SUPPLEMENTARY 2

London Borough of Barking & Dagenham

THE CABINET

Tuesday, 8 June 2010

Agenda Item 9. **Council's Revenue and Capital Outturn 2009/10 (Pages 1 - 34)**

Agenda Item 10. **Treasury Management Annual Report 2009/10 (Pages 35 - 43)**

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CABINET

8 JUNE 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

This report is submitted under Agenda Item 9. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the reporting of the Council's outturn position in respect of its revenue and capital activities.

Title: COUNCIL'S PROVISIONAL REVENUE AND CAPITAL OUTTURN 2009/10	**For Decision**

Summary:

The Council's provisional revenue outturn (subject to final accounting entries) is a net underspend of £4.4m against a net revenue budget of £151.2m (2.9%). The impact for our financial position at the end of the financial year 2009/10 is that our balances that started the year at £3.7m are now standing at £8.1m. This is a significant improvement from the anticipated net overspend and reduction in balances reported to you previously. The main reasons for the improved position have been;

- The impact of expenditure controls introduced in October 2009
- The use of earmarked and other specific reserves that were reviewed in year to ensure appropriateness
- The late receipt of a VAT refund

Capital spend of £97.1m was incurred in 2009/10 against the revised capital budget of £96.7m (100.4%)

The Housing Revenue Account (HRA) generated a surplus of £2.6m in 2009/10 which has been transferred to HRA balances (which are ring-fenced) increasing them from £0.762m at the start of the year to £3.38m

A contingency was approved by the Executive in February 2010 to cover risks identified in the 2010/11 budget. This will remain in place.

Wards Affected: All

Recommendation(s)

The Cabinet is recommended to:

(i) Note the outturn and balances position of the Councils General Fund revenue budgets for 2009/10
(ii) Approve the transfer of earmarked and specific reserves to and from the General Fund balances as per paragraph 2.3
(iii) Approve the final in-year budget adjustments as set out in paragraph 3.4
(iv) Note the outturn and balances position of the Housing Revenue Account – paragraph 5
(v) Note the outturn position for the 2009/10 Financial Health Indicators – paragraph 6

and appendix B

(vi) Note the outturn position of the Council's Capital Programme – paragraph 7

(vii) Approve the capital budget adjustments – paragraph 7.8

(viii) Approve the carry forward items from the 2009/10 Capital Programme to be incorporated into the 2010/11 and future years capital programme subject to a final review by the Corporate Director of Finance and Commercial Services - appendix D

(ix) Approve the roll back of 2010/11 funding to meet 2009/10 Capital Programme costs incurred ahead of schedule – appendix E

(x) Approve the appropriate rephasing of 2010/11 to 2012/13 capital budgets where expenditure is out of line with actuals.

(xi) Note the outturn position for the 2009/10 Prudential Indicators – paragraph 8 and appendix F

(xii) Approve the 2010/11 budget virements from contingency (as detailed in paragraph 4.1) for

Adult & Community Services department

a. the increased costs of concessionary fares (£1m).
b. Free access to leisure for pensioners (£130,000)

Children's Services

c. Youth access card (£150,000)
d. Legal costs of safeguarding children (£300,000)

Customer Services

e. Increased cost of Revenues and Benefits service (£1m)

Finance & Commercial Services

f. Unachievable income expected from LHC (£250,000)

Resources/ Finance & Commercial Services

g. Regeneration and Asset Management income targets not achievable due to market conditions (£500,000)

Resources

h. The war memorial (£150,000)

Reason(s)

As a matter of good financial practice, the Cabinet should be informed of the final outturn and performance of the Council's Revenue and Capital resources. Knowledge of the variances from planned budgets will assist members in making sound future decisions.

Implications

Financial

This report presents the provisional financial outturn position for the Council for 2009/10. The report demonstrates the financial control mechanisms implemented during the financial year following the reporting of a risky financial position in October 2009, were robust. As a result of the tough decisions made during the year, the Council's balances position has returned to a reasonable level.

Legal

Previous reports to Cabinet (formerly titled the Executive) have highlighted the statutory obligation upon a billing authority to set a balanced budget each year by virtue of section 32 Local Government Finance Act 1992 taking account of required expenditure, contingencies and reserves among other things. Section 43 makes corresponding provision for major precepting authorities. Those sections require the relevant authorities to set an 'appropriate' level of reserves for the year in question. The reserves may be drawn upon during the year but if it was forecast that this was likely to happen, section 27 requires the Chief Finance Officer to report to the authority, at the time the following year's budget and council tax is being considered, to explain the reasons and any action considered necessary to prevent a repetition. In 2003 CIPFA stated that each authority should determine what is a prudent level of reserves based upon their own circumstances, risks and uncertainties.

Due to the recent difficult position of the Council's finances and that reserves went below the recommended limit of £7.5m set for the year 2009/10 members were put on formal notice of the power and duty vested in the Council's section 151 officer to issue a notice under section 114 Local Government and Housing Act 1989 (a 'section 114 notice') prohibiting any further expenditure without her express approval. The Council was also under an obligation under Local Government Act 2003 to take such remedial action as it considered necessary to restore its financial position. Statutory officers were confident that rigorous action to control expenditure and drawing on contingencies as appropriate would be sufficient to secure the Council's position. This report confirms that considerable efforts by relevant officers including the section 151 Officer have been successful in bringing the Council at year end to an underspent position. Similarly the report confirms that reserves which were at a low level of £3.7m have increased to £8.1m. This is above the recommended minimum level of reserves set for 2009/10. The report indicates that Members can be confident that the Council is in a much stronger financial position at the end of 2009/10 financial year and as it enters a new year. Members will also note that while most areas underspent there were notable overspends in some departments for which contingencies are being set aside and/or other appropriate action is identified. Members will be concerned to see that any overspending is being appropriately addressed notwithstanding the overall positive out turn for the outgoing year.

The Housing Finance Act 1972 requires local authorities to maintain a separate Housing Revenue Account (HRA) and the Local Government and Housing Act 1989 requires the Council to ring-fence the HRA thereby preventing any cross-subsidisation from the General Fund. The report also updates Members on the out turn for this account.

Contractual
No specific implications.

Risk Management
The council's overall financial position remains an area of risk due to the high level of savings targets embedded into future years budgets and the likelihood of further in year savings during 2010/11 as the government announces emergency budget items. Assumptions have been made in future years around grant reductions but until the Comprehensive Spending Review is announced later in this year, we will not know the impact on our finances.

This report outlines some measures to mitigate the risks identified namely

- The recommendations to transfer some balances from earmarked and specific reserves and the overall service underspend to general balances are designed to ensure that the actual and reported level of balances are at the targeted level for 2009/10, providing a reasonable level of balances to manage the risks the council faces over the next year.

- The recommendation to transfer budgets from contingency to service areas to address known issues will assist in more robust budget monitoring during 2010/11.

