shortfall in income (£1,100k), offset by staff and other savings (£400k), pending the action now taken to balance workload / resources.
- Development Services - £1,064k over budget, of which £740k is due to additional winter maintenance costs (where no call was made on the winter maintenance reserve) and around £300k being the net impact of a £1m shortfall in external income within car parking, planning and building regulations, offset by £700k savings from vacancy management and other efficiencies / reductions in non-essential spend.
- Street Force - £282k over budget being additional bad debt provisions (£370k) and trading shortfalls (£267k), offset to some extent by reduced provisions / retentions and non-essential spend (£355k).

Financials

Service	Actual	Budget	Variance
	£000s	£000s	£000s
BUSINESS STRATEGY & REGULATION	38,651	39,077	(426)
CREATIVE SHEFFIELD	1,257	1,260	(3)
CULTURE & ENVIRONMENT	45,295	45,519	(224)
DESIGN AND PROJECT MANAGEMENT	31	(660)	691
DEVELOPMENT SERVICES	87,150	86,086	1,064
HERS	2,119	1,908	211
MARKETING SHEFFIELD	643	586	57
STREET FORCE	(1,670)	(1,952)	282
SUSTAINABLE DEVELOPMENT	330	332	(2)
GRAND TOTAL	173,806	172,156	1,650

Commentary

20. Overall, the forecast was broadly in line with the previous period, showing a small improvement of £54k. The reasons for the under and over spends are summarised above and have been well documented in

previous monitoring reports, so this update concentrates on key change since the previous month.

Development Services

21. The provisional outturn for this activity was £1.06m over budget, an improvement of £73k this period largely due to additional building regulation fees.

22. It should be noted that the overall position includes a forecast £120k reduction in spending on land drainage. This relates to grant monies received by Sheffield (as lead local flood authority), in order to undertake specific additional statutory responsibilities.

Housing, Enterprise & Regeneration

23. The provisional outturn for this activity is £218k over budget, an adverse movement this period of £74k, due to the write-off of development costs on West Bar.

24. The key issue was the risk of grant clawback on funding received for Tudor Square. An initial estimate was this might be in the region of £250k to £750k, but following review and negotiation with the Department for Communities and Local Government (DCLG), the outturn includes a provision for £274k. Work/negotiations continue with a view to further mitigating the current position.

COMMUNITIES

Summary

25. The year end position in Communities is a reduction in spending of £5.9m, compared to a forecast reduction of £4.5m last month. The outturn position reflects the efforts made in the portfolio to reduce the overall spending in the current financial year to support the increased demand for services and other budget pressures in 2012/13. The improvement of around £1.4m is mostly down to the receipt of income from NHS Sheffield to fund joint initiatives

26. The key reasons for the overall forecast position are:

    - An overspend in Care and Support Provider Services, due to the timing of the review of the intermediate care service in Care4You and overspends in the Learning Disabilities care purchasing budgets.

However this is offset by:

- A reduction in spending in the Older People and Physical Disabilities services, within the Care and Support Service.
- Receipt of significant income (£1.7m) from Health (NHS Sheffield) which is to fund joint initiatives in 2012/13 (Right First Time Project).
- A reduction in spending in Business Strategy, mainly around the contingency held for Learning Disabilities purchasing, and reduced expenditure in assistive technology investment and Mental Capacity Act programme.
- Reduction in spending in Housing Related services, where both Equipment & Adaptations Service and Homeless Services identify lower than anticipated levels of demand. In addition there was a late grant issued of £250k the Preventing Repossessions Funding from DCLG and the early receipt of 2012/13 Housing Benefits Transformation Grant of £56k.
- Reduction in spending in Commissioning, due to significantly reduced spending around Supporting People commitments and vacancy management.

Financials

Service	Actual	Budget	Variance
	£000s	£000s	£000s
BUSINESS STRATEGY	13,938	15,551	(1,613)
CARE AND SUPPORT			
HOUSING RELATED SERVICES	3,056	4,195	(1,139)
JOINT LEARNING DISABILITY SERV	32,199	31,002	1,197
ASSESSMENT & CARE MANAGEMENT	72,433	74,766	(2,333)
PROVIDER SERVICES	(949)	(2,390)	1,441
COMMUNITY SERVICES			
COMMUNITY SAFETY	1,356	1,449	(93)
LIBRARIES	8,241	8,293	(52)
LOCALITY MANAGEMENT	4,237	4,444	(207)
COMMISSIONING	48,197	51,308	(3,111)
GRAND TOTAL	182,708	188,618	(5,910)

Commentary

27. The reasons for the reduction in spending within the Portfolio have been well documented in previous monitoring reports, therefore this report concentrates on the changes since the previous month.

Business Strategy

28. The outturn position is a reduction in spending of £1.6m, compared to last month's position of £1.4m. The movement is due to lower legal fees than anticipated and capitalisation of some ICT costs.

Care and Support

29. Overall this area has a reduction in spending of £834k, compared to last month's position of £247k, an improvement of £587k.

30. **Housing Related Services:** The overall outturn is £1.1m reduction in spending; this is a £192k movement on last month's position of £947k. The reasons for this are

    - Housing Benefits Transformation Grant (£56k) received in 2011/12 but relates to 2012/13.
    - Other income totalling approx £95k was not factored in to previous forecasts due to uncertainty of actually receiving the money. This has now been confirmed and received.

31. **Joint Learning Disability Services** expenditure is £1.2m over budget, compared to last month's position of £1.1m.

32. **Assessment and Care Management (Older People/Physical Disabilities and Sensory Impairment)** shows an overall outturn of £2.3m reduction in spending, a change of £1.1m compared with last month's position of £1.2m. The main reason for this is the late receipt of £1.7m from Health, for joint working with Health.

33. This is partially offset by a £500k bad debt provision for accounts in dispute and £300k provision for anticipated externally purchased provision

34. **Provider Services** are £1.4m over budget, compared to last month's position of £801k over budget, a movement of £640k. This is due to taking a provision for disputed invoices, not taken in previous months.

Community Services

35. Overall this area is reporting a reduction in spending of £352k, which is consistent with last month but there were some movements between services.

36. **Libraries** outturn is a reduction in spending of £52k, an adverse movement of £67k from last month. The variation in month is across a number of cost centres and includes delays in office moves and purchase of equipment.

37. **Locality Management** is a £207k reduction in spending, which is £68k better than last month's position, due to £36k further small slippages in Community Assemblies programmes and £33k due to rent costs being lower than expected.

Commissioning

38. The outturn for this area is a reduction in spending of £3.1m, compared to last month's position of £2.6m, an increase of £546k.

39. **Housing Commissioning (including Supporting People Contracts)** there was a favourable move in outturn of £383k as a result of committed Supporting People expenditure on IT not occurring and forecast Housing Independence Team staffing costs being overstated.

40. **Mental Health Commissioning** is reporting a reduction in spending of £266k, a favourable move of £75k in Purchasing Budgets which is attributable to an increase in actual PCT income over forecast (to fund MH/NHS Pilot Beds resulting in a refund of SCC Contract amount).

