

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 14th June 2010

CONTACT OFFICERS: Julie Evans, Strategic Director of Resources
Annal Nayyar, Deputy Director of Finance
(For all enquiries) (01753) 875300 or (01753) 477228

WARD (S): All

PORTFOLIO: Leader, Finance & Strategy – Councillor Anderson

PART I **KEY DECISION**

STATEMENT OF ACCOUNTS & OUTTURN POSITION FOR 2009/10

1. Purpose of Report

- 1.1 This report introduces the statement of accounts of the Authority for 2009-10 and provides members with the outturn position for the Authority in respect of 2009/10. Overall the outturn position for general fund for 2009/10 is in line with the approved budget and shows a small surplus of £253k against budget of £102.2m (0.25%). This reflects the break even position that has been reported throughout the financial year taking into account departmental action plans to mitigate in year pressures that were identified. The report provides explanations of significant variances from budget for the General Fund and the Housing Revenue Account (HRA) and informs the Council of the position on General Fund balances. The report also provides a summary of spend and resources to fund the Council's capital program for 2009/10 and provides an outline of the Treasury Management activity and related prudential indicators for 2009/10. Cabinet have before them this report together with the draft statement of accounts and a combined finance and performance annual report.
- 1.2 The audit of the accounts is planned to commence in late July / early August 2010 and will continue until September.
- 1.3 Whilst it is not anticipated that there will be any significant changes, all figures inevitably are subject to Audit. However it should be noted that financially local authorities are complex organisations and in gross terms Slough Borough Council's expenditure is in excess of £400m and occasionally changes may occur after the audit inspection.

2. Recommendations

That Cabinet is requested to resolve:

- a) That the Statement of Accounts (attached as Appendix B – to follow) for the Financial Year ended 31st March 2010 be referred to the Council for approval.
- b) That the outturn position of the General Fund for 2009/10 be noted.
- c) That the level of balances and reserves be noted

- d) That the carry forwards recommended be noted
- e) That the Housing Revenue Account position for 2009/10 be noted
- f) That the spend and resources to fund the Council's capital programme be noted
- g) That the actual prudential indicators for 2009/10 be noted
- h) That the treasury management activity for 2009/10 be noted and the revised authorised borrowing limit outlined in paragraph 5.53 for 2009/10 and 2010/11 be agreed.

3. Community Strategy Priorities

- 3.1 The budget is the financial plan of the authority and as such underpins the delivery of all of the Community Strategy Priorities throughout the year, and it remains critical that actual expenditure is contained within the allocated resources available. In addition it directly supports Key Priority 5 - Maintaining excellent governance within the Council to ensure it is efficient, effective and economic in everything it does.

4. Other Implications

4.1 Financial

The Statement of Accounts shows the financial position as at 31st March 2010.

4.2 Human Rights Act & Other Legal Implications

The main legislative requirements relating to the preparation, publication and audit of the Statement of Accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit regulations 2003 and the Accounts and Audit (Amendment) (England) Regulations 2006.

- 4.3 Corporate accountability and transparency is emphasised in that the 2009/10 accounts have to be approved by Council, and then signed and dated by the Leader and the Chair of the Council meeting. The legal deadline for approval of the 2009/10 accounts is 30th June 2010.

5. Background/ Supporting Information

- 5.1 Members are ultimately responsible for the financial affairs of the Authority, even though it is mandatory for them to appoint an officer to take on the administration of those affairs. It is an essential element of good governance for members to be presented with the Statement of Accounts soon after the year end so that they can:
- Receive assurance that accounting systems have operated adequately and been closed down satisfactory,
 - Have confidence that the budget for the current year had a secure foundation,

- Understand the corporate financial performance during the year and position as at the 31 March 2010, and
- Adopt the Statement of Accounts.

5.2 The statutory accounts play an essential role in the Authority, demonstrating good financial management and value for money.

Financial reporting constitutes one of the themes for the CPA Use of Resources Assessment, and covers “How good are the council’s financial accounting and reporting arrangements”. This breaks down into two key lines of enquiry:

- The council produces annual accounts in accordance with relevant standards and timetables , supported by comprehensive working papers
- The council promotes external accountability

5.3 The final accounts process impacts directly on this theme and reinforces all the other themes. As part of this process Members are expected to subject the accounts to robust scrutiny prior to approval.

5.4 The 2009/10 Statement of Accounts are presented in draft format to Cabinet, and are pre audit.

5.5 From 5th July to 30th July 2010, any person who is interested will be able to inspect and make copies of the accounts of the Council for the year ended 31st March 2010. This will be advertised in the Slough Express, in the Members Bulletin and on the Councils Website. Questions are able to be put to the Auditors from 2nd August until the date of the completion of the audit.

5.6 In September, towards the completion of the audit, the Audit Commission will be presenting a report to Council. This is a formal report by our external auditors and it will give their opinion on the financial statements and also on the authority’s value for money performance.

5.7 The accounts present fairly the financial position of the authority. They are aimed at answering such questions for the reader as:

- What was the cost of the Authority’s services in the financial year?
- What were the Authority’s sources of revenue in the financial year?
- What was the Authority’s assets and liabilities position at financial year end?

5.8 The Authority will again produce a summarised financial information leaflet which will be widely circulated. We shall be asking our stakeholders whether they find this document useful or what other financial information they would like to see. To assist with external accountability and transparency, the following financial information is available on the web:

- Budget Book & Medium Term Plan
- Council Tax leaflet
- Statement of Accounts
- Annual report and summary of accounts (attached as Appendix C – to follow)
- Annual audit letter
- Corporate Plan which acts as the annual report for the Council

The Financial Statements for 2009/10

5.9 The main changes in this year's accounts are as required in the CIPFA's Statement of Recommended Practice (SORP) 2009:

- (a) PFI – The accounting requirements for the Private Finance Initiative are no longer based on UK accounting standard, but on International Financial Reporting Standards. This means that PFI properties used to deliver PFI services, previously 'off balance sheet', are now on the balance sheet with a liability for the financing provided by the PFI operator. The previous year's statements have also been adjusted to reflect this.
- (b) Collection Fund – Council Tax. The SORP now states that the billing authority acts as an agent for its major preceptors. In Slough's case this is Thames Valley Police Authority and Royal Berkshire Fire Authority. This means that the appropriate share of council tax debtors should be shown in the billing authorities and major preceptors' balance sheets. The previous year's statements have also been amended.
- (c) Collection Fund – National Non Domestic Rates (NNDR). Previously NNDR debtors have been included on the billing authorities' balance sheet. SORP 2009 now states that, as the authority acts an agent for the Government, a creditor (if owed) or debtor (if overpaid) for cash collected, should be shown on the balance sheet to the Government. The balance sheet for 2008/09 and 2009/10 reflects this.
- (d) Long term financial liabilities due to be settled within 12 months of balance sheet date in current liabilities. Accrued interest due within 12 months of the balance sheet date has now been separated from long term financial liabilities and assets, and shown under current liabilities and assets.
- (e) The officers' remuneration note has been amended to show bands of £5k instead of £10k as previously. There is also a requirement to show senior officers' remuneration of over £150k.