The financial position reported will be subject to external audit review over the coming months and may, therefore, be subject to change. As part of the financial management framework throughout the year and in closing the 2009/10 financial accounts, officers have reviewed the transactions and compliance with accounting regulations to mitigate the risk of this happening.

Staffing
As part of the measures to reduce in-year pressures a freeze on recruitment was implemented. Recruitment was limited to essential appointments only and overtime payments were reduced.

Customer Impact
As far as possible all restraints which were put in place to reduce spend were targeted at non-essential services. Some restraints may have directly or indirectly affected customers but every effort was made to mitigate any impact on front line services and vulnerable groups.
A number of the recommended transfers of budgets for 2010/11 are designed to protect and improve services for specific customer groups.

Safeguarding Children
No specific implications.

Crime and Disorder
No specific implications.

Property/Assets
No specific implications.

Options appraisal
Members make budget decisions at the beginning of each year and officers are required to spend according to those budget decisions. In year adjustments have been made and all have been reported through the executive to ensure proper decision making. .

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1. Background

1.1 Throughout 2009/10 the Executive made decisions about any major changes to the original revenue and capital budgets approved by the Executive in February 2009, and the projected outturns arising from the operations and activities of the Council.

1.2 2009/10 has been a difficult year with a late reduction to the opening level of reserves arising from the final audit of the 2008/09 accounts, and with significant financial pressures arising in most departments.

1.3 During October 2009, a number of financial restraints were implemented to reduce the amount of council spending which included a voluntary severance scheme the impact of which was to reduce the in year salary bill.

2. Corporate General Fund Position

2.1 At the end of 2009/10 the Council has a net underspend of £4.4m on its General Fund Revenue services against a profiled budget for the year of £151.2 million (2.9% under budget). The full departmental detail is included in Appendix A and is summarised as follows:

	Budget £'000	**Actual** £'000	**Over/ (under) spend** £'000
General Fund Services	151,163	146,791	(4,372)

2.2 In addition to the expenditure restraints implemented during the year resulting in all service departments remaining within their budget there are a number of corporate actions which were implemented in 2009/10 to reduce the Council's projected adverse balances position as follows:

- Review and transfer of ear-marked and specific reserves to general fund balances – the Cabinet agreed £1.2m in January 2010 and this report recommends further transfer of £2.6m – see below;
- Capitalisation (approved by the Department for Communities and Local Government) of statutory redundancy costs and early retirement costs has enabled the council to capitalise £3.285m of spend this year to assist in the achievement of savings in 2010/11. This will have an annual borrowing cost implication of £263k p.a.
- Charging appropriate investment related costs from revenue to capital;
- Charging appropriate costs to the HRA.

2.3 During the year a review of specific reserves/funding identified £1.2m funding to be released to General Fund balances. Further work has continued and as a result the following transfers to General Fund balances are recommended:

- Local Authority Business Growth Incentive grant £237k
- Area Based Grant reserve £204k
- Local Area Agreement Reward grant £439k
- Insurance Fund £1.693m

In addition, there is a statutory requirement to implement the International Financial Reporting Standards. It is recommended that a specific reserve of £100k be created to fund the project and potential impact costs.

2.4 The effect of this net corporate underspend is that reserves which were at a low level of £3.7m have increased to £8.1m

	£'000

Opening balances	3,711
Net transfer to balances	4,372
Closing balances	8,083

2.5 In February 2010 in the light of the low level of reserves the Corporate Director of Finance and Commercial Services made provision within the setting of the 2010/11 budget for contributions of £3m to reserves. Subject to spend remaining within the budget approved by the Executive in February 2010 and Central Government funding remaining as assumed the level of reserves at the end of March 2011 is anticipated to be the targeted level of £10m.

3 Service General Fund Position

3.1 During 2009/10 the largest areas of projected overspend had been within Children's Services and Customer Services. Through robust management action by all departments the service General Fund position is now reporting a net underspend of £1.2m. In addition departments have absorbed £1m of non-statutory redundancy costs in 2009/10 to enable the 2010/11 budget savings to be delivered.

3.2 As a result of the significant pressures being experienced across departments the following departmental actions were implemented during the period October 2009 to March 2010 - agency and overtime review, spend only on essential items, removal of Purchase Cards and an Expenditure Panel to approve any essential recruitment. The outcomes and progress of these actions have been monitored and reported to both the monthly Resource Monitoring Panels and the Executive through the regular budget monitoring meetings and reports.

3.3 In summary the overall departmental performances, after the recommended approved adjustments (see paragraphs 3.4 and 2.3) can be summarised as follows:

Service Department	Budget £'000	Outturn £'000	Over/(under) spend £'000	Over/(under) spend %age
Adult & Community Services	67,668	67,541	(127)	(0.2)
Children's Services	54,432	54,295	(137)	(0.3)
Dedicated Schools Grant (DSG)	10,075	10,075	0	0.0
Customer Services	26,020	26,057	37	(0.1)
Resources	10,077	9,358	(719)	(7.1)
Finance & Commercial Services	5,344	5,120	(224)	(4.2)
Net Service Position	173,615	172,446	(1,169)	(0.7)
Corporate	(22,452)	(25,654)	(3,202)	(14.3)
Total	151,163	146,792	(4,371)	(2.9)

Given the size and variety of the financial pressures, the end-of-year position demonstrates a successful year of financial control and the ability to implement and deliver action plans. A number of the on-going pressures that arose in 2009/10 have now been resolved in the longer term through the 2010/11 Budget process, but these will need to be monitored and managed and may need further addressing as part of future years budget process.

3.4 The following items have been previously reported to Cabinet as corporate issues which the Council needed to address. As a result of the final year-end postings within the General Ledger system there is now a need to ensure that for reporting purposes the final revised budget reflects the outturn position. To this end the following budget adjustments are required for approval, of which the net effect on the outturn position is nil:

- Looked After Children £1.1m;
- Building Schools for the Future (BSF) £800k
- Local Housing Company (LHC) £690k
- Switch of funding from capital to revenue £290k

3.5 Details of each area of the Council's financial position are provided in Appendix A, and a brief summary of each of the department's significant issues arising in 2009/10 is provided below.

3.6 Adult & Community Services

Adult and Community Services have reported an outturn position of £127k under budget by year end. The year was extremely challenging with significant service pressure and demand being experienced and ultimately managed.

As reported at Resource Monitoring Panels throughout the year, both Adult Commissioning and Adult Care experienced challenging and significant budget pressures in the region of £750k net. With regards to Learning Disability services, financial pressures have been experienced with particular regard to Transitions' arrangements from Children's Services with regards to children turning 18, and Supported Living Placements for service users.

In Older Persons pressures continue to be experienced with regards to domiciliary care packages that have led to budget overspends. Local pressures around the PCT and in particular Queens, are undoubtedly leading to continued pressure on Social Care budgets.