RESOURCES

Summary

41. As at Month 12, Resources is reporting a full year outturn of a reduction in spending of £1.7m. The key reasons for this position are:

- £1.6m net reduction in spending on Central Costs: an increase in spending of £154k since last month. The overall position is due to improved accuracy performance on benefit claims (£821k), which affects the subsidy received from the government, improvement in other benefits activity (£1.12m), pension contribution changes (£255k) and reduction in spend on Audit Commission fees (£107k).
- £300k reduction in spending on the Finance service.
- £200k reduction in spending on the Human Resource service.
- £350k surplus on the Transport Services trading account.

42. This is offset by pressures within Resources including £430k in Property and Facilities Management (P&FM), from reduced fee earning activity on land sales and rental properties, reduced income on the corporate mail service and reduced income in markets.

Financials

Service	Actual £000s	Budget £000s	Variance £000s
BUSINESS INFORMATION SOLUTIONS	386	226	160
COMMERCIAL SERVICES	1,064	1,015	49
CUSTOMER SERVICES	8,907	8,814	93
FINANCE	1,663	1,963	(300)
HUMAN RESOURCES	838	1,057	(219)
PROPERTY AND FACILITIES MGT	33,514	33,084	430
TRANSPORT	1,836	2,191	(355)
TOTAL	48,208	48,350	(142)
CENTRAL COSTS	20,089	21,673	(1,584)
PROGRAMMES AND PROJECTS	833	825	8
GRAND TOTAL	69,130	70,848	(1,718)

Commentary

43. The outturn position of £1.7m reduction in spending is £502k higher than that reported at Month 11 (£1.2m), due in the main to a range of under/overspends in each of the services.

Commercial Services

44. The change in variance from the Month 11 reported overspend of £143k is now down to £49k and is due to more rebate income attributable to Invest to Save (I2S) than anticipated.

Business Information Solutions

45. The BIS overspend position has increased by £100k since the previous month and this is due to the creation of provision of a liability for the partial claw back of an EU grant.

Finance

46. There has been an increase in the reduction in spending of £98k more than at Month 11. This is made up of:

- Salary savings for leavers and maternity cover within Support Services at the year end.

- Reduction in provision for OEO Velos refresh (see comment below).

47. An upgrade for the OEO financial ledger system is required to enable it to continue to be supported by the provider. This spend has been deferred from 2011/12 and £100k is to be utilised in 2012-13 for this purpose.

Property & Facilities Management

48. The outturn position for the year is £430k over budget, which represents a significant improvement of £328k on the previously reported month 11 position (£758K).

49. Repair costs continued to be restricted to try and bring the service into line with overall budget and in addition there has been a late reduction in the rates charged for the Moorfoot building of £300k. Previous rates estimates were based on a greater degree of occupancy than has been achieved so far and the fact that each time further areas of the building have been occupied there has been a recalculation of the amount of rate relief due.

Central Costs

50. There has been a £1.5m net reduction in spending on Central Costs. This is due to improved accuracy performance on benefit claims (£821k), which affects the subsidy received from the government, improvement in other benefits activity (£1.12m), pension contribution changes (£255k) and reduction in spend on Audit Commission fees (£107k).

DEPUTY CHIEF EXECUTIVE'S

Summary

51. As at Month 12, the Portfolio is forecasting a full year outturn of a reduction in spending of £986k. The key reasons (described in greater detail under commentary) for this position are:

- Economy and Skills £1.6m under budget, of which £900k has been agreed as a carry forward. This is offset by:
- Legal Services, £500k over budget due to a shortfall in income.
- Performance & Corporate Planning, £100k over budget predominantly due to increased third party costs.

Financials

Service	Actual £000s	Budget £000s	Variance £000s
ACCOUNTABLE BODY ORGANISATIONS	(31)	(25)	(6)
BUSINESS DEVELOPMENT	1,741	1,791	(50)
ECONOMY AND SKILLS	3,183	4,778	(1,595)
HEALTH IMPROVEMENT	191	241	(50)
LEGAL SERVICES	3,198	2,655	543
MODERN GOVERNANCE	4,361	4,316	45
PERFORMANCE AND CORP PLANNING	1,269	1,136	133
POLICY,PARTNERSHIP,AND RESEARC	3,674	3,680	(6)
GRAND TOTAL	17,586	18,572	(986)

Commentary

52. The latest forecast reduction in spending of £986k indicates a further reduction in spending of £171k compared to the position at month 11 (£815k).

53. There are carry forwards of £900k in the Economy & Skills enterprise programme and £50k in Health Improvement for Achieving Marmot which would leave the portfolio with a final position of £36k under spent.

54. The reasons for the under and overspends have been well documented in previous monitoring reports, therefore this report concentrates on the changes since the previous month.

Economy and Skills

55. There is an improvement of £120k on the previous month's position. This is due to less grant expenditure than forecast on LEGI.

Legal Services

56. There is an improvement of £83k on the previous month's position due to an increase in income against forecast.

CORPORATE ITEMS

Summary

57. The outturn position for the corporate budget is a £2.2m reduction in spending. This represents an increase in spending of £211k compared to last month due to the finalisation of the position on redundancy/severance costs.

Financials

	Actual £'000	Budget £'000	Variance £'000
Corporate Budget Items	23,467	26,186	-2,719
Savings Proposals	-1,165	-1,700	535
Income from Council Tax, RSG, NNDR, other grants and reserves	-535,421	-535,421	0
Total Corporate Budgets	**-513,119**	**-510,935**	**-2,184**

58. During the year the Council received a capitalisation direction to establish a provision for the future costs of Digital Region Limited. This had no impact on the 2011/12 outturn position.

59. The position at the year end includes the following:

- Recovery of £1.4m from VAT and NNDR, dating back a number of years.
- Reduction in spending on corporately funded redundancy/severance costs relating to staff leaving as part of the budget savings in 2011/12 and also in 2012/13, amounting to £1.1m.
- Slippage on the capital programme has resulted in a reduction in debt charges of approximately £284k, a slight deterioration from the month 11 position.
- The budget for 2011/12 included a saving of £500k in respect of a management review which has been deferred to 2012/13.

NON-EARMARKED AND EARMARKED REVENUE RESERVES

60. Within the existing statutory and regulatory framework, it is the responsibility of the Director of Resources to ensure that the City Council has an adequate level of reserves and that there are clear protocols for their establishment and use.

61. Work on the reserves balances as at 31 March 2012 is still being undertaken and is dependent on the completion of the statement of accounts. However, the estimated balance of revenue reserves as at 31 March 2012 is £59.7m. This is shown in Appendix 1. Included in the total is a figure of £10.8m of unearmarked reserves: this is considered to be a prudent amount based on the requirements of the Council.

62. The Major Sporting Facilities (MSF) and PFI reserves exist because of the need to smooth the significant payments made on the MSF and PFI

schemes over the 20 year plus terms of the underlying agreements. In both cases the costs being incurred at the moment are lower that the resources available, hence we have a temporary surplus. However, over time, this position changes and future payments are higher than our resources and the reserves will be needed to support their primary purpose (around 2014 to 2015).