The Annual Governance Statement

5.10 The Accounts and Audit Regulations 2003 require the Council to include an Annual Governance Statement, (AGS), on the systems on internal control with the final accounts. The statement is a public assurance that the Council has sound systems of internal control, which help manage and control business risk. It is an important public expression of what the Council has done to ensure good business practice, high standards of conduct and sound governance.

5.11 The Annual Governance Statement (AGS) is a key corporate document which is included in the Statement of Accounts document (attached as Appendix B – to follow). The most senior officer and the most senior member have joint responsibility as signatories for its accuracy and completeness. The AGS is being taken to the Audit Committee on 17 June 2010 in draft for comment pending formal approval at Council on 29 June 2010.

Income and Expenditure account

- 5.12 The outturn position for the year against the budget set for Council Tax purposes is a surplus balance of £253k. However the Income and Expenditure Account which is produced for UK Generally Accepted Accounting Practice (UKGAAP) compliance shows that expenditure has exceeded income by £38m. This is because this account includes several technical accounting adjustments that are not required in terms of reporting the cost of services. The major item adjusted for is the recognition of depreciation, amortisation and impairment of the Council's fixed assets of £22m. Other items adjusted for are capital expenditure financed from revenue, contribution to Housing Pool receipts to the government, amount by which pension costs are different from contributions due under pension scheme regulations and the Housing Revenue Account balance. These items are analysed in the 'Statement of Movement on the General Fund Balance' which is part of the Statement of Accounts that will be presented to Cabinet on 14 June and later to Council on 29 June.

General Fund Provisional Outturn 2009/10

- 5.13 At their meeting in February 2010, the Cabinet considered the Forecast Outturn for 2009/10 for revenue and capital spending. The overall outturn position for general fund for 2009/10 is in line with the approved budget and shows a small surplus of £253k against budget of £102.2m (0.25%). This net outturn position is summarised by department in table 1 overleaf.
- 5.14 It is important for members to note that the above outturn is after the implementation of Job Evaluation and as estimated this has been funded from the budgetary provision set aside.
- 5.15 As reported in the monthly budget monitoring reports and delivered via the 2010-11 budget build process there was a fundamental objective to align the revenue budget with the council's capital programme. This has been achieved by regular review and has resulted in the size of the capital programme reducing. The financial savings from this action has been included in the outturn and was reported in February 2010 to Cabinet.
- 5.16 The Strategic Director of Resources has reviewed the levels of contingencies and earmarked reserves in line with the risks that faced the Council during the year. Some sums have been released back to revenue and it has been considered prudent to increase the level of others.
- 5.17 Balances at 31st March 2010 stand at £5.1m before taking into account the surplus now reported which is in line with the level set as part of the budget strategy agreed by full Council on 22 February 2010.

Table 1 – Summary of General Fund Outturn 2009/10

Service	Revised Budget £000	Final Outturn £000	Variance £000
Education and Children's Services	33,262	33,108	(154)
Community & Wellbeing	42,050	42,146	96
Green and Built Environment	37,985	37,810	(175)
Central Directorates	14,784	14,769	(15)
Corporate Items	3,449	3,437	(12)
Total Net Cost of Services	131,530	131,270	(260)
Customer Service Centre	(350)	0	350
Release of Council Provisions	230	0	(230)
Treasury Management	3,158	3,045	(113)
Other	(20,212)	(20,212)	0
ABG, LABGI & PFI Grants	(12,127)	(12,127)	0
Total	102,229	101,976	(253)

- 5.18 As members will recall detailed budget variances have been reported throughout the financial year with the recommendation from officers that a balanced budget would be delivered as the final outcome. This has been achieved resulting in preservation of the council wide general reserve of £5.1m and also ensuring one of the 2010-11 budget build strategy cornerstone assumptions of no budget pressures being brought forward from the previous year being delivered. The main highlights by department are described in table 2.
- 5.19 The variances indicated overleaf have been discussed with the relevant Senior Management Teams chaired by the relevant Strategic Director at a series of outturn meetings that were held during the accounts closure period. These meetings were held as part of a review of the 2009-10 budget monitoring process to reflect on the robustness of the years budget monitoring and seen as an opportunity to note any emerging opportunities and or pressures.

Table 2 – Headline variances to budget by department

Service	Variance £000	Variance Comments
Education and Children's Services	(154)	<p>The departments final outturn position is a net under spend of £154k. The main variances are as follows;</p> <p>Pressures during the year fundamentally arose across the provision of Children's Social care and due to an increased number of looked after children placements across all settings. This is coupled with increased referral and assessment activity which has raised costs for services looking to prevent Children from becoming looked after. Some compensating savings were realised across other Children's Services, in particular those that support children leaving care where activity levels have been lower than anticipated.</p> <p>Savings across the Raising Achievement and Inclusion divisions of the directorate have offset the pressures with Children Social Care. Headlines being a reduction in out of borough placements for Children with Disabilities and savings within the Youth Service following recruitment difficulties at the start of the year and the use of grant funding to offset core costs. The effective re-tendering of the Home to School Transport contracts has realised significant part year savings which have been built into the 2010-11 based budget. The final phase of Extended School start up activities during the year has resulted in budget savings. The use of grant funding to offset core costs and charging services to schools has also been a source of savings during 2009-10.</p>
Community & Wellbeing	96	<p>The department has returned a net overspend of £96k. Divisionally the +£96k outturn comprises of a budget pressure of £351k for Community and Adult Social Care. This is offset by broad savings of £140k on Learning Skills and Cultural Engagement and £105k on Personalisation, Commissioning & Partnerships respectively.</p> <p>The Community & Adult Social Care overspend is due to rising commitments on the residential & nursing care packages, direct payments and home care budgets which are partly offset by savings on day care services and staffing budgets.</p> <p>The Learning Skills & Cultural Engagement under spend results from savings in Community Centres, Transport Services and Culture & Sports budgets. These are due to greater income on Community Centres & Transport budgets. Also savings on the Active Slough initiative.</p> <p>The savings in the Personalisation, Commissioning & Partnerships area relates to staff vacancies, most of which have now been filled.</p>
Green and Built Environment	(175)	<p>The overall directorate outturn position is a net under spend of £175k. The main variances that comprise this overall total relate to savings that have been achieved within the concessionary fares service due to a reduction in demand, partly as a consequence of the severe and prolonged bouts of bad weather which kept many elderly people at home. A reduction in the demand for Disabled Facility Grants 'top up' funding due in the main to an increase in the maximum statutory grant eligibility threshold to £30,000, requiring less call on the discretionary budget. Employee cost savings made within the Home Improvements and Housing Enforcement teams through the effective management of staff vacancies and the efficient use of</p>