In order to bring the Department within budget by year end a series of robust action plans were initiated by the Departmental Management Team, with extensive monitoring procedures put in place alongside, that led to reductions in spend. In addition all Non Care Service Divisions, namely Community Cohesion & Equalities, Community Safety & Neighbourhood Services and Leisure & Arts, were required to bring their budgets in under spent to mitigate the care budget pressures.

The actions detailed above, combined with the requirements around the Corporate expenditure freeze, and the maximisation of Government Grant funding helped eliminate the Departments overspends by year end.

3.7 Children's Services

The final outturn position for Children's Services in 2009/10 was a net underspend of £137k. Significant pressures existed throughout the year, but were managed down, by means of robust actions taken towards the end of the financial year by the

Director and the Departmental Management Team, together with the effects of the corporate expenditure freeze. Specifically employee costs exceeded budget with the majority of the net overspend relating to the use of agency social workers to cover frontline positions. Transport costs also exceeded budget, with regards to the Passenger Transport Fleet, but this reduced throughout the year. Legal costs from the current year and some historical accounts from previous years associated with Safeguarding Children procedures were incurred above budget. External placements for Looked After Children were still under pressure throughout the year leading to an overspend. In summary the overspends detailed above were offset by the non Safeguarding Divisions coming in modestly under budget, by means of holding posts vacant, strict control of operating expenditure, utilisation and maximisation of government grants, and the generation of additional external income.

3.8 Customer Services

The final outturn position for Customer Services in 2009/10 is an overspend of £37k. Across the department there were significant overspends on employee costs arising from the use of additional security staff, agency, non-statutory redundancy and overtime. These overspends were offset through a variety of actions including robust management action to minimize net operating costs, additional charges to HRA and capital, and generating additional income. Additional benefit payments of £3.9m were met from higher subsidy income. The overall net underspend has been used to increase the bad debt provision which was previously under provided for.

3.9 Resources

The final outturn position for Resources Department in 2009/10 is an underspend of £719k. Additional locum lawyers and legal operating costs resulted in an overspend of £345k. This was offset by robust control and capitalisation of ICT spend, lower investment management fees and additional recharges and income from The News operation and the corporate agency staff contract. Directorates are being tasked in 2010-2011 by Legal to reduce their usage of Legal to remain within budgetary limits or ensure their actual intended use of legal services is matched by a corresponding budget provision.

3.10 Finance and Commercial Services

The final outturn position for the Finance and Commercial Services Department in 2009/10 is an underspend of £224k. Interim staffing in post for longer than anticipated and non-statutory redundancy costs in Corporate Finance were offset in part by control of Corporate Finance operating costs. Strategy & Performance held posts vacant and reduced operating costs, and Regeneration & Economic Development held posts vacant, offset additional operating costs from additional external funding, and generated additional planning related income.

3.11 Corporate

The Corporate position covers the area of interest on balances and borrowing costs, use of reserves, levies and the use of the contingency budget. In 2009/10 these services showed a combined underspend position of £3.2m. This underspend has arisen from the generation of additional income by challenging previous years VAT payments to HMRC, reduced use of the contingency and the net transfer to this service of the earmarked and specific reserves, offsetting an additional provision required to service debt.

4 2010/11 Budget

4.1 When the 2010/11 budget was set in February, it included a sum set aside in contingency to cover budget risks. The Director of Finance and Commercial Services instigated a thorough review of all risks to ensure that the Council's base budget was robust for 2010/11. The paragraphs below proposes the allocation of contingency as set out below.

4.1.1 £1,000,000 to the Adults & Community Services department in relation to the extra costs due to be incurred in respect of concessionary fares. Information was only received from London Councils early in March providing the final allocation of costs to London Boroughs.

4.1.2 £130,000 to the Adults & Community Services department in relation to the funding of free access to leisure facilities for pensioners.

4.1.3 £150,000 to Children's Services to fund the youth access card.

4.1.4 £300,000 to Children's Services to fund the legal costs of child protection within the Safeguarding Children division.

4.1.5 £1,000,000 to Customer Services to fund staffing in the Revenues and Benefits division whilst the service is transformed.

4.1.6 £250,000 to Finance & Commercial Services department – Regeneration & Economic Development Division – to fund the loss of the income that was expected from the Local Housing Company.

4.1.7 £500,000 to Resources and Finance & Commercial Services departments – Regeneration & Economic Development Division and Strategic Asset Management & Capital Delivery Division – to fund the loss of the income that was expected from a range of budgets which due to market conditions is no longer expected.

4.1.8 £150,000 to fund the war memorial.

5. Housing Revenue Account

5.1 The Housing Finance Act 1972 requires local authorities to maintain a separate Housing Revenue Account (HRA) and the Local Government and Housing Act 1989 requires the Council to ring-fence the HRA thereby preventing any cross-subsidisation from the General Fund. The Council also maintains a statutory duty to ensure that the HRA does not fall into deficit. The final position for the Housing Revenue Account shows that there is a working balance at 31 March 2010 of £3.378m compared to an opening balance of £0.118m and a projected working balance of £1.965m.

This can be summarised as follows:-

Housing Revenue Account - Provisional Outturn

	Revised Budget	Actual	Variance (Act-Bud)	Variance % (Act-Bud)
	£	£	£	%
Dwelling Rents	- 74,068,200.00	- 71,878,043.33	2,190,156.67	-2.96%
Non-Dwelling Rents	- 2,473,100.00	- 1,720,467.49	752,632.51	-30.43%
Service Charges	- 10,748,300.00	- 11,603,682.58	- 855,382.58	7.96%
Contributions Towards Expenditure	- 3,865,000.00	- 5,067,462.97	- 1,202,462.97	31.11%
	- 91,154,600.00	- 90,269,656.37	884,943.63	
Repairs & Maintenance	24,315,100.00	24,261,386.35	- 53,713.65	-0.22%
Rent Rates and Other	576,500.00	610,964.24	34,464.24	5.98%
Supervision & Mgmt	28,149,800.00	29,305,161.23	1,155,361.23	4.10%
HRA Subsidy Payable	22,057,200.00	18,107,919.00	- 3,949,281.00	-17.90%
Housing Benefits Limitation	503,600.00	- 38,567.00	- 542,167.00	-107.66%
Depreciation	13,688,800.00	13,977,208.96	288,408.96	2.11%
Incr in Bad Debt Provision	745,700.00	746,196.08	496.08	0.07%
RCCO	1,885,000.00	800,000.00	- 1,085,000.00	-57.56%
	91,921,700.00	87,770,268.86	- 4,151,431.14	
Corporate & Democratic Core	811,000.00	810,966.00	- 34.00	0.00%
Interest Receivable	- 1,364,100.00	- 928,022.20	436,077.80	-31.97%
Opening Balance	- 2,178,700.00	- 117,727.71		
Closing Balance	- 1,964,700.00	- 2,734,171.42		
Rent Reserve		- 644,239.50		
HRA Balances		- 3,378,410.92		

5.2 The reduction in the net subsidy payable to central Government of £3.949m is offset by a reduction in income of £2.942m mainly due to the impact of reducing rent charges from April 2009 in line with the Housing Ministers announcement in March 2009. The remaining reduction is due to the successful bid to the CLG for a 'caps & limit' adjustment to compensate the HRA for lost income through delivering the Council's rents within the Governments rent restructuring framework. Supervision and Management costs are overspend by £1.156m, due to increased recharges for additional ground maintenance and refuse services received, increased pension and security costs. This has been mitigated by reduced payment of Housing Benefit Limitation of £0.542m and insurance claims received totalling £1.202m both relating to prior year claims. Interest receivable was lower than expected due to lower interest rates in the current economic climate.