63. The Council has made significant use of the money from these reserves to fund things on a temporary basis and it is part of the financial plan to have the reserves refunded by the time the call on them is required. The main temporary use has been to support investment in key change projects through Invest to Save and priorities like Highway PFI.

64. Earmarked reserves are set aside to meet known or predicted liabilities, such as equal pay liabilities, but ones that are not certain enough to create an exact provision in the accounts. The liabilities are, however, likely enough to say that the earmarked reserves are not normally available to fund the budget or other measures.

INSURANCE FUND

65. An independent review of the Insurance Account has been undertaken to identify the level of provision required. This includes:

- Known outstanding liabilities
- Incurred but not reported liabilities i.e. incidents prior to 31 March 2012 where claims are yet to be made
- Claims previously paid by Municipal Mutual Insurance (one of the Council's Insurers who went in to a form of receivership in the 1990's) in case MMI does not achieve a solvent run off and payments are clawed back from the Council
- Uninsured asbestos related claims

66. The Insurance Account as at 31 March 2012 has £16.5M. Outstanding liabilities as at 31 March 2012 are £21M, taking into account repudiation it would be prudent to set aside £16.6M.

67. The Insurance Account is therefore 99% funded as at 31 March 2012.

COLLECTION FUND – APPENDIX 2

68. The City Council has to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates. As at 31 March 2012, the City Council's Collection Fund showed a final surplus of £1.2m (of which the City Council's element is around £1.05m). An estimated surplus balance of £597k was taken into account in setting both the City's Council Tax and Revenue Budget for 2012/13. The difference will be recovered as part of the Council Tax calculation for 2013/14.

HOUSING REVENUE ACCOUNT (HRA) – APPENDIX 3

69. The HRA out-turn position is a £0.2m revenue deficit compared to £1.2m deficit reported in February. The budgeted position was a £5.156m deficit.

70. In addition to the £0.2m deficit, £2.150m of HRA reserves have been used to fund additional HRA capital investment primarily on obsolete heating. After adjusting for this, the in year drawdown from reserves is £2.3m.

71. The out-turn position on the HRA has moved by £1m compared to last month. The **main** reasons are:

- Communal Areas and Communal Facilities. Additional room hire income savings on utility and cleaning costs (£122k).
- Repairs, the net effect of rechargeable repair income (£67k).
- Further underspend on projects and pilots, Future of Council Housing, Self-financing, Contract Retender and Cleared Sites (£173k).
- Lower level of aged rent arrears and write-offs than predicted, reduction in provision (£233k).
- Increase in bank interest rate, from 0.7% to 1% (£91k).
- Further underspend on staffing and other costs (£131k).
- Movement on District Heating account due to milder weather (£89k).
- Improved position on various other running costs (£39k).

THE CAPITAL PROGRAMME FOR 2010/11

Summary

72. The figures below are provisional estimates of the Capital Outturn position. At the end of March 2012, capital expenditure is £39.6m (16%) below the approved capital programme for the year, and £14.8m (6%) below the forecast outturn as reported at Month 11. The majority (85%) of the variation from the Month 11 forecast (£12.6m of £14.8m) relates to CYPF projects.

Financials 2011/12

All figures reported in £m

Portfolio	Full Year Spend £m	Full Year Budget £m	Variance £m	Full Year Forecast as at Month 11 £m	Variance of Spend vs. m11 Full Year Forecast £m
CYPF	131.3	154.9	-23.6	143.9	-12.6
Place	27.4	33.4	-6.0	27.5	-0.1
Housing	45.7	51.1	-5.4	46.9	-1.2
Communities	2.1	3.1	-1.0	2.1	-
Resources	4.4	8.0	-3.6	5.3	-0.9
Grand Total	**210.9**	**250.5**	**-39.6**	**225.7**	**-14.8**

Commentary

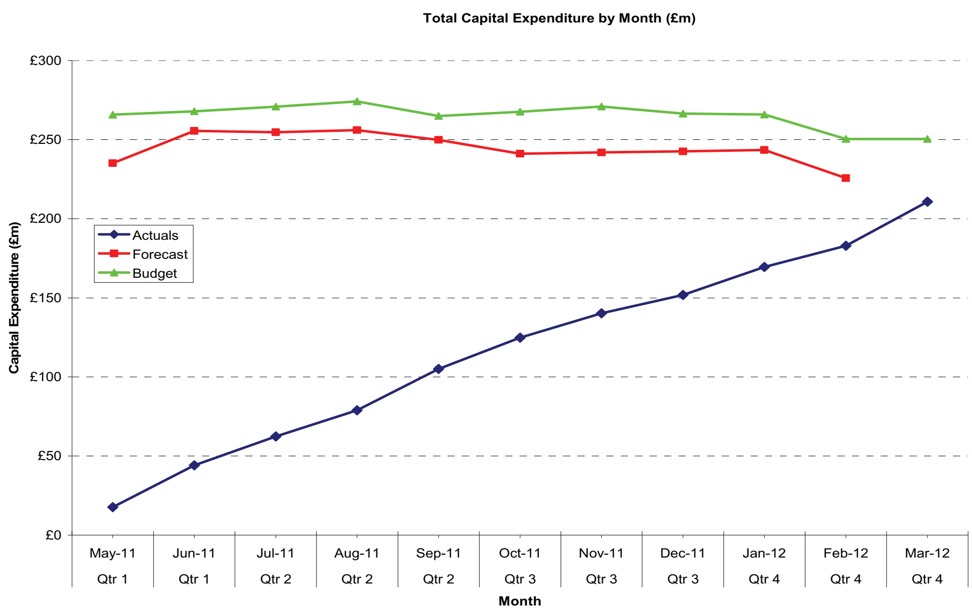
73. The following graph shows a comparison of actual, forecast and budget capital expenditure across all portfolios. Actual capital expenditure is £210.9m for the year compared to a budget of £250.5m, resulting in a provisional year-end slippage figure of £39.6m.

74. This compares with a figure of £43.5m suggested in the Month 11 commentary. The primary reason for the lower slippage figure is

increased spending on the CYPF programme following a review of the accuracy of accruals for work done but not invoiced by contractors.

75. The level of forecasting variance on spend in March was marginally worse than 2010/11, indicating that there is opportunity for improvement in forecasting accuracy in 2012/13.

76. A detailed report on slippage by project will be prepared for, discussed with and approved by the relevant Cabinet Member. The Council received a capitalisation direction for Digital Region Limited. This will be financed in 2012/13.



Children, Young People and Families Programme

77. CYPF capital expenditure is £23.6m (15%) below budget for the year for the reasons set out in the table below.

Cause of change on Budget	**Year to date £m**
Slippage to be carried forward	-21.1
Accelerated spend on projects	3.2
Slippage on Devolved Budgets	-4.4
Incorrect budgets	-0.5

Underspending on project estimates	-0.5
Other variances	-0.3
	-23.6

78. In March the daily rate of spend accelerated by 46% compared to that for the previous 11 months but achieved only 56% of the level forecast by project managers .