Service	Variance £000	Variance Comments
		<p>grant funding.</p> <p>These savings are offset by a pressure arising from a reduction in planning fee income due to a lack of major applications, although small household applications remained fairly constant. Car park income fell due to the non renewal of season tickets, as partly a result of the recession, and the illegal use of vacant development sites for long term car parks whilst undercutting charges. An increase in the costs of highways maintenance due to the impact of the severe winter with the requirement for extra gritting and pothole repairs.</p>
Central Directorates	(15)	<p>Pressures from the provision of discretionary rates relief has been offset by savings against the IT budget including one off savings from re-aligning contract renewal dates for software licences and by re-negotiating Oracle licences rolled up with system maintenance which meet 10-11 savings targets. Further savings across HR and Payroll including additional income from schools for provision of services and a reduction in pension costs arising from the final report received from the actuary. The Operational Training budget has made a saving because a decision made early in the year to hold back on senior management development training and strategic training relating to the 'One Council' project.</p>
Corporate Items	(12)	<p>Additional income receipts in respect of VAT and other minor variances.</p>
Total Net Cost of Services	(260)	
Customer Service Centre	350	<p>As reported throughout 2009-10 via the monthly budget monitoring process the pressure of £350k being the non achievement of a previously agreed saving relating to the Customer Service Centre was anticipated to be met from council wide savings – this has been delivered as predicted. (This pressure has been budgeted for in the 2010-11 budget build)</p>
Release of Council Provisions	(230)	<p>The Councils provisions have been reviewed and as reported to Scrutiny in January 2010 and Cabinet in February 2010 it was seen prudent to reduce the Treasury Management reserve by £150k as a consequence of reducing the size of the Councils overall capital programme and thus a reduction in the borrowing costs as well conducting a sensitivity analysis across other areas of perceived risk resulting in a £80k saving.</p>
Treasury Management	(113)	<p>Fundamentally this reflects the continued re-profiling of the Council's capital programme (see paragraph 5.51 for further details)</p>
Total	(253)	<p>Under spend transferred to General Fund balances.</p>

NI179 Efficiency Savings

- 5.20 As indicated in the 2009-10 monthly budget monitoring reports as part of the Comprehensive Spending Review 2007 (CSR07) announced in October 2007, the Government set a target for all of Local Government to achieve £4.9 billion in efficiency savings for the three year period to March 2011. This equates to 3% of the defined baseline expenditure. (As a result of the 2009 budget statement, there is a demand for an additional 1% in 2010-11, making a total of 4%)
- 5.21 At that time it was also reported that Government is to monitor the progress of individual Councils towards achieving the national efficiency targets. In order to facilitate this monitoring, Councils must submit information twice a year in respect of National Indicator 179 (NI179) which records 'the total net value of ongoing cash releasing value for money gains that have impacted (i.e. a forward and backward look) since the start of the 2008/2009 financial year'.
- 5.22 Cabinet are already aware that the Council has achieved more than the first year target but needs to continue to monitor against the achievement of the overall 3% target.
- 5.23 Monitoring carried out throughout the year indicates an improvement in the achievement against the target set by the DCLG as can be seen in the table below.

NI 179

	Outturn	
	Budget	Actual
	£'000	£'000
Over Achievement of SR 04 gains	4,302	4,302
Efficiency savings carried forward from 2008/09	2,099	2,099
Efficiency Savings included in 2009/10 Budget Build	2,107	2,350
Withstanding Impact of Inflation	1,502	1,502
NI 179	10,010	10,253
Target	8,094	8,094
Indicative Over / (under) achievement	23.68%	26.68%

Carry forwards

- 5.24 The Strategic Director of Resources has reviewed the business case for any carry forward requests received from directorates. After detailed challenge and scrutiny the carry forwards requests totalling £771k (2008-09 £1,065k) outlined in table 3 have been agreed in principle, subject to Cabinet approval as they are either committed or are work in progress and, therefore, it is prudent that they are approved so that a financial pressure is not transferred from the old financial year into 2010-11.

Table 3 – Carry Forward Requests

<u>Education and Children's Services</u>	<u>£'000</u>	<u>£'000</u>
Local Children's Safeguarding Board – Produce & launch toolkit	6	
Fri / Sat Night Activities – PRG commitment to 2011	37	
Transforming Youth Work – Delayed start to project	20	
Community Cohesion – Delay in recruitment	49	
Keeping Young People Engaged - PRG commitment to 2011	12	
Backfill resources as a consequence of inspection regime	50	
PFI Utilities	16	
Total ECS		190
<u>Green and Built Environment</u>		
Highways – Salt restock and highway repairs	45	
Community Safety – PRG commitment to 2011	136	
LSP Climate Change – Carbon reduction project	49	
Home Improvements – Delayed adaptation works	20	
Total GBE		250
<u>Community & Wellbeing</u>		
Community Arts – Postponed Berkshire project	1	
Play Development – Delay in recruitment	8	
Total CWB		9
<u>Central</u>		
SAVE – Delay in training programme	48	
Housing Benefits – Service Improvements to combat recession	78	
LSP – Meet funding commitment to 2011	28	
Customer Service Centre – Specialist staff training	10	
Additional PRG for Performance levels – Census Work	19	
Heart of Slough public consultation commitments	15	
Internal Audit & Risk Management – delayed audit work	37	
Finance – Governance and update to finance reporting tool	62	
Communications – Census Campaign	25	
Total Central		322
<u>TOTAL CARRY FORWARDS:</u>		<u>771</u>

5.25 A full review of all earmarked reserves facing the authority has been undertaken. Table 4 overleaf incorporates these reserves and the movement during the year. These have been built into the final accounts.