6. Financial Health Indicators

6.1 The Audit Commission's Comprehensive Area Assessment (CAA) requires the Council to undergo an assessment into its Use of Resources (UoR). Although this regime has been scrapped by the government the Council still has a clear ambition to deliver excellent value for money services and to constantly improve.

6.2 One of key themes within the UoR assessment was the need to evaluate the Council's position regarding its financial standing. One of the mechanisms for achieving this is for Members to be aware of key financial health indicators and set challenging targets, for example, for income collection, level of variance from budget, prudential framework indicators, capital programme management etc. Whilst the council has a good track record of achieving these targets, it is appropriate that performance against these targets is presented to Cabinet on a regular basis. Currently all health indicators are presented to the Cabinet on a quarterly basis throughout the financial year. Attached at Appendix B is a list of the Council's significant financial health indicators for the financial year 2009/10.

6.3 Cabinet will be kept informed of developments with regard to the inspection regime as these are confirmed.

7. Capital Programme

7.1 The total capital expenditure for 2009/10 was £97.1m out of a total budget of £96.7m, an overspend of £0.4m after taking into account the recommendations set out in this report. Included in this report are budget increases as set out in paragraph 7.8 of £5.6m, roll-forward requests into 2010/11 totalling £22.3m, with £7.8m of budgets brought forward from 2010/11 into 2009/10, giving a net overspend position of £0.4m.

7.2 These figures indicate that 100.4% of the capital programme was spent in 2009/10. This demonstrates the sound financial management principles that are applied across the capital programme.

7.3 The capital programme has been managed throughout the year by project sponsors with support from both the Capital Programme Management Office (CPMO) and departmental finance teams. Significant efforts have been made to co-ordinate this work, ensuring that financial input is received effectively from finance groups, and that technical and project management expertise is received from the CPMO. These efforts have contributed significant progress on a number of projects throughout the year.

7.4 The Cabinet is asked to consider and approve the carry forward of unspent budgets from 2009/10 into future years. The detail of these requests is included in Appendix D to this report. They total £22.3m. An exercise has also been undertaken to highlight any existing schemes that remain uncommitted. This is also detailed in Appendix D. It is recommended that these are rolled forward into 2010/11 following scrutiny by CPMO, and approval by the Corporate Director of Finance and Commercial Services.

7.5 The capital outturn position can be summarised as follows:

	£m
Revised Budget 2009/10	105.6
Less:	
Actual Expenditure 2009/10	97.1
Underspend	(8.5)
Budget increases due to external funding	(5.6)
Budgets Rolled Forward into 2010/11	22.3
Budgets Brought Forward from 2010/11	(7.7)
Net overspend after roll-forwards	0.5

7.6 Within the overall position there are a number of issues to note:

- The overspend arises from the waste minimisation project.
- The most significant schemes were Housing Futures, which spent £21.8m, £12.6m was spent on Highways upgrade expenditure, £3.7m on developing the Becontree Heath Leisure Centre, Valence House redevelopment £4.6m, primary schools £7.3m, and One B&D £3.9m.
- Approximately £45m, over 46%, of the capital programme was funded from external sources of funding principally from government departments and agencies – DWP, DCLG, the Lottery and Transport for London; and
- Following changes in legislation back in 2004, the Council now has to pool 75% of right to buy receipts each year. This means that the Council's previously significant capital receipts reserve has dwindled over the past 5 years, and the Council now borrows to finance capital expenditure. Loan funding applied to the capital programme is approximately £49.2m.

7.7 The budgets brought forward from 2010/11 of £7.7m are as a result of projects that have spent in advance of their 2009/10 budget, as a result of being ahead of their original programme timetables, so can be funded from resources currently included in the 2010/11 programme. These are detailed in Appendix E.

7.8 To ensure that for reporting purposes, the final revised budget reflects the outturn position, there are a number of budget approvals required to the 2009/10 capital programme totalling £5.6m which are:

- Budget increases for projects funded from external funding namely London Housing Board funding £0.7m re William St Quarter, additional Social Care external funding £71k, and additional Children's Services external funding £267k.
- Use of corporate borrowing to fund the acquisition of properties to enable approved wider Regeneration activities to be delivered £1.3m
- The Council received a "capitalisation directive" from central government of £3.3m in 2009/10 to fund significant one off expenditure for restructuring i.e. the costs of statutory redundancy and early retirement. This expenditure has been capitalised from the revenue accounts and will be funded from corporate resources, which will spread the cost over a number of years rather than the full effect being felt in one year.

8. Prudential Indicators

8.1 Regulations issued under the Local Government Act 2003 require local authorities to have regard to the CIPFA Prudential Code for Capital Finance. This code considers the prudence, affordability and sustainability of capital investment decisions made by the Council.

8.2 The Council set a series of "prudential indicators" to measure capital investment decisions against the key principles of the code. They include the level of capital expenditure, the associated financing costs and impact on Council Tax and Housing Rents. They also include treasury management indicators which set out limits for investment and borrowing decisions throughout the year.

8.3 Appendix F sets out the outturn position for 2009/10 against the indicators as set in February 2009. The headline assessment of these figures is that there were higher financing costs than originally budgeted for due to a change in methodology but the additional cost in 2009/10 was contained within the Council's overall budget. The Capital Financing Requirement was lower than anticipated due to lower than anticipated Capital Programme spend. Treasury management indicators confirm that the limits set for investment and borrowing decisions were adhered to throughout the year.

9. Links to Corporate and other Plans and Strategies

9.1 The outturn reported above has links to the Medium Term Financial Strategy (MTFS), whereby changes to the level of balances anticipated when the MTFS was set will need to be considered when it is next reviewed. Any variances incurred in 2009/10 and which may recur in 2010/11 and future years will also need to be considered when reviewing the MTFS.

9.2 Treasury Management outturn is being reported on the same agenda.

9.3 The future Capital Programme will need to be amended for the recommendations in this report arising from the roll forwards and roll backs and financing.