79. The slippage has mainly occurred on:

- the Building Schools for the Future (BSF) programme (60%) through £1.3m Wave 1 – (High Storrs) and £11.3m Wave 4 (All Saints £2.9m, Bradfield £1.9m, Stocksbridge £0.9m, Handsworth Grange £1.2m, Additional (Secondary) Places £1.7m).

- Glossop Rd Wall Collapse (£0.2m) and Owler Brook PCP (£2.4m) are other significant projects that have slipped.

- The accelerated spend of £3.2m has occurred in BSF (Wave 4) £1.9m and Woolley Wood £1.2m due to revised project delivery plans. The projects will not be delivered earlier than the target date.

80. The projects with the most significant underspends include:

- Mundella School – Primary Population Growth programme (£0.2m) – now complete and funded, but saving to be applied to other projects overspending within the same programme, and

- Extended Schools 2008/11 (£0.2m) – saving to be applied to related projects which had originally been scheduled to benefit from a contribution of Extended Schools Funding (for instance Owler Brook and Woolley Wood).

CYPF – Comparison of Actuals vs Month 11 Forecast

81. CYPF capital expenditure of £131.3m at the end of March is 9% below the forecast outturn of £143.9m as at Month 11, with the variances by programme shown below:

Programme Funding Stream	Full Year Spend	Full Year Forecast as at Month 11	Variance from Month 11 Forecast	
	£m	£m	£m	%
DFC – Devolved Formula Capital	2.5	6.9	-4.4	-64%
BSF – Building Schools for the Future (incorporating Highways infrastructure projects associated with BSF)	98.2	103.2	-5.0	-5%
Primarily related to replacement playing field facilities associated with sale of land at Chaucer School	1.3	1.5	-0.2	-13%
Other CYP Schemes	1.2	2.4	-1.2	-50%
Primary School Capital Maintenance	13.1	13.9	-0.8	-6%
School rewires, boiler and roof replacements, asbestos removal and kitchens	0.5	1.0	-0.5	-50%
Early Years	3.0	3.3	-0.3	-9%
Other Programmes	11.5	11.5	-	-
Total	**131.3**	**143.9**	**-12.6**	**-9%**

Place Programme

82. The Place portfolio programme (excluding Housing) is £6m (18%) below budget for the reasons set out in the table below.

Cause of change on Budget	Year to date
	£m
Slippage to be carried forward	-4.0
Incorrect budgets	-0.2
Underspending on project estimates	-0.5

Other variances	-1.3
	-6.0

83. In March the daily rate of spend accelerated by 5% compared to that for the previous 11 months and was within 3% of the level forecast by project managers.

84. Capital expenditure on the Place programme (excluding Housing) of £27.4m at the end of March is £0.1m below the forecast outturn of £27.5m as at Month 11, with the only two significant variances (in turn offset by a larger value of many smaller underspends):

- full year spend on the Primary Road Network Maintenance Scheme being £385k above the Month 11 forecast outturn but compensated by underspends in other projects.

- full year spend on the Woodseats Road Railway project being £337k above the Month 11 forecast outturn due to an inaccurate February forecast.

85. Significant slippage, from the total £4.0m, has occurred on the following programmes:

- City Development, including New Retail Quarter £0.6m, Sheffield Central Area Flood Protection Phase1B £0.5m, Edward Street £0.4m **£1.6m**
- Local Enterprise Growth Initiative (LEGI), including MDC – Alison Crescent £0.9m **£1.1m**
- Other Parks Projects **£0.4m**

Housing Programme (Place Portfolio)

86. The Housing capital programme is £5.4m (11%) below budget for the reasons set out in the table below.

Cause of change on Budget	**Year to date**
	£m
Slippage to be carried forward	-4.5

Incorrect budgets	0.2
Underspending on project estimates	-1.2
Other variances	0.1
	-5.4

87. In March the daily rate of spend accelerated by 8% compared to that for the previous 11 months but achieved only 87% of the level forecast by project manager.

88. Significant slippage, from the total £4.5m, is to occur on the following programmes:

- Retained Capital Schemes – (inc. Disabled Grants £0.4m, relating to work which has been commissioned in 2011/12 but not yet completed; Shirecliffe Council Homes £0.3m) **£1.7m**
- Delegated Capital Schemes – (inc. EP South East £0.3m; Park View £0.3m) **£2.6m**

Communities

89. The full year spend on the Communities portfolio capital programme is £1m below budget. £0.8m of this variance relates to the ICT Infrastructure project which will slip into 2012/13. Full year spend matches the forecast outturn as at Month 11, however there are two significant variances:

- £275k on Parson's Cross Library scheme (full year spend being above the Month 11 forecast outturn figure), due to accruals and retentions being included in the year end figures but not in the forecast outturn.
- £204k on the block allocation of funding for Mental Health Capital (full year spend being less than the Month 11 forecast outturn figure) due to the forecast outturn not having been adjusted for the expected zero-spend outturn position.

Resources

90. The full year spend of £4.4m on the Resources programme is £0.9m less than the forecast outturn as at Month 11, with the only significant variance relating to the block allocation of funding for Corporate Demolitions due to the forecast outturn not having been adjusted for the expected zero-spend outturn position.

91. The full year spend on the Resources portfolio programme is £3.6m below budget. £2.7m of the variance relates to slippage, of which £0.7m is for the Office Accommodation Strategy programme, £0.6m relates to the Non-Office Asset Rationalisation programme, £0.3m is in respect of Highfield Library Refurbishment, £0.2m is for Vehicle & Plant Acquisition and £0.1m is in respect of the Central Library. A further £0.6m of the variance relates to underspends, with two thirds of this in respect of Workstyling capital costs at Howden House and Redvers House.

Approvals

92. No new schemes have been submitted for inclusion in the programme but CPG has recommended 7 stage approvals seeking to let contracts with a total value of £20.8m.

93. Further details of the schemes listed above can be found in Appendix 4.

TREASURY MANAGEMENT ISSUES

94. Under the terms of the CIPFA Code of Practice on Treasury Management, there is an obligation to report on the borrowing and investment activity which has been undertaken during the year. This is contained in Appendix 5.

95. Furthermore, under the Prudential Code For Capital Finance, the Council also needs to report on the actual Prudential Indicators for the year and compare these against the original indicators which were set as part of the 2011/12 Revenue Budget approved by Council on 4th March 2011. These are also contained in Appendix 5.

96. In summary, the Council has complied with all the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities

FINANCIAL IMPLICATIONS

97. The primary purpose of this report is to provide Members with information on the City Council's outturn position for 2011/12 and, as such it does not make any recommendations which have additional financial implications for the City Council.

EQUAL OPPORTUNITIES IMPLICATIONS

98. There are no specific equal opportunity implications arising from the recommendations in this report.

PROPERTY IMPLICATIONS

99. Although this report deals, in part, with the Capital Programme, it does not, in itself, contain any property implications, nor are there any arising from the recommendations in this report.