Table 4 - Earmarked Reserves

	Opening Balance as at 1 April 2009 £'000	Transfer To Reserves £'000	Transfer From Reserves £'000	Transfer Between Reserves £'000	Closing Balance as at 31 March 2010 £'000
<u>General Fund Reserves</u>					
Non Insurance/ emergency reserve	(517)				(517)
Future Debt & Cap requirements	(5,497)	(152)	310		(5,339)
Trading Accounts	(85)	(160)	48		(197)
<u>Miscellaneous Reserves</u>					
LABGI	(192)				(192)
General Fund – Committees cfwds	(1,065)	(771)	1,065		(771)
Contingency - Demography	(1,060)		330		(730)
Economic Risk	0	(279)	80	(150)	(349)
Berkshire Liabilities	(785)		285		(500)
PFI, Feasibility and Office Accommodation Strategy	(110)				(110)
Stat Prop Function & Landlord duties	(605)				(605)
Financial System Upgrade	(100)				(100)
PFI Unitary	(1,348)	(60)			(1,408)
Sure Start	(370)				(370)
Harmonisation	0	(546)			(546)
Performance reward grant	(936)		936		0
LSP Management	(264)		128		(136)
Building schools for the future	(50)				(50)
Redundancy Reserve	0	(1,030)	803		(227)
Shared Services	0	(250)	180	70	0
Lobbying	0	(100)	20	80	0
Capital Fund	(309)	(33)			(342)
Sub Total General Fund	(13,293)	(3,381)	4,185	0	(12,489)
Housing Renewals Reserve	(46)	(18)			(64)
Schools Capital Account	0				0
Grand Total	(13,339)	(3,399)	4,185	0	(12,553)

Level of Balances

5.26 The Council balances at the start of the financial year were £5.135m. The contribution from general fund at the 31st March 2010 is £253k. Consequently the council's general reserve will be increased from £5.135m to £5.388m as at 1st April 2010.

Capital Expenditure and the Prudential System of Capital Finance

5.27 The overall summary of spend and resources used to fund the Council's capital programme for 2009/10 is shown below. Appendix A (i) and A (ii) provides more detail with the first page containing the departmental summary of spend (and financing) and the following pages the expenditure and variations on individual projects.

Table 5

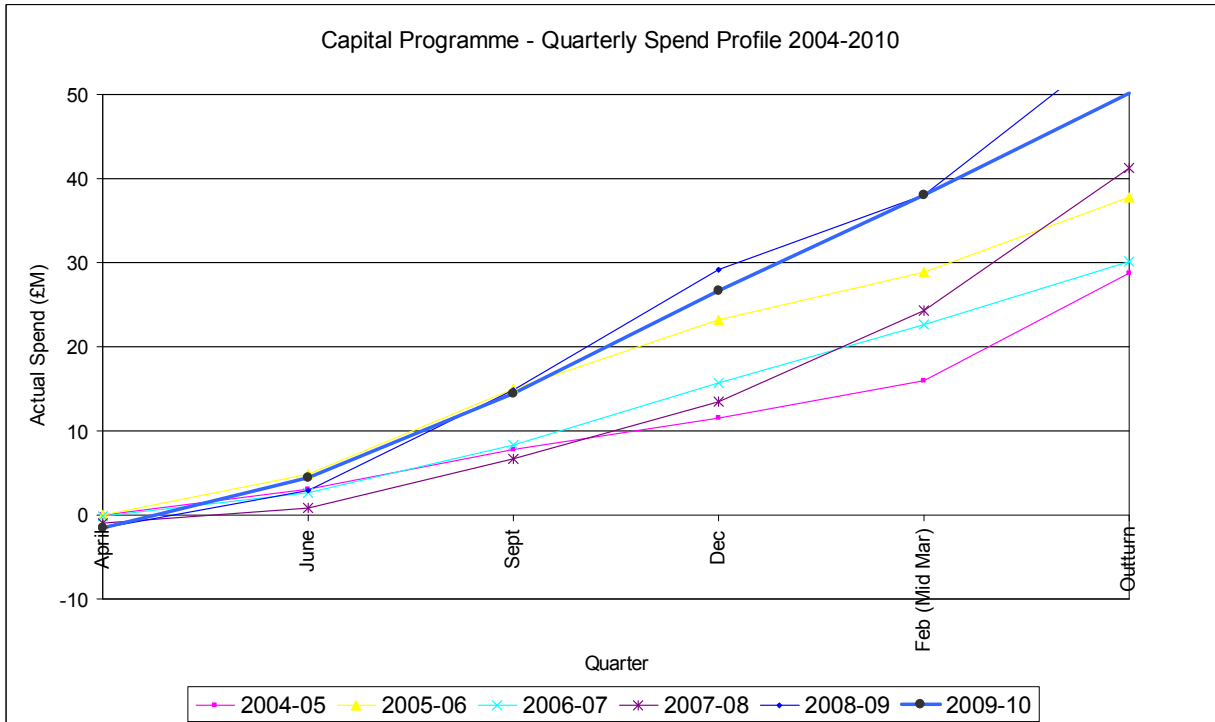
	Approved Jan-10 Budget £'000	Revised Feb-10 Budget £'000	Actual £'000	Spend & Resources to Revised Budget %
Expenditure				
General Fund	30,510	28,271	30,631	108.3%
Housing Programme	23,203	21,669	19,435	89.7%
Total Capital Expenditure	53,713	49,940	50,066	100.2%
Source of Financing				
Capital Grants & Contributions	13,865	13,865	13,228	95.4%
Direct Revenue Funding	0	0	1,584	
HRA Major Repairs Reserve	4,842	4,842	3,815	78.8%
Capital Receipts	3,146	3,146	806	25.6%
Prudential Borrowing	31,860	31,860	30,633	96.7%
Total Source of Financing	53,713	53,713	50,066	93.2%