10. Consultees

The following were consulted in the preparation of this report:

Councillor Geddes Cabinet Member for Finance, Revenues and Benefits
Tracie Evans, Corporate Director of Finance and Commercial Services
Jonathan Bunt, Corporate Financial Controller
John Hooton, Strategic Financial Controller
Lee Russell, Finance Manager – Resources
Steve Whitelock, Finance Manager – Adults & Community Services, and Interim Finance Manager – Children's Services
Tony McNamara, Interim Finance Manager – Customer Services
Miriam Adams, Principal Accountant - Treasury
Winston Brown, Partner - Corporate Law & Employment
Sharon Roots, Corporate Risk Manager
David Robins, Corporate Procurement Manager
Heather Wills, Head of Community Cohesion and Equality

Glynis Rogers, Head of Community Safety and Neighbourhood Services
Sue Lees, Strategic Asset Management and Capital Delivery
Chris Pelham, Head of Safeguarding and Rights

11. Background Papers Used in the Preparation of the Report:

Monthly budget monitoring reports to Cabinet during 2009/10
Council tax setting report 2009/10, Cabinet February 2009
Council tax setting report 2010/11, Cabinet February 2010

12. List of appendices:

Appendix A – Provisional Revenue Outturn 2009/10
Appendix B – Financial Health Indicators
Appendix C – Capital Programme Outturn 2009/10
Appendix D – Capital Programme 2009/10 Roll Forwards
Appendix E – Capital Programme 2009/10 Roll Backs
Appendix F – Prudential Indicators

APPENDIX A

REVENUE OUTTURN STATEMENT - 2009/10

SERVICES	2009/10 Original Budget	Working Budget	Provisional Outturn	Provisional Variance - over/(under)
	£'000	£'000	£'000	£'000
Adult & Community Services				
Adult Care Services	5,054	4,984	5,451	467
Adult Commissioning Services	43,681	44,104	44,371	267
Community Safety & Neighbourhood Services	3,652	3,606	3,303	(303)
Community Cohesion & Equalities	7,537	7,749	7,461	(288)
Leisure & Arts	6,473	6,701	6,443	(258)
Other Services	581	524	512	(12)
	66,978	**67,668**	**67,541**	**(127)**
Children's Services				
Quality & Schools Improvement	7,151	7,187	6,711	(476)
Integrated Family Services	770	961	593	(368)
Safeguarding & Rights Services	33,072	34,245	36,248	2,003
Children's Policy & Trust Commissioning	2,199	2,192	1,408	(784)
Skills, Learning and Enterprise	1,837	2,427	1,712	(715)
Other Services	6,945	7,420	7,623	203
	51,974	**54,432**	**54,295**	**(137)**
Children's Services - DSG				
Schools	(11,341)	(1,889)	(2,948)	(1,059)
Quality & Schools Improvement	7,417	6,902	7,944	1,042
Integrated Family Services	3,022	3,158	2,899	(259)
Safeguarding & Rights Services	131	131	140	9
Children's Policy & Trust Commissioning	587	1,308	1,562	254
Skills and Learning	0	464	423	(41)
Other Services	225	0	54	54
	41	**10,074**	**10,074**	**0**
Customer Services				
Environment & Enforcement	21,368	22,714	21,410	(1,304)
Housing Services	842	1,011	939	(72)
Revenues & Benefits	2,688	2,576	3,723	1,147
Barking & Dagenham Direct	(518)	(281)	(15)	266
	24,380	**26,020**	**26,057**	**37**
Resources				
Chief Executive	(4)	426	458	32
Director of Resources & Business Support	400	92	(506)	(598)
Legal & Democratic Services	727	604	949	345
ICT & eGovernment	(577)	146	(153)	(299)
Human Resources	(290)	(348)	(342)	6
Strategic Asset Management/Capital Delivery	376	3,744	3,747	3
Corporate Management	5,757	5,413	5,205	(208)
	6,389	**10,077**	**9,358**	**(719)**
Finance & Commercial Services				
Finance & Strategy & Performance	84	712	741	29
Regeneration & Economic Development	3,151	4,632	4,379	(253)
	3,235	**5,344**	**5,120**	**(224)**
Other				
General Finance	(10,980)	(30,481)	(33,296)	(2,815)
Contingency	1,500	383	0	(383)
Levies	7,646	7,646	7,642	(4)
TOTAL	**151,163**	**151,163**	**146,791**	**(4,372)**

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Key Financial Health Indicators to 31st March 2010

Revenue

Financial Monitoring	Quarter 3 Variance Projection	Year end Variance Target	Current Budget	Final Outturn	Final Variance to Budget	Variance to Quarter 3
	£m	£m	£m	£m	£m	£m
Service Departments	2.8	0.0	173.6	172.7	-0.9	(3.7)
Other Services	0.7	0.0	(22.5)	(25.8)	(3.3)	(3.3)
Total	**3.5**	**0.0**	**151.1**	**146.9**	**-4.2**	**(7.0)**

Narrative:

Overall the Council is reporting an underspend position in 2009/10 of £4.2m which amounts to 2.8% of the budget. The 2009/10 financial year has proved a demanding period for the Council with a number of significant financial pressures arising particularly from Customer Services, Looked After Children Placements and in meeting the Councils' Leaving Care responsibilities . As a result of these pressures the Council reported in its October Budget Monitoring report a potential overspend position by the year end of £4.9m. In order to deliver a balanced budget by the year end and to improve the level of General Fund balances an action plan was agreed including holding vacant posts, tight controls on agency recruitment and supplies & services spend, reduction in levels of overtime, a more focused use of all revenue grants, maximising grant funding, and tighter demand management of care budgets.

Income Collection	Target Collection Rate	Cash Equivalent	Actual Collection Rate	Cash Equivalent	Variance to Target Rate	Cash Equivalent	Next Quarter Target
Council Tax*	94.00%	£47.626m	92.93%	£47.084m	(1.07)%	(£95k)	N/A
NNDR*	97.00%	£48.879m	95.58%	£48.162m	(1.42)%	(£97k)	N/A
Ctax Arrears*							
• prior years	26.50%	£2.915m	15.87%	£1.745m	(10.63)%	(£1.170m)	N/A
Rent Collection**(as at end of Oct 09)**	97.00%	£73.026m	96.82%	£73.067m	(0.18)%	(£133k)	N/A

Narrative:

Council Tax collection performance for the end of Quarter 4 was 92.93% and therefore failed to achieve the target for the year of 94 % by 1.07%. Collection was also slightly down on the outturn for 2008-09 by 0.07%. Council Tax arrears collection variance was 10.63% due to the focus on the in-year collection performance. NNDR collection performance was also down by 0.5% against 2008-09 and 1.42% against the 2009-10 target. Overall, the last 12 months has proved very challenging in the area of Revenue Collection for the council with the full impact of the recession hitting the borough as well as the wider UK significantly. However, as part of the requirement to improve on performance a new structure will be implemented in early 2010-11 across the Revenues Service that aims to drive both process change and performance improvement whilst also delivering greater Value for Money.