RECOMMENDATIONS

100. Members are asked to:

a. Note the outturn position and management actions provided by this report on the 2011/12 budget position.

b. Approve the additional carry forwards of £6.2m

c. In relation to the capital programme:

(i) the delegations of procurement authority and contract awards in the Stage Approvals Report (Appendix 4), and;

(ii) note the Director Variation in Appendix 4

(iii) note the Emergency Approvals in Appendix 4.

(iv) note the latest position on the Capital Programme

REASONS FOR RECOMMENDATIONS

101. To formally record changes to the Revenue Budget and the Capital Programme and gain Member approval for changes in line with Financial Regulations and to reset the capital programme in line with latest information

ALTERNATIVE OPTIONS CONSIDERED

102. A number of alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members. The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to

which funding is put within the Revenue Budget and the Capital Programme.

Eugene Walker

Director of Finance

APPENDIX 1

NON-EARMARKED AND EARMARKED REVENUE RESERVES

* a negative number indicates that the reserve is in deficit: in this case because of up front investment that is to be repaid in future years from savings

	Actual 31 March 2011 £000	Actual Movement in 2011/12 £000	Actual 31 March 2012 £000	Budgeted Movement in 2012/13 £000	Budgeted 31 March 2013 £000	Explanation
Non-earmarked Reserves						
General Fund Reserve	10,887	0	10,887	0	10,887	The Council's working balance: used as a last resort for emergency spend. Level at just over 2% of net spending benchmarks low compared to most Local Authorities.
	10,887	**0**	**10,887**	**0**	**10,887**	
Earmarked Reserves						
Invest to Save Reserve*						This reserve is in deficit because it has funded up front investment in the Capita contract (mainly ICT investment) and various Transformation projects (eg procurement savings; changes in finance including replacement of the council's finance system and Customer First). These projects have been funded on an invest-to-save with savings being used in two ways, to repay the reserve by 2015 and an annual contribution, now £3.5m to support the revenue budget.
- Projects	-8,246	788	-7,458	1,457	-6,001	
- Capita Contract	-18,203	2,343	-15,860	2,059	-13,801	
- Customer First	784	-5,652	-4,868	-5,806	-10,674	
	-25,665	**-2,521**	**-28,186**	**-2,290**	**-30,476**	

	Actual 31 March 2011 £000	Actual Movement in 2011/12 £000	Actual 31 March 2012 £000	Budgeted Movement in 2012/13 £000	Budgeted 31 March 2013 £000	Explanation
Economic Fighting Fund	501	-261	240	-240	0	
PFI Reserve	17,242	1,063	18,305	-343	17,962	The PFI reserve represents grant we have received in advance of the need to make payments. It is set aside to ensure we can cover the cost of contracts in future years. However, as explained above we are using these reserves temporarily to cash flow invest to save investments, as well as the project costs for Highways PFI (£10m). The reserve starts to reduce from 2015.
Highways PFI	-8,109	-1,907	-10,016	-391	-10,407	
Total PFI Reserve	9,133	-844	8,289	-734	7,555	
MSF	29,942	5,627	35,569	5,407	40,976	This is available on a temporary basis and has been used to fund Invest to Save, but will be required to fund the future costs of the Major Sporting Facilities costs. (re Ponds Forge, Don Valley Stadium and Hillsborough Leisure Centre).
Contingency / One-offs	13,705	-5017	8,688	-3,895	4,793	Contingencies set aside as part of budget including redundancy costs
LABGI	3,079	-2,130	949	-416	533	This reserve was earmarked to support Economic Development across the City. Allocations against this reserve have been approved as part of the 2012/13 budget setting process.

	Actual 31 March 2011	Actual Movement in 2011/12	Actual 31 March 2012	Budgeted Movement in 2012/13	Budgeted 31 March 2013	Explanation
	£000	£000	£000	£000	£000	
Local Growth Fund	0	2,202	2,202	0	2,202	This reserves was earmarked t support economic development across the City.
Carry-forwards from 2010/11	3,922	-3,922	0	0	0	
Carry-forwards from 2011/12	0	8,087	8,087	-5,087	3,000	
Other earmarked	13,179	-191	12,988	-1,000	11,988	Various earmarked funds including equal pay provisions, insurance risks not specifically covered by the insurance provision and portfolio reserves agreed by Cabinet in previous years for service specific issues e.g. Electric Works business plan fund.
Total Earmarked Reserves	**47,796**	**1,030**	**48,826**	**-8,255**	**40,571**	
Total Revenue Reserves	**58,683**	**1,030**	**59,713**	**-8,255**	**51,458**	

Schools Reserves

The balance on schools reserves allocated under Local Management of Schools Legislation of £25m is not shown in the above table as it does not form part of the usable reserves - it is restricted to spend on schools.

Appendix 2

COLLECTION FUND
FOR THE YEAR ENDED 31st MARCH 2012
INCOME AND EXPENDITURE ACCOUNT

2010/11 £'000	INCOME	2011/12 ACTUAL £'000	£'000
227,633	Council Tax	228,538	
182,905	National Non-domestic Rates	194,652	
0	Adjustment of Previous Years Community Charges	0	
410,538	**TOTAL INCOME**		423,190
	EXPENDITURE		
	Precepts and Demands:		
196,311	Sheffield City Council	197,227	
	South Yorkshire Joint Authorities:		
20,200	South Yorkshire Police	20,298	
9,185	South Yorkshire Fire & Civil Defence	9,230	
225,696			226,755
319	Estimated 2010/11 Council Tax Surplus		-192
	National Non-Domestic Rates:		
182,143	Payment to National Pool	193,887	
762	Cost of Collection	765	
182,905			194,652
0	Adjustment of Previous Years Community Charges		0
1,200	Provision for Non-Payment of Council Tax		460
410,120	**TOTAL EXPENDITURE**		421,675
-418	(Surplus)/Deficit for the Year		-1,515
723	Balance Brought Forward		305
305	Balance Carried Forward		-1,210

HOUSING REVENUE ACCOUNT BUDGET 2011-12 APPENDIX 3

	2011/12 Revised Budget £	Provisional Month 12 Outturn £	Variance £
Total Expenditure	170,982,200	167,910,318	(3,071,882)
Total Income	(165,825,700)	(167,693,817)	(1,868,117)
Surplus ( ) / deficit in the year	5,156,500	216,501	(4,939,999)
Balance b/fwd as at 1 April 2011	(16,728,816)	(16,728,816)	0
Surplus ( ) /deficit in the year	5,156,500	216,501	(4,939,999)
Contribution to Capital	0	2,150,000	2,150,000
Balance c/fwd as at 31 March 2012	(11,572,316)	(14,362,315)	(2,789,999)