5.28 The major variances on resources are:

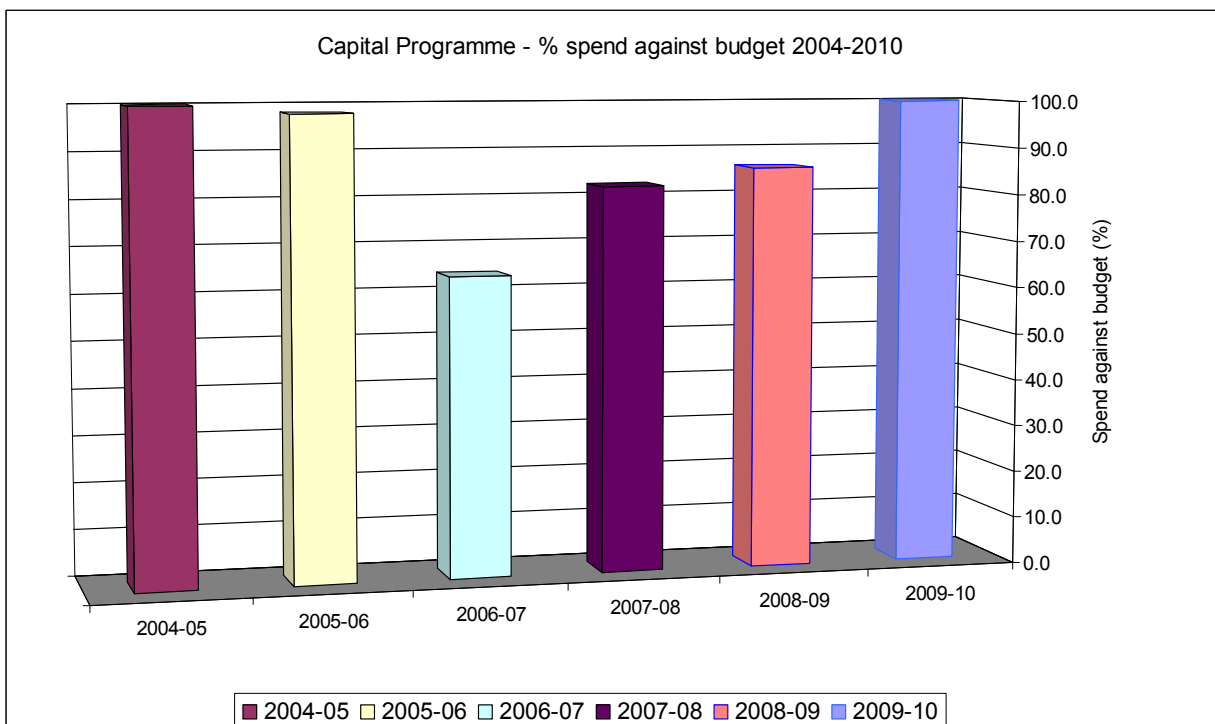
- Direct revenue funding of £1,584k reflects revenue contributions that were received in the year from schools to supplement their capital expenditure.
- Capital Receipts / Capital Expenditure – General Fund (GF) capital receipts in 2009/10 of £806k were used to finance the GF programme. The overall level of general fund expenditure was lower in 2009/10 (£30.6m) than 2008/09 (£37.6m) the main reason for this was the purchase of St Martin's Place £4.9m. Housing Revenue Account (HRA) capital receipts in 2009/10 were £nil (2008/09 £1,064k) but this was compensated by a lower capital expenditure outturn.
- Prudential borrowing – Unsupported borrowing (used on General Fund projects) is used as the last source of funding, therefore the reduction follows the lower level of expenditure compared to the original budget.

Level of 2009/10 capital expenditure

5.29 The graph below compares 2009/10 quarterly capital expenditure with previous years. It highlights the improved processes and systems implemented to monitor capital which have largely eliminated fluctuations in spending levels - the annual expenditure profile is relatively smooth and can only enhance future years capital management.



The graph below compares the 2009/10 percentage spend against the budget with previous years:



Major Variances – Expenditure

5.30 As part of the capital management process, major variances on actual levels of spends which arise fundamentally because of delivery ahead or behind schedule are considered, reviewed and addressed within the overall capital programme provision by a senior officer team called the Capital Asset Group (CAG), these are then endorsed by the Council's Corporate Management team. A directorate summary of capital spend and sources of financing is shown as Appendix A(i) which is supported by details of individual capital scheme spend in Appendix A(ii).

Prudential Indicators

5.31 The Prudential Indicators required by the CIPFA Code of Practice are designed to support and record the Council's decision making. Paragraphs 5.53 to 5.55 contain the actual Prudential Indicators for 2009-10 in respect of affordability, prudence, capital expenditure, external debt and treasury management.

Housing Revenue Account

5.32 The actual outturn in respect of Housing Revenue Account (HRA) services for 2009/10 has resulted in an 'in year' surplus of £2.583m. The table below shows the outturn for 2009/10, compared to the budget. Balances carried forward into 2010/11 now amount to broadly £9.689m. This balance will be retained within the HRA and will form part of the deliberations over the proposed future of Housing Subsidy and Self Financing, in addition to addressing the standards imposed under the regulatory regime administered by the Tenant Services Authority.

5.33 As members will be aware at this point it is important to note the net surplus position aligned to the transfer of the housing management services in Slough back into the direct control of the Council with effect from 1st July 2010.

	Base budget £000	Actual £000	Variance £000
Expenditure			
□ Management	9,083	8,776	(307)
□ Repairs	6,488	6,089	(399)
□ Depreciation	4,841	4,841	0
□ Negative Housing Subsidy	7,529	6,705	(824)
□ Capital Financing	2,043	2,126	83
Income			
□ Dwelling Rents	(27,091)	(26,877)	214
□ Non-Dwelling Rents	(1,526)	(1,909)	(383)
□ Charges for Services and Facilities	(2,009)	(2,208)	(199)
□ Investment Income	(278)	(126)	152
Net (surplus)/ deficit for year	(920)	(2,583)	(1,663)
Balance brought forward	(6,954)	(7,106)	(152)
Balance carried forward	(7,874)	(9,689)	(1,815)

The main variations are as follows:	Amount £000
<p>Management – Savings in staff costs arising from vacant posts, partly offset by use of temporary staff. (-£80K); Decreased external audit fees (-£22k); Renegotiated utility contracts yielding cashable efficiency savings (-£50k); Savings achieved under the implementation of the new housing management system through reduced maintenance costs and the maximisation of capital resources available (-£50k); Programmed expenditure under Environmental Improvements has been subject to tenant & leaseholder consultation; estate inspections and planning regulations, resulting in expenditure being deferred until 2010/11 (-£327k); Prudent increase in bad debt provision for dwelling and non dwelling rents due to current economic climate (+£300k).</p>	(307)
<p>Repairs – Capitalisation of certain repairs such as disabled adaptations, central heating and boilers where repairs were deemed to be of a capital nature; indexation of guaranteed contract sum lower than anticipated; and eligibility criteria for internal decorations restricted expenditure (policy now reviewed).</p>	(399)
<p>Negative Housing Subsidy – In March 2009, after the HRA budget had been approved, the Minister of State for Housing and Planning announced in the House of Commons that all local authority rents should increase by no more than 3.1%. This affected the 'Guideline Rent' calculation which, in turn, impacted on the amount of subsidy repayable to the government. Further, caps and limits arising from the previous year have had a positive impact.</p>	(824)
<p>Dwelling Rents – budget was set adopting the agreed rent increase of 6.2%. Ministerial decision in March 2009 subsequently restricted the rent uplift to only 3.1%, resulting, naturally, in a reduced rent income in the year. The number of Right To Buy sales remains at a low level.</p>	213
<p>Non Dwelling Rents – result of charges to leaseholders for major works on external areas, as part of the decent homes project, along with maximising lettings of garages.</p>	(384)
<p>Charges for Services & Facilities – Mainly arising from de-minimis capital receipts from numerous individual leases which reached over 60 years duration and hence became renewable (-£160k), along with sale of garage sites.</p>	(199)
<p>Investment income – reflecting the impact of reduced market rates of interest.</p>	152