Key Financial Health Indicators to 31st March 2010

Investments

	Average Investment Balances	Benchmark Return	Final Return 2009/10	Variance against Benchmark	Total Interest Earned
	£m				£m
Council in House team	53.1	2.00%	3.52%	1.52%	1.564
External Fund Manager (1)	28.0	2.00%	1.38%	-0.62%	0.508
External Fund Manager (2)	18.8	2.00%	3.48%	1.48%	0.796
External Fund Manager (3)	15.0	2.00%	2.86%	0.86%	0.429

Narrative:

Overall investment income in 2009/10 fell below budget by £1.2m. Interest rates were lower than expected compared to when the original budget was set in February 2009, Bank of England base rate remained at 0.5% though out the year. The expected rise in Bank of England rate in the later part of the financial year did not materialise, however provisions in the Council's budget had been made for this eventuality. £0.7m of the reduction in investment income also related to 2009/10 unrealised gains received in 2008/09. In the current climate this position remains a strong one achieved as a result of decisions made by the Council and its Fund managers, while rates were still high to lock in significant investments over a two year period. In addition the Council has continued to invest in highly rated banks, protecting the Council's financial position from potential losses of both principal and invesmtent income.

Capital

Capital Programme	Projected Spend @ Q 3	Original Budget	Working Budget	Actual Spend 2008/09	Variance to Working Budget	
	£m	£m	£m	£m	£m	%
Capital Spend	103.6	71.70	96.70	97.10	0.4	0.4%

Narrative:

The total capital expenditure for 2009/10 was £97.1m out of a total budget of £96.7m, an overspend of £0.4m. These figures indicate that 100.4% of the capital programme was spent in 2009/10. This demonstrates the sound financial management principles that are applied across the capital programme.

Key Financial Health Indicators to 31st March 2010

Capital

Prudential Indicators	Original Indicators 2009/10 £'000	Revised Indicators 2009/10 £'000	Final Indicators 2009/10 £'000
Indicators			
Capital			
Capital Expenditure	99,867	136,458	97,135
Financing Costs			
- Ratio of HRA Financing costs to Net Revenue Stream	15.70%	0.57%	15.80%
- Ratio of General Fund Financing costs to Net Revenue Stream	1.53%	2.03%	1.94%
Impact on Band 'D' Council Tax	£45.00	£59.61	£56.92
Impact on Average Housing Rent	£0	£0	£0
Capital Financing Requirement	£70,532	£68,272	£57,384
Treasury Management			
Operational Limit on Borrowing	£90m	£90m	£70m
Authorised Limit	£200m	£200m	£200m

Narrative:

The outturn figures confirm that the limits and controls set for 2009/10 were applied throughout the year, and that the treasury management function and capital investment decisions adhered to the key principles of the CIPFA Prudential Code of prudence, affordability and sustainability

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Appendix C

CAPITAL OUTTURN 2009/10

Summary of Expenditure

Department	Original Budget £000	Revised Budget £000	Budget Adjustments £000	Revised Budget (b) £000	Actual £000	(Underspend) Overspend £000	Roll Forwards £000	Roll Backs £000	Revised (Underspend) Overspend £000
Adult & Community Services	25,850	16,827	71	16,898	12,355	(4,543)	4,576	(50)	(17)
Childrens Services	9,809	27,955	267	28,222	20,080	(8,142)	8,699	(557)	0
Customer Services	25,493	39,862	1,300	41,162	44,210	3,048	4,104	(6,698)	454
Resources	10,597	20,959	4,000	24,959	20,490	(4,469)	4,947	(452)	26
Total	**71,749**	**105,603**	**5,638**	**111,241**	**97,135**	**(14,106)**	**22,326**	**(7,757)**	**463**

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CAPITAL OUTTURN 2009/10

ROLL-FORWARDS BY CATEGORY

DEPARTMENT	CATEGORY A	CATEGORY B	CATEGORY C	CATEGORY D	CATEGORY E	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Adult & Community Services	4,173	240	163	-	-	4,576
Childrens Services	4,072	1,796	-	2,011	820	8,699
Customer Services	2,642	-	-	1,462	-	4,104
Resources	4,014	-	16	756	161	4,947
	14,901	**2,036**	**179**	**4,229**	**981**	**22,326**

Roll-forward Categories being:
A - Stand alone project - Contractually committed
B - Stand alone project - Pre-contract spend only - Contractually committed
C - Stand alone project - Pre-contract spend only - Not yet Contractually committed
D - Rolling Programme - Contractually committed
E - Rolling Programme - Not Contractually committed

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Appendix D (i)

CAPITAL OUTTURN 2009/10

ROLL FORWARD REQUESTS

	Figures for 2009/10				
	Budget £000	**Actual** £000	**Variance** £000	**Roll fwd Request** £000	**Category**
Adult & Community Services					
Community Services, Libraries and Heritage					
Ripple Hall	1,541	917	624	601	A
Valance Site Redevelopment	5,225	4,568	657	657	A
Disabled Adaptations (HRA)	1,343	1,294	49	-	D
Leisure and Arts					
Parks and Green Space Contingency	75	16	59	32	A
Barking Park Restoration and Improvements	2,541	192	2,349	2,349	A
Pondfield Park	72	13	59	59	A
Green Flag and Small Scale Works	25	23	2	2	A
Abbey Green Park Development	114	33	81	81	A
Staff Costs	63	0	63	40	A
Valence Park Improvements	202	96	106	106	A
Mayesbrook Watercourse Corridor & Park Study	74	38	36	35	A
Civic Centre Gardens	152	0	152	152	C
Btc Public Art Project	16	4	12	11	C
Playbuilder	535	524	11	11	A
Abbey Sports Centre (Wet Side Changing Area)	268	28	240	240	B
Becontree health Leisure Centre	3,915	3,715	200	200	A
	16,161	11,461	4,700	4,576	
Children's Services					
Primary School					
Eastbury	4,970	3,876	1,094	1,094	A
Northbury Infants and Juniors	243	65	178	178	A
Barking Riverside First Primary School	2,000	297	1,703	1,703	B
Roding Primary School -Cannington Road Annex	3,200	1,996	1,204	1,204	A
Beam Primary Extension	450	222	228	228	A
Other Schemes					
Renewal School Kitchens	368	293	75	75	B
SMF 2009-10	2,926	1,708	1,218	1,169	D
Extended Schools Phase 4	346	339	7	5	D
Albion Children Centre	903	426	477	477	D
Devolved Capital Formula	5,215	4,395	820	820	E
Schools Legionella Works	309	18	291	291	D
Schools Re-Boiler Works	586	516	70	69	D
Youth Access Card	1,067	91	976	976	A
Schools Kitchen Extension Refurbishment	25	7	18	18	B
Cross-Government Co-Location Fund	254	108	146	146	A
Skills, Learning and Enterprise					
Dagenham Job Shop	378	132	246	246	A
	23,240	14,489	8,751	8,699	
Customer Services					
HRA					
Decent Homes	6444	4631	1,813	1,813	A
Non HRA					
Disabled Facilities Grant	800	774	26	26	A
Housing Modernisation Programme	2,758	2,307	451	451	A
Environment & Enforcement					
Station Access (TfL)	125	62	63	63	A
Bridge Strengthening (TfL)	95	0	95	95	A