Scheme Description	Approval Type	Value £000	Procurement Route
ADDITIONS:-			
None	n/a	n/a	n/a
VARIATIONS:-			
None	n/a	n/a	n/a
STAGE APPROVALS:-			
Spital Hill Public Realm The scheme is to carry out improvements to the footway and public realm in the Spital Hill area funded from Section 106 agreement from the Tesco superstore. A value for money assessment by Capital Delivery Service and Street Force, the in-house provider for works of this nature, indicates that the current scope of the scheme would cost more than the approved budget. It is therefore recommended that a competitive tender process is undertaken with the condition that - should the tender returns come in over budget - the scheme will be value engineered to bring it within budget.	Stage Approval	290	Single stage selective tender
Fire Risk Remedial Work (Sheffield Homes) This project is to ensure compliance with legislation pertaining to fire safety. This requires fire risk assessments to be carried out on individual properties. These risk assessments are ongoing throughout all properties and are being undertaken in a risk	Stage Approval	4,300	Full competitive Tender

priority order. 18,700 properties have not been assessed as yet and primarily comprise low rise blocks in the City. The project funding is via Housing Revenue Account (HRA) and an element of Major Repairs Allowance (MRA). The project has been split in two parts: • Compartmentalisation for 18,300 properties • Fire suppression for 540 “ranch style” properties. It is recommended a full competitive tender process is undertaken for each contract using ConstructionLine and SCMS.			
Sheffield Central Area Flood Protection Phase 1A (SCAFP 1A) This project is nearing the end of completion and has comprised the construction of the Wicker Smithfield bridge and flood defence works. Further environmental works are proposed in various areas around the Wicker / Derek Dooley way including tree planting, wildflower planting, litter bins, edgings and sundry minor works. An element of funding is via ERDF (European Regional Development Fund) which requires a full tender process. This will be carried out by accessing contractors from Constructionline and tenders will be issued via SCMS.	Stage Approval	28	Full competitive Tender
EMERGENCY APPROVALS:-			
Bus Rapid Transit - North Tinsley Link This scheme received approval for an emergency variation to the Capital Programme, as an additional £302k funding was allocated towards the project by the South	Emergency	302	Streetforce for internal design and specialist external

Yorkshire Passenger Transport Executive. This funding had to be spent before 31st March 2012, and this allocation increased the 2011/12 budget from £551k to £853k. This enabled essential work required to progress the development of the scheme in line with the current programme as agreed with Central Government.			consultants for specific design areas.
Living Neighbourhoods Highways have £127k funding from the NHS that has been brought forward from 2010/11, and is to be spent on improving accessibility and increasing opportunities for active travel. This project has never been approved by Cabinet due to an error by Highways, so retrospective Emergency Approval was sought to ensure that the scheme was added to the capital programme before the end of March 2012. If it had not been approved, all of the funding would have had to be returned to the NHS and the Highways portfolio would have had to stand the funding shortfall.	Emergency	127	N/A
North Don Trail Upper Don Walk The purpose of this scheme is to improve surfacing (with the aim of upgrading it to a multi-user route) through Beeley Wood from Beeley Wood Lane to Oughtibridge. The funding also pays for safety features on the approach to (and access barriers at the start of) the route. The scheme is funded by the Local Transport Plan and Local Sustainable Transport Fund (LSTF). The LSTF money is time limited and needed to be spent by 31st March 2012 or it would have to have been returned. Due to an oversight by Highways, this project has never been approved by Cabinet, so Emergency Approval was sought to ensure that the scheme was added to the capital programme before the end of March 2012.	Emergency	106	Streetforce

Ecclesall Rd Smart Route (Phase 4 – Moore Street) Highways have been allocated an additional £16k Local Transport Plan (LTP) funding from the South Yorkshire Passenger Transport Executive, which had to be spent before the 31st March 2012. This has been supplemented with a revenue contribution to capital and internal variations within the LTP programme, taking the total variation to just over £60k. This funding is to be used for improvements to approach roundabouts and associated work at Moore Street, Ecclesall Rd.	Emergency	60	Streetforce
Local Transport Plan (LTP) Air Quality Modelling The LTP Air Quality Monitoring scheme will contribute towards the development of a South Yorkshire Air Pollution Modelling system. The budget will support the extension of a hosting server, purchase of software updates, the development of a website to make SY air quality data available to the public, the purchase of a PC-based air pollution monitoring data collection system and the purchase of further traffic data from traffic models. This scheme received emergency approval for addition into the Capital Programme in order to spend additional funding from the Local Transport Plan Countywide allocation by 31st March 2012.	Emergency	45	Waiver of Standing Orders
Car Share South Yorkshire **Car Club South Yorkshire** Highways have been allocated an additional £2k capital funding from the Countywide Local Transport Plan and £7k from the Local Transport Plan central fund held by the Integrated Transport Authority. The funding has been reallocated from underspends	Emergency	9	Waiver of Standing Orders

within the County and had to be spent by 31st March 2012. The Car Share South Yorkshire scheme will allow an annual rental payment for a car sharing website to be made, so that the service can continue for another year. The Car Club solutions project will enable work to be undertaken to determine the viability of car club options in Sheffield.			
DIRECTOR VARIATIONS:-			
Hutcliffe Wood Refurbishment & Hutcliffe Wood Roof A director variation has been approved to transfer £4,151 budget from Hutcliffe Wood Refurb project (92442) to Hutcliffe Wood Roof project (97976). This is due to the need to carry out additional minor refurbishment works which has resulted in an overspend situation on the refurbishment project. Both projects are funded from Corporate Resource Pool and the revised budgets are:- BU Original revised 92442 Refurb £50k £54,151 97976 Roof £100k £95,849	Director	4	N/A

Annual Review of the Treasury Management Function and Actual Prudential Indicators - 2011/12

1. Purpose

The term Treasury Management covers the borrowing and investment activity of the Council. In order to comply with statutory reporting requirements and the Code of Practice on Treasury Management, an annual report has to be made on these activities. Also included within this report are the actual (where possible) borrowing and capital finance indicators for 2011/12, compared with those that were set in March 2011, in accordance with the requirements of the Prudential Code for Capital Finance.

2. Introductions and Background

The Council's treasury management function and the setting of prudential indicators that relate to these activities are regulated by a variety of Professional Codes of Practice, legislation and guidance notes. The main ones are:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity.
- The Cipfa Code of Practice for Treasury Management in the Public Services.
- The Cipfa Prudential Code for Capital Finance.

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services and operates its treasury management service in compliance with this Code. The Code requires that the prime objective of the treasury management activity is the effective management of risk.

The Code requires as a minimum the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report), which for 2011/12 was incorporated into the Annual Budget report to Council on 5 March 2011; and to
- Review actual activity for the preceding year both half yearly and annually (this report).

The treasury function must be undertaken in a prudent, affordable and sustainable way. This is demonstrated by the setting of a number of prudential indicators and ratios.

This report addresses both the treasury management and prudential indicators as follows:

- A summary of the borrowing and investment strategy agreed for 2011/12.

- The Council's treasury activity undertaken in 2011/12.

- The main Prudential Indicators and compliance issues.

- Risk and performance.

3. The Agreed Strategy for 2011/12

The strategy for 2011/12 as approved by Council on 5 March 2011 can be summarised as:

- Maintaining an asset value to debt ratio of at least 2:1.

- Not exposing the Council to large future borrowing needs at a time when interest rates may be high.

- Minimising the impact of new borrowing on General Fund costs.