Treasury Management

- 5.34 This section reports on the Council's treasury management activity and related prudential indicators for 2009-10 referencing results to performance indicators. The Local Government Act 2003 sets out the overall legal framework under which the Council's treasury management activities are carried out. The regulations issued under the Act require the Council to have regard to the CIPFA Prudential Code and the Treasury Management Code which define treasury management activities as "the management of the Council's cash flows, its banking and its capital market transactions; the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risk".
- 5.35 Council approves the annual treasury management strategy and Policy Statement (as part of the annual budget report) which sets out the local framework within which the treasury management activities will be carried out. Monitoring and implementation of the treasury strategy is carried out and reported quarterly as part of the budget monitoring with the final year end report being this annual report which:
- a. Is prepared in accordance with the CIPFA Codes of Practice;
 - b. Provide details of capital financing, borrowing and investment transactions during 2009-10;
 - c. Gives details of the outturn position on treasury management activities and transactions during 2009-10;
 - d. Confirms compliance with the approved treasury management limits and Prudential Indicators

Market Activity and Interest Rates

- 5.36 Base rate at the beginning of the financial year was 0.50% and remained unchanged during the year. Financial markets remained volatile as the structural changes necessary within the economy and the banking system evolved. The UK economy remained in recession until the last quarter of 2009 with growth of 0.04% which slipped back to 0.02% in the first quarter of 2010.
- 5.37 To provide additional stimulus to the UK economy, the Bank of England embarked on a policy of injecting extra liquidity (Quantitative Easing) into the economy by purchasing assets such as Government and corporate bonds. The original level of quantitative easing of £75bn was gradually increased to £200bn in November 2009. Although the inflation rate (CPI Index) increased to 3.5% (compared to target of 2%) by the end of the financial year, the Bank of England's forecast indicated that the increase in CPI was mainly due to petrol prices and restoring the VAT rate back to 17.5% with the future inflation risk "broadly balanced" meaning the CPI rate would fall back to the target range of 2% without the Monetary Policy having to take any action on the base rate. The money market rates remained broadly unchanged during the year averaging 0.68% for 3 month deposits.

Long Term Borrowing – Strategy & Outturn

5.38 The debt and investment position at the beginning and the end of the financial year was as follows;

	31/3/20 09 £M	Rate / Return	Ave Life Yrs	31/3/20 10 £M	Rate / Return	Ave Life Yrs
Fixed Rate Borrowing:						
-PWLB	48.507	4.85%	17.2	45.442	4.83%	17.4
-Market	24.000	5.07%	14.1	24.000	5.07%	13.1
Total Debt	72.507	4.93%	16.2	69.442	4.91%	15.9
Investments:						
-Long Term	15.550	6.42%	1.76	14.741	6.42%	0.76
-Short Term	83.780	5.27%	104 days	57.508	0.92%	36 days
Total Investments	99.330	5.79%	179 days	72.249	2.83%	83 days
Net Debt	(26.823)			(2.807)		

5.39 Members will recall that although the Council's capital financing policy was approved in December 2008, (which has constantly been reviewed and reported to members since via the budget monitoring process) the strategy was to fund the capital programme by reducing the level of deposits and thus reduce the money market risks, both in terms of security and cost differential between the lending and borrowing rates. The PWLB average interest rate during 2009-10 for a 15 year loan was 4.34% compared to average investment rate of 0.92%, a differential of £800k in a full year based on the above net debt position. No new long term borrowing was carried out during the year.

5.40 The capital expenditure for 2009-10 was financed as follows;

	General Fund £M	HRA £M	Total £M
Supported borrowing	5.143	15.539	20.682
Prudential Borrowing	9.952	0.000	9.952
Capital Receipts	0.806	0.000	0.806
Grants & Contributions	13.146	0.081	13.227
Major Repairs Reserve	0.000	3.815	3.815
Revenue (Schools)	1.584	0.000	1.584
Total	30.631	19.435	50.066

5.41 The total of supported and prudential borrowing amounts to £30.6m and was financed by reducing the level of investment deposits and other general cash flows.

Investment Strategy & Outturn

5.42 The opening balance of nominal investments as at 1st April 2009 was £99.330m. As referred to earlier in the report, no new capital borrowing was carried out during the year and the capital borrowing cash flow requirement was funded by reducing the level of deposits. As a result, the nominal investments outstanding as at 31st March

2010 is £72.401m. The investment turnover and balances for 2009-10 are as follows:

	31 March 2009 £M	31 March 2010 £M
Balance B/F (1 st April)	120.518	99.330
Net Impairment Charge b/f		0.650
Investments made	314.853	319.895
Investments Realised	-335.391	-347.069
Net Impairment Charge c/f	-0.650	-0.405
Balance C/F (31 st March)	99.330	72.401
Annual Average Equated balance	129.021	96.890

- 5.43 The Council's actual average investment rate for 2009-10 is 2.83% compared to the agreed local benchmark of average 3 month local authority deposit rate offered in the market of 0.68%. The higher rate of return is as a result of the policy decision taken in 2007 to place a proportion of deposits for longer than 365 days. The net revenue impact is additional investment income of £1.9m in the year which was already budgeted for.
- 5.44 The latest guidance issued by the Department of Communities and Local Government places priority on security and liquidity of investments with the yield commensurate with these principles. During the year, the financial crisis continued to impact on the financial institutions with several building societies either merging or being taken over by others and the banking institutions' credit rating, both individual and sovereign, coming under pressure. The approved lending list was kept under review and adjusted as previously reported during the year as part of the budget monitoring reports. The Council's investment activity was therefore restricted only to the approved list of counter parties consisting mainly of banks with either a long term rating of AA(+/-) (with exception of the Co-operative Bank Plc) or those banks supported by the UK government and the top 10 building societies (by asset values) which was gradually reduced to 3 building societies. All new deposits were placed for a period of less than 364 days. The table overleaf lists deposits outstanding as at 31st March 2010 compared to their approved limits:

DEPOSITS OUTSTANDING AS AT 31st March 2010							
	Sovereign Risk	Fitch	Moody's		Approved Limit	Deposit O/Stand	
					£M	£M	
BANKS							
Lloyds Banking Group					£25M		
- Bank of Scotland	UK	AA-	F1+	Aa3	P1	12.500	10.208
- Lloyds Bank	UK	AA-	F1+	Aa3	P1	12.500	12.500
Barclays Bank	UK	AA-	F1+	Aa3	P1	25.000	4.600
Co-op Bank	UK	A-	F2	A2	P1	15.000	13.000
Heritable Bank - Note 1						1.800	1.041
Northern Rock	UK	A-	F1+	A2	P1	10.000	3.000
Santander UK Plc	UK	AA-	F1+	Aa3	P1	25.000	7.500
Sub Total - Banks						51.849	
Building Societies		BS RANK					
Nationwide Group					25.000	6.300	
- Nationwide BS	UK	1					2.300
- Derbyshire BS	UK						2.000
- Dunfermline BS	UK						2.000
Coventry BS	UK	4				10.000	5.600
Leeds BS	UK	8				10.000	4.500
Chelsea BS - now part of Yorkshire BS - Note 2		3				0	4.000
Sub Total - Approved Building Societies						20.400	
Total Deposits						72.249	
Notes:							
1 - Heritable Bank - Net of impairment							
2 - Chelsea/Yorkshire BS no longer on the Approved list.							