Appendix D (i)

CAPITAL OUTTURN 2009/10

ROLL FORWARD REQUESTS

	Figures for 2009/10				
	Budget £000	**Actual** £000	**Variance** £000	**Roll fwd Request** £000	**Category**
20Mph Zones (TfL)	370	236	134	134	A
Local Safety Schemes (TfL)	560	500	60	60	A
Parking Software Replacement	100	81	19	19	D
SNAPS	1,650	245	1,405	1,405	D
Excellent Customer Services	286	248	38	38	D
	13,188	9,084	4,104	4,104	
Resources					
ICT					
IT for Members	19	3	16	16	C
One B & D ICT Main Scheme (including other ICT schemes)	5,071	4,910	161	161	E
Asset Strategy					
Intruder Alarms	121	116	5	5	D
Backlog Maintenance	723	474	249	249	D
Legionella (Public Buildings)	314	228	86	86	D
Asbestos (Public Buildings)	256	123	133	133	D
Cmrp-Dda for Buildin	104	79	25	25	D
Demolition of 16-18 and 20 Cambridge Road	15	3	12	11	A
L8 Surveys and Risk Assessment Updates	19	8	11	11	D
Automatic Meter Reading Equipment	219	0	219	219	D
Demolition of the Lawns	153	62	91	91	A
L8 Control of Legionella Remedial Works	110	82	28	28	D
Regeneration					
Dagenham Heathway Improvements	93	22	71	71	A
London Road Market Square	806	519	287	287	A
Legi Business Centres	698	385	313	313	A
Barking Town Square (Phase 2)	245	49	196	196	A
East End Thames View Demolition	519	275	244	244	A
Barking Town Centre	525	66	459	459	A
Retail Premise Improvement Grant	21	-	21	21	A
Barking Child & Family Health Centre - TGP (2003-06)	999	-	999	999	A
Axe Street Housing	613	213	400	400	A
Area Based Schemes (Shopping Parades)	850	339	511	511	A
London Cycle Network Plus(TFL)	333	239	94	22	A
Improvements to Business Area & Industrial Estates	267	206	61	35	A
Thames View - Detailed design	450	440	10	10	A
Shop Mobility (TfL)	10	6	4	4	A
Demoliton & Refurbishment to 23-25 East Street	342	181	161	161	A
BTC Public Realm - Tsq & Abbey	330	204	126	126	A
Local Transport Fund 2009/10 (TFL)	100	47	53	53	A
	14,325	9,279	5,046	4,947	
LBBD Total	**66,914**	**44,313**	**22,601**	**22,326**	

Roll-forward catagories being:
A - Stand alone project - Contractually committed
B - Stand alone project - Pre-contract spend only - Contractually committed
C - Stand alone project - Pre-contract spend only - Not yet contractually committed
D - Rolling programme - Contractually committed
E - Rolling programme - Not contractually committed

Appendix E

CAPITAL OUTTURN 2009/10

Budgets to be brought forward from 2010/11 to 2009/10

	2009/10			2010/11 Budget	
	Budget	Actual	Variation	Budget	To be Reduced By
	£000	£000	£000	£000	£000
Adults Services					
Eastbury Manor House	366	416	50	100	50
	366	**416**	**50**	**100**	**50**
Childrens Services					
Cambell Infant and Junior	415	727	312	1,550	312
Westbury - New Primary	-	4	4	2,362	4
Additional School Places	1,013	1,254	241	870	241
	1,428	**1,985**	**557**	**4,782**	**557**
Customer Services					
HRA					
Housing Futures	11,808	15,895	4,087	22,996	4,087
Non HRA Housing					
Private Sector Households	1,114	1,376	262	1,200	262
Highways Maintenance (TfL)	257	342	85	370	85
Highways Structural Repairs	10,391	12,586	2,195	4,300	2,195
land Quality Inspection Programme	280	289	9	80	9
Street Light replacements	1,000	1,060	60	1,245	60
	24,850	**31,548**	**6,698**	**30,191**	**6,698**
Resources					
Asset Strategy					
Corporate Accommodation Strategy	2,046	2,459	413	309	309
Regeneration					
New Dagenham Library and One Stop Shop	1,000	1,139	139	2,519	139
Emission	34	38	4	121	4
	3,080	**3,636**	**556**	**2,949**	**452**
TOTAL	**29,724**	**37,585**	**7,861**	**38,022**	**7,757**

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Appendix F

The Prudential Code for Capital Investment in Local Authorities

Outturn Report 2009/10

1. The Prudential Framework for Local Authority Capital Investment

1.1. The Prudential Code for Capital Investment commenced on the 1st April 2004. This system replaced the previous complex system of central Government control over council borrowing, although the Government has retained reserve powers of control which it may use in exceptional circumstances.

1.2. The regime offers significantly greater freedom to authorities to make their own capital investment plans, whereas the previous system restricted authorities to credit approvals controlled by central government.

1.3. Within this regime, authorities must have regard to the *Chartered Institute of Public Finance and Accountancy's* (CIPFA) *Prudential Code for Capital Finance in Local Authorities*. The principles behind this code are that capital investment plans made by the Council are prudent, affordable and sustainable. The code identifies a range of indicators which must be considered by the Council when it makes its decisions about future capital programme and sets its budget.

2. The Prudential Indicators

2.1. The Prudential Code sets out the information that each Council must consider when making its decisions about future borrowing and investment. This takes the form of a series of "Prudential Indicators".

2.2. The Code is a formal statement of good practice that has been developed to apply to all authorities regardless of their local circumstances.

2.3 This appendix will set out the original estimated 2009/10 prudential indicators as approved by the Council in February 2009, the revised estimates following in year budget adjustments as reported with the capital budget report in February 2010, and the actual outturn position, now that the final spend on the capital programme for 2009/10 is known.

3. Capital Expenditure

3.1 The first prudential indicator sets out **capital expenditure** both for the General Fund, and Housing Revenue Account Expenditure. These figures are shown in table 1:

Table 1: Capital Expenditure (Prudential Indicator)

	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Actual
	£'000	£'000	£'000
HRA	15,090	18,253	21,838
General Fund	38,044	87,350	75,297
Total	53,134	105,603	97,135

3.2 Table 1 shows that actual capital expenditure was £97.1m against a revised budget of £105.6m.

3.3 The knock on effect of the reduction in spend on the capital programme is a reduction in the costs associated with financing the capital programme, and these are considered in the next section.

4. Financing Costs

4.1 The prudential code also requires Councils to have regard to the financing costs associated with its capital programme.

4.2 For an authority that has debt, the prudential indicator for its financing costs is calculated based on the interest and repayment of principle on borrowing.

4.3 Since the authority entered into borrowing there is now a Minimum Revenue Provision ("repayment of principle") in the General Fund financing costs. For the HRA there is, however, a charge for depreciation based on the Major Repairs Allowance. This is included in the financing costs of the authority although in practice it is matched by an equivalent amount in HRA Subsidy.

4.4 Table 2 shows outturn figures for 2009/10 in respect of the Council's Net Revenue Streams for both the General Fund and the Housing Revenue Account, Financing Costs for these two funds and the ratio of Net Revenue Streams to Financing Costs, based on capital expenditure shown in Table 1.

Table 2: Financing Costs (Prudential Indicator)

	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Actual
	£'000	£'000	£'000
Net Revenue Stream			
HRA	87,116	87,116	85,202
General Fund	151,163	151,163	151,163
Financing Costs			
HRA	13,618	13,618	13,489
General Fund	2,318	2,318	2,933
Ratio			
HRA	15.7%	15.7%	15.8%
General Fund	1.53%	1.53%	1.94%

4.5 The outturn position for the HRA shows the slighter lower figures for both revenue stream and financing costs. This has meant that the ratio of financing costs to revenue stream is in line with the budgeted level.

4.6 The outturn position for the General Fund shows the same revenue streams as per the budget. However, a change to the methodology in calculating the Minimum Revenue Provision resulted in a higher cost.

4.7 Financing costs can also be shown with reference to their impact on Council Tax and Housing Rents and this is set out in Table 3.

Table 3: The Impact of Capital Programme on the Council Tax and Housing Rents (Prudential Indicator)

	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Actual
	£	£	£
For Band D Council Tax	45	45	56.92
For average Housing Rents	0	0	0

4.8 The table shows that the costs of financing the capital programme in respect of the general fund have increased from the point at which the budget was originally set. The additional financing costs in 2009/10 have been contained within the overall council budget, and therefore also within the Council Tax set.

4.9 Due to the effect of the government's policy on rent restructuring, the financing costs for the HRA do not have an impact on the level of rents in the HRA.

5. Capital Financing Requirement

5.1 The Prudential Code requires the Council to measure its underlying need to borrow for capital investment by calculating its **Capital Financing Requirement**.

5.2 The outturn position for this is shown in table 4 below. The capital financing requirement identifies the level of capital assets on an authority's balance sheet, and compares this to the capital reserves to see how much of these assets have been "funded". The difference is the level of debt that the authority has to repay in the future, or the "capital financing requirement".

Table 4: Capital Financing Requirement (Prudential Indicator)

	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Actual
Housing Revenue Account (HRA)	(21,355)	(21,355)	(21,355)
General Fund	91,887	91,887	78,739
Capital Financing Requirement	**70,532**	**70,532**	**57,384**

5.3 The capital financing requirement has therefore reduced from that originally set in the Medium Term Financial Strategy (MTFS) due to lower than anticipated capital spend from the original and revised budgets as noted in Appendix C.

6. External Debt

6.1 Table 5 sets out the prudential indicators in borrowing limits. The Council is required to set two limits, an operational limit which should be kept to on a day to day basis (but could be exceeded for short term, "cashflow" purposes), and an authorised limit, which is the outer limit for borrowing in exceptional purposes. In the medium term local authorities only have the power to borrow for capital purposes.

6.2 The operational limit was set at £90m to cover potential borrowing liabilities from the capital programme in line with the Medium Term Financial Strategy. The Council has a significant borrowing requirement over the next 3 years, so the authorised limit was deliberately set at £200m to provide headroom for any unexpected developments in respect of treasury management.

6.3 The Council remained within its authorised limit of £200m throughout 2009/10. The Council borrowed £70m during the year to finance its capital programme, which was within the operational limit as set at the beginning of the year.

Table 5: Authorised Borrowing Limits (Prudential Indicator)

	2009/10 Original Estimate	2009/10 Revised Estimate	2009/10 Actual
Operational Limit on Borrowing	90	90	70
Margin for Unforeseen Cash Flow Movements	110	110	n/a
Authorised Limit	200	200	200

7. Treasury Management Indicators of Prudence

7.1 The authority has an integrated treasury management strategy and has adopted the *CIPFA Code of Practice for Treasury Management in the Public Sector.* The *Prudential Code for Capital Finance in Local Authorities* supplements this by requiring council's to set and monitor specific indicators to demonstrate the prudence of its treasury management policies. The position against these indicators for 2009/10 is set out below:

a) Interest Rate Exposure

Indicator set March 2009:
The Council will not be exposed to any interest rate risk since all its borrowing will be at known overdraft rates (if this occurred) and fixed rates.

Outturn position:
The Council entered into a variable rate loan on the advice of its Treasury Advisors in March 2010. This decision was taken in accordance with sound economic advice on the basis that variable rate financing was significantly less expensive than variable rate financing at the point that the decision was taken. As such, the prudential indicator will be revised in 2010/11 to reflect prevailing market conditions.

b) Maturity Structure of Borrowing

Indicator set March 2009:

All the Council's borrowing will be phased so that maturities would not all fall in one year.

	Upper limit
Under 12 months	10%
12 to 24 months	20%
24 months to 5 years	80%
5 years to 10 years	80%
Over 10 years	100%

Outturn position:
The Council has started to build up a portfolio of debt, and each loan taken on (a total of 5 have been taken on) matures in a different year to reduce this risk. The actual loan portfolio as at 31st March 2010 was within the upper limits as set out above.

c) *Total Principle Sums Invested*

The overriding objective of the investment strategy is to ensure that funds are available on a daily basis to meet the Council's liabilities. The risk inherent in the maturity structure of the Council's investments is that it may be forced to realise an investment before it reaches final maturity and thus at a time when its value may be dependent on market conditions that cannot be known in advance.

Indicator set March 2009:

Maximum invested under 1 year	102
Maximum invested over 1 year	50
Maximum invested over 2 years	20
Maximum invested over 3 years	10

Outturn position:
The Council's investment portfolio was within the limits set throughout the year.

8. Summary Assessment

8.1 The outturn position is set out above in respect of the Prudential Indicators approved in February 2009.

8.2 The outturn figures confirm that the limits and controls set for 2009/10 were applied throughout the year, and that the treasury management function and capital investment decisions adhered to the key principles of the CIPFA