- A certain level of capital expenditure is supported by the Government; anything above that level will need to be financed from the Council's own resources. The guideline limit for this "Prudential Borrowing" in 2011/12 was £100m (including limits of £5m for of Invest to Save schemes, £5m limit as an alternative to the use of lease finance, £5m for the purchase of Vehicles and Bins, £10 million for the Retail Quarter, £55m for the Incinerator Purchase, £5m for Workstyle Projects, £4m Digital Region, £2.5m for Decent Homes, £2.2m for the Hutcliffe Wood Cremators Project, £2m for Capitalisation of Redundancy Costs and £0.6m for the Radio Frequency Identification Project).

- The primary principle governing the investment of temporary surplus cash balances is always the security of the principal invested (and the Council will maintain a policy covering both the categories of investment types it will invest in, and, the criteria for choosing investment counterparties). Other key considerations will be the liquidity of the investment (ensuring that there are readily accessible cash resources to cover expenditure) and then the yield or return on the investment.

4. The Economy and Interest Rates

During 2011/12 the UK economy has struggled to generate a sustained recovery and it is expected that this will continue throughout 2012 and potentially into 2013. Consumer and business confidence is generally low and it is not likely that there will be a significant increase in the growth rate in the short term. The austerity measures which were aimed at reducing the public sector deficit over the next four years have yet to fully impact on the economy in a positive way.

During the last quarter of the year the Eurozone showed signs of improvement following the ECB's second long term refinancing operation in February and also a second bailout package for Greece. This followed an agreement by the Greek government to another major austerity package and agreement by holders of Greek debt to a substantial cut in the value of their holdings.

There are still concerns however that the Eurozone is heading towards recession and that these latest resolutions had done little more than to buy some time.

The Monetary Policy Committee (MPC) again kept the Bank Rate at a historical low of 0.5% during 2011/12. There was another £50bn of quantitative easing (QE) in February however it is expected that the MPC will not undertake further QE once the current ones are finished in May.

The UK had its AAA sovereign rating put on negative outlook by Moody's in February 2012 and by Fitch in March due to concerns over growth outlook and potential impact from the Eurozone. This caused a small increase in gilt yields and as a consequence PWLB rates increased slightly, however the view that the UK was a "safe haven" for investment remained and therefore gilt yields and PWLB are still at historic low levels.

Deposit rates stayed at low levels during 2011/12 as the bank rate remained at 0.50%.

5. Movements in the Treasury Position during 2011/12

Borrowing

The table below shows the borrowing requirement created during 2011/12:

	£'000
Maturing Long Term Borrowing	35,000
Capital Expenditure Funded from Borrowing	14,500
Total Borrowing in 2011/12	**49,500**

In addition to the amounts shown in the table above the Council also has an ongoing borrowing requirement to fund day to day cashflow deficits. These deficits have been elevated in recent years due to the Council's strategy of deferring long term borrowing and using cash balances.

In order to manage the Council's cashflow deficits the Council has taken long term and temporary borrowing during 2011/12 as shown in the table below:

	£'000
Long Term Borrowing	25,000
Temporary Borrowing	127,000
Temporary Borrowing Repaid	-63,650
Net Finance Raised	**88,350**

Although not a prescribed prudential indicator the Council has a preferred maximum of 35% variable borrowing as a percentage of total long term debt. At the 31 March 2012 the percentage of variable debt stood at 36% (15% as at 31 March 2011).

The large increase in the percentage of variable rate debt to fixed rate debt is a result of the move from the HRA subsidy system towards HRA self financing. Under this move the Council had £518m of its housing related debt written off on 28 March 2012 as recompense for leaving the subsidy system and financing Council Housing entirely from its own budget.

The debt that the government wrote off was solely that raised from the Public Works Loans Board (government debt) which is all fixed rate debt. This, along with £35m of maturing loans reduced PWLB fixed rate debt from £735m to £182m,

An additional £25m of market debt was raised during this financial year to manage our long term cash requirements.

In view of both the uncertainty and volatility in the economy and an extremely low Bank Rate the Council also used internal balances and short term temporary debt (raised from other Local Authorities) in order to minimise external borrowing during 2011/12 (as long term borrowing rates were significantly higher than short term investment rates and temporary borrowing rates). The reduction of surplus cash balances and outstanding investments also reduced the Council's exposure to interest rate and credit risk while the banking sector remained unstable.

Investments

A decision to use investment balances to fund expenditure (internal borrowing) rather than incur new external borrowing enabled the Council to save on borrowing interest charges of approximately 4.5% compared to potential investment interest that would have been generated at an average of only 0.50% to 0.80%. The Council had an investment balance of £45.675m as at 31 March 2012, due to the receipt of a number of grants in advance and other favourable cashflows in 2012/13. The Council invested the majority of funds in AAA Money Market Funds which offer instant access and currently pay an average of 0.80%. The result of this approach ensured that the Council's was able to achieve its Capital Financing Costs budget in 2010/11.

The treasury position at the 31 March 2012 compared with the previous year was:

	31 March 2011		31 March 2012	
	Principal	Average Rate	Principal	Average Rate
	£'000	%	£'000	%
Fixed Interest Rate: PWLB Debt	735,456	6.82	**182,011**	**6.64**
Fixed Interest Rate: Market Debt	130,000	3.80	**135,000**	**4.02**
Variable Interest Rate Debt	158,000	4.81	**178,000**	**4.96**
Temporary Short Term Debt	32,650	0.50	**96,000**	**1.65**
Gross Borrowing (see below)	1,056,106	5.92	**591,011**	**4.73**
PFI	248,710		**243,142**	
Gross Borrowing inc PFI	1,304,816		**834154**	
Fixed Interest Investments	19,550	1.51	**45,675**	**0.86**
Variable Interest Investments	0	0	**0**	**0**
Total Investments	19,550	1.51	**45,675**	**0.86**
Net Borrowing	1,036,556		**545,336**	
Net Borrowing inc PFI	1,285,266		**788,479**	

Comments

- The actual overall level of external long term borrowing was reduced during the year as a result of the £518m self financing write off, £35m of maturing PWLB debt and an additional £25m of market debt taken.

- As at 31 March 2012 PWLB loans amounted to £182m and comprised 37% of total long term debt at an average rate of 6.64% whereas market loans amounted to £313m (not including £96m temporary borrowing) and comprised 63% of total debt at an average rate of 4.02% for the fixed element and 4.96% variable rate debt.

- The Council has 19 Market Lobo (Lender's Option, Borrower's Option) loans totalling £313m. These loans sometimes have an initial low 'fixed' interest rate period (e.g. 5 years) with a subsequent higher 'variable' interest rate period (e.g. 55 years) within the total term (e.g. 60 years). Other Lobo loans also have initial 'fixed' and subsequent 'variable' periods but the interest rate is the same throughout. If at any point the lending bank decides to increase the variable rate the Council has the option to repay the loan. Due to loans moving out of their initial fixed period in 2011/12 and onto variable periods this has changed the loan classification and the result is that the variable loan element has increased from £158m variable in 2010/11 to £178m variable in 2011/12.