5.45 No new long term deposits were placed during the year. The average period for short term deposits during 2009-10 was 36 days compared to 104 days in 2008-09 with the overall average period for both short and long term investments reduced from 179 days to 83 days in 2009-10.

Specified & Non-Specified Investments

5.46 In accordance with the guidance issued by the Secretary of State under Section 15(1)(a) of the Local Government Act 2003, the Council's treasury management strategy defines specified investments as follows:

- Sterling denominated
- Repaid within 12 months from the date of transaction
- Investment made with:
 - UK government and local authorities
 - Financial Institutions with a minimum short term credit rating of either F1+ with Fitch Ratings and/or P-1 with Moody's Ratings.

5.47 Non-Specified investments are:

- Long term investments with a maturity period of more than 365 days

- With building societies without credit ratings but with minimum asset size of £5,000m.

5.48 The proportion of specified investments as at 31st March 2010 was £37.8m (52.4%) and non-specified investments was £34.4m (47.6%).

5.49 The Council's investment data for 2009-10 has been submitted to the CIPFA Treasury Management benchmark club. No results have yet been received at the time of drafting this report and therefore will be reported to the Cabinet as part of the budget monitoring report.

Heritable Bank

5.50 The Cabinet will recall the Council's deposit of £2.5m with Heritable Bank which was impaired in October 2008. The deposit was placed on 22nd March 2007 for a fixed period maturing on 22nd March 2011. Based on the Administrators (Ernst & Young LLP) report dated 17th April 2009, the Council had recognised an impairment charge of £798k in 2008-09 revenue accounts based on recovery of 80p in the £. The Administrators latest report issued on 28th January 2010 projects an improved base case return of between 79% and 85%. The report also cautions against factors which could have a significant impact on the return to the creditors (including interest rates, the housing market and the wider economic environment). However, based on the Local Authority Accounting Practice (LAAP bulletin 82) issued by CIPFA on 24th May 2010, the original impairment charge balance of £557k has been reduced by £152k as at 31st March 2010 with the amount transferred to Treasury Management reserve in the event that the actual rate of return is less than 85%. The actual rate of dividend payment during the year by the Administrator is higher than originally forecast with three dividends amounting to £902k received as follows with further dividend repayments expected in July 2010 and beyond.

Period	Original Forecast	Actual Dividend	Receipt £
July 2009	15%	16.13%	415,850.29
Dec 2009	10%	12.66%	326,454.80
March 2010	-	6.19%	159,703.77
Total	25%	34.98%	902,008.86

Income & Expenditure

5.51 The table below summarises the treasury management income and expenditure for 2009-10.

Expenditure / Income	Revised Est. £'000	Actual £'000	Variation Rev/Act £'000
Debt Interest	3,573	3,545	-28
New Debt - Interest	0	0	0
Minimum Revenue Provision	270	270	0
Interest on Internal funds	365	325	-40
Interest Charge to HRA	-623	-627	-4
Gross Costs	3,585	3,513	-72

Less Interest on Deposits	-2,704	-2,739	-35
Less Misc. Interest		-6	-6
TM (Surplus) / Deficit	-881	-768	-113

Major Variances

5.52 The main variances are summarised below:

- a) **Debt Interest**
The Council's share of interest charge for Magistrates Courts was much lower than anticipated. In addition the level of temporary borrowing carried out was minimal and therefore reduced interest charge.
- b) **Interest on Internal Funds**
The average balances on internal funds were lower than estimated coupled with slightly lower rate of interest than budgeted.
- c) **Interest on Deposits**
The variance on interest on deposits is mainly due to the level of cash flow available as the bulk of capital spend was processed towards the end of the financial year.

Compliance with the Prudential Indicators for Treasury Management

5.53 The Prudential system requires the Council to review and agree various indicators as part of the budget setting process. The requirements of the Prudential Code that relate specifically to treasury management are summarised below:

- a) **CIPFA Treasury Management Code**
The Council has already adopted the Code and carries out its treasury management activities in accordance with the Code.
- b) **Authorised Borrowing limits**
The authorised borrowing limit is the maximum amount of external debt that can be outstanding at any given time during the year and is expressed gross of investments. The operational boundary reflects the Council's best view of the most likely level of borrowing and is based on authorised borrowing limit excluding headroom for unusual cash movements. The actual level of Council's direct borrowing outstanding compared to prudent borrowing limits for external debt for 2009-10 and 2010-11 is as follows:

External Debt	2009-10 Revised £M	2009-10 Actual £M	2010-11 Org Est. £M
Authorised Limit - Borrowing	78.0	69.5	96.0
Operational Boundary - Borrowing	76.0	69.5	91.0

International Financial Reporting Standard (IFRS)

The move to the IFRS has implications for the Council's balance sheet as the Private Finance Initiative (PFI) schemes and Operating Leases will be required to be accounted for on the balance sheet. The budget report in February 2010 informed the Cabinet that the full analysis had not been completed at that time.

The Schools PFI scheme is due to come onto the balance sheet on 31st March 2010 with the Operating Leases on 31st March 2011. The PFI scheme will increase the value of assets on the balance sheet by £42.009m on 31st March 2010 and as a result increase the Council's Authorised Borrowing limit by equivalent amount to £111.509m. The authorised borrowing limit for 2010-11 also needs to be increased by £41.051m to £137.1m **The Cabinet is therefore requested to recommend to the Council to approve the revised Authorised Borrowing limit for 2009-10 at £112m and for 2010-11 at £137.5m.** This would allow for any further adjustments that may be required to the PFI asset value which is still subject to Audit.

For future monitoring and management purposes, it would be helpful to identify separately the Council's direct borrowings and the PFI and lease related debt as the later will be held and managed by the PFI/Lease provider.

c) Maturity Structure and Sources of the Debt

The maturity structure of the amortised debt as at 31st March 2010 is as follows, compared to upper and lower limits as agreed by the Council:

SBC Debt	Lower Limit	Upper Limit	31.3.2010 £M	% of Debt
Under 12 months	0%	25%	0.390	0.56
1 to 2 years	0%	25%	8.035	11.57
2 to 5 years	0%	50%	10.025	14.44
5 to 10 years	0%	75%	8.004	11.53
10 years and above	25%	90%	42.988	61.90
Total long term Debt			69.442	
Average maturity			15.90 yrs	

d) Fixed / Variable rate borrowing limits

As part of the Prudential Code, the approved limit for variable interest rate exposure is within the range 0% and 25% of net outstanding debt, with the fixed rate borrowing within the range 75% to 100%. Whole of Council's debt is at fixed rate.

e) Investments Longer than 364 days

The limit for long term investments maturing beyond 364 days was reduced from the original approved limit of £25m to £15m in February 2010. The actual amount of long term deposits still outstanding as at 31st March 2010 with the original maturity in excess of 364 days is £14.741m

Compliance with Other Prudential Indicators

5.54 To demonstrate compliance, the Prudential Code sets out Prudential Indicators that must be followed and the factors that must be taken into account. The fundamental objective of the Prudential Code is to ensure that in approving the capital programme, the Council has taken into consideration amongst others, affordability, prudence and sustainability. The Prudential Code requires the Council to approve the Prudential Indicators and any revisions to them during the year with the final outturn indicators reported as part of the annual close of accounts.

5.55 The following tables that follow set out the indicators approved in February 2010 and the outturn.

1. **Capital Financing Summary** – Although this indicator is not required by the Prudential Code, it is included within the monitoring so that the capital financing sources can be clearly identified.

Capital Expenditure	2009-10 Revised £M	2009-10 Actual £M
GF	30.510	30.631
HRA	23.203	19.435
Total Expenditure	53.713	50.066
Sources of Finance		
Grants & Contrib.	13.865	13.228
Capital Receipts	3.146	0.806
Capital Fund	0	1.584
Revenue & HRA	4.842	3.815
Supported Borrowing	20.681	20.681
Self Funded Borrow	11.179	9.952
Total	53.713	50.066

2. **Estimated Ratio of financing costs to net revenue stream** - This indicator reflects how much the Authority has to pay as a proportion of its net revenue stream for the capital expenditure, taking into account debt interest, borrowing refinancing costs, minimum revenue provision, (depreciation for HRA).

	2009-10 Revised	2009-10 Actual
General Fund	0.91%	0.62%
HRA	47.81%	40.39%

3. **Capital Financing Requirement (CFR)** – This measures the underlying need to borrow to fund proposed capital expenditure. The actual **net borrowing** is lower than this due to the level of investment deposits. The table below identifies the Council's borrowing CFR separately from the PFI scheme CFR.

CFR	2009-10 Revised £M	2009- 2010 Actual £M
General Fund	55.554	54.327
HRA	23.130	23.129
Total Borrowing CFR	78.684	77.456
PFI CFR	0.000	42.009
TOTAL CFR	78.684	119.465

4. **Actual Net Borrowing and CFR** – In order to ensure that over the medium term, net borrowing is only carried out for capital purposes, the Code requires the Council to ensure that net external borrowing does not, except in the short term,

exceed the total of CFR in the previous year plus the estimate of any additional CFR for the current and next two financial years. The CFR used in calculating this indicator relates only to the Council's direct borrowings.

	2009-10 Revised £M	2009-10 Actual £M
Net Borrowing	29.551	-3.249
CFR in Year 3	128.705	126.696
Net borrowings exceed CFR?	NO	NO

5. **Incremental Impact on Band D Council Tax** – This indicator reflects the impact on the Council Tax (and housing rents) as a result of the proposed changes to the capital programme compared to that previously approved. As the current HRA capital programme is fully funded by HRA subsidy and Major Repairs Allowance, there is no impact on the rent levels.

Incremental Impact	2009-10 Revised £	2009-10 Actual £
Council Tax Band D	-6.79	-6.41
HRA Weekly Rent	0.00	0.00

Minimum Revenue Provision (MRP)

- 5.56 MRP can best be described as provision that has to be made each year (subject to a legal formula) from the revenue budget that is accumulated so that the borrowing can eventually be repaid at a future date. This is in addition to the interest costs. Capital finance regulations require the Council to make General Fund revenue budget provision for MRP at a rate of 4% of the Capital Financing Requirement (CFR) at the end of previous financial year. CFR reflects the Council's underlying need to fund the capital programme from borrowing and increases in line with capital programme funded from borrowing and falls in line with the accumulated MRP.
- 5.57 Capital borrowing is split into supported borrowing and self funded borrowing. In theory, a local authority would receive additional revenue support grant in respect of supported borrowing. However, in practice, due to "caps and floors" within the Revenue Grant distribution mechanism, this council does not receive any additional revenue grant.
- 5.58 Guidance issued by the Department of Communities and Local Government (DCLG) changed with effect from 2008-09 the basis of calculating annual MRP so that it has a direct relationship with the useful life of the asset acquired from capital borrowing, with a split method of calculating MRP, one for supported borrowing and the other for self financed borrowing. The Council's approved policy for calculating MRP is as follows:

- i) **For Supported Borrowing** – Annual MRP will be equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations; plus
- ii) **For Self Financed Borrowing** – annual MRP will be made in equal instalments over the useful life of the asset.

5.59 The MRP charge for 2009-10 as a result of 2008-09 capital expenditure is £270k and the additional MRP required in 2010-11 in respect of the 2009-10 capital expenditure is now estimated at £398k compared to previous estimate of £447k. The MRP in respect of the PFI scheme is £958k in 2009-10 and £932k for 2010-11. The PFI MRP is not an additional charge as it is already included within the PFI unitary charge and therefore is only a change in accounting treatment as a result of international Financial Reporting Standard.

Compliance with Treasury Management Limits and Prudential Indicators

5.60 The Council's treasury management activity was carried out within the limits and parameters set in its agreed treasury management policy statement and prudential indicators as follows:

- ✓ Whole of the Council's borrowing requirement was financed by reducing deposits thus reducing the investment market risk;
- ✓ Adhering to the Council's policy of security and liquidity
- ✓ Managing capital cash flows to ensure that the necessary liquidity was preserved.

6 Conclusion

6.1 The Authority has been able to offset pressures which arose during the year to ensure projected balances at 31st March 2010 are in line with the budget strategy. The Housing Revenue Account (HRA) reflects the statutory obligation to account separately for local authority housing provision.

6.2 The Council's treasury management activity during 2009-10 has been carried out in accordance with the approved strategy and policy statement and within guidelines set out in the CIPFA Code of Practice for Treasury Management and the Prudential Code.

7 Appendices

- A Capital Programme 2009/10 Outturn
- B 2009/10 Statement of Accounts - Document to Follow
- C 2009/10 Annual Report and Summary of Accounts - Document to Follow

8 Background Papers

Detailed account papers are held in the Finance Sections of the Council.