- The Council received an average return on its investments throughout the year of 1.01%. The comparable performance indicator is the average 7-day LIBID rate + 0.05% (i.e. the 7 day Libid rate is the interest rate offered by prime financial institutions in order to raise finance), which was 0.53%. With the bank rate at 0.50% throughout all of 2011/12, investment rates were extremely low.

- The Council's PFI balances are shown in the above table as these have now been brought on balance sheet and are classified as a long term credit liability.

6. Prudential Code Indicators and Compliance Issues

The Council is required by the Prudential Code for Capital Finance to report the actual prudential indicators after each year-end. At the end of this appendix is a schedule of all the mandatory prudential indicators required by this Code. Some of these indicators provide either an overview or a limit on treasury activity, and these are shown below.

Net Borrowing Control

A key control introduced by the Prudential Code is the calculation of the Capital Financing Requirement (CFR). This figure, derived from the balance sheet, represents the Council's underlying need to borrow for capital purposes. The CFR represents the amount of capital expenditure that has not been financed by capital receipts, capital grants, revenue contributions, etc. and has yet to be charged to revenue.

The Council needs to ensure that net borrowing (i.e. gross borrowings less investments) does not, except in the short term, exceed the Capital Financing Requirement. This allows some flexibility for limited early borrowing for future years.

The position set out in section 5 above shows the actual level of loan borrowings less investments is £545m as at 31 March 2012. The table below confirms that the Council complied with the requirement to keep net borrowing below the CFR in 2011/12.

	31 March 2012 Original Indicator	31 March 2012 Original Indicator (inc. PFI)	31 March 2012 Actual	31 March 2012 Actual (inc PFI)
CFR	1,399,789	1,642,932	790,586	1,033,729
Gross borrowing	1,203,960	1,447,103	591,011	834,154
Investments	0	0	45,675	45,675
Net borrowing at year end	1,203,960	1,447,103	545,336	788,479

Note: the principal reason for the large variance between the indicators and actual is the HRA self financing settlement which reduced the CFR and borrowing by £518m.

Gross Borrowing Control

A further two Prudential Indicators control the overall level of borrowing (i.e. gross borrowing) and these are as follows:

Authorised Limit

The Authorised Limit is the statutory limit, required by section 3 of the Local Government Act 2003, beyond which gross borrowing is prohibited during the year. It reflects the level of gross borrowing which could be afforded in the short term (e.g. for early borrowing for future years) but which is not sustainable. It is the expected maximum gross borrowing need with some headroom for unexpected movements.

Operational Boundary

The Operational Boundary is the expected gross borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

	Pre Self Financing		**Post Self Financing**	
	2011/12	**2011/12 (inc PFI)**	**2011/12**	**2011/12 (inc PFI)**
Original Indicator - Authorised Limit	£1,500m	£1,700m	£800m	£1,100m
Original Indicator - Operational Boundary	£1,250m	£1,450m	£600m	£900m
Gross borrowing position during the year	£591m to £1,111m	£591m to £1,355m	£591m to £1,111m	£591m to £1,355m

The table shown above demonstrates that during 2011/12 the Council has maintained gross borrowing throughout the year within its Authorised Limit. Gross borrowing also remained below the Operational Boundary.

7. Risk and Performance

The Council has complied with all of the relevant statutory and regulatory requirements that limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of its treasury advisors, has proactively managed the debt and investments over the year, as demonstrated by the risk averse manner in which the borrowing requirement was funded using internal balances instead of increased external borrowing (this also limits the council's risk exposure in terms of the level of outstanding investments).

There is risk of volatility of costs in the current debt portfolio as a result of the Council holding £178m of LOBOs that are in their floating rate period. These loans could, potentially, have their interest-rates re-set higher by the banks during the coming year. The Council is actively monitoring the likelihood of this happening and exploring measures to mitigate the risk should they do so.

Shorter-term variable rates and likely future movements in these rates determine the Council's investment return. These returns can therefore be volatile but the risk of loss of principal is minimised through the use of Credit Rating criteria as set out in the Annual Investment Strategy.

The Council devises its counterparty list based on a model provided by Sector Treasury Services using credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors) and also uses the following information:

- Credit updates and credit outlooks from credit rating agencies.

- Credit Default Swap spreads to give early warning of likely changes in credit ratings (a CDS is the market perception of credit risk for institutions).

- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combined credit ratings, credit updates, credit outlooks and CDS spreads in a weighted scoring system which indicated the relative creditworthiness of counterparties, from which the Council was able to determine the maximum amounts to invest with institutions and also the maximum duration   This approach ensured that the Council only invested with the very highest rated institutions, from countries with a strong creditworthiness.

Schedule of the Estimated and Actual Treasury Position and Prudential Indicators for 2011/12

	Description	2011/12 Original Indicator	2011/12 Actual
1	Capital Expenditure	£328m	**£211m**
2	Capital Financing Requirement (CFR) at 31 March 2012:-		
	- Non Housing	£536m	**£445m**
	- Housing	£864m	**£346m**
	- Total	£1,400m	**£791m**
	- PFI on Balance Sheet	£243m	**£243m**
	- Total inc PFI	£1,643m	**£1,034m**
3	Treasury Position at 31 March 2011: -		
	- Loan Borrowing (including temporary borrowing)	£1,204m	**£591m**
	- Plus PFI on Balance Sheet	£243m	**£243m**
	- Total Credit liabilities including PFI	£1,447m	**£834m**
	Investments	£0m	**£46m**
	Net Credit Liability including PFI	£1,447m	**£788m**
4	Authorised Limit (including PFI)	£1,700m	**£1,700m**
5	Operational Boundary (including PFI)	£1,450m	**£1,450m**
6	Ratio of financing costs to net revenue stream (General Fund)	15%	[TBC]%
7	Incremental impact of capital investment decisions on Band D council tax	Note 1	**Note 1**
8	Incremental impact of capital investment decisions on the housing rent levels	Note 2	**Note 2**
9	Upper limits on fixed interest rate debt	£1,500 m	**£870m**
10	Upper limits on variable interest rate debt	£200m	**£178m**
11	Maturity structure of fixed term borrowing:		
	- Under 12 months	25% max	**9%**
	- 12 months to 2 years	25% max	**9%**
	- 2 years to 5 years	35% max	**6%**
	- 5 years to 10 years	35% max	**1%**
	- 10 years and above	95% max	**75%**
12	Maximum principal funds invested (periods over 1 year)	£80 m	Nil

Note that the reduction in CFR and Borrowing are as a result of the £518m self financing write down, maturing PWLB debt and additional debt taken in year. Also the decision not to procure the incinerator which had received prudential borrowing approval also reduced the CFR position. The variance in Investments was due to a number of grants being received in advance of 2012/13.

Note 1: The level of capital expenditure was approved as part of the approval of the Council Tax levels for the year. Prudential borrowing undertaken during the year as an alternative to funding by leasing was contained within existing Directorate budgets and therefore there was no impact on Band D Council Tax levels.

Note 2: Capital expenditure is in line with budget and is not funded by rents.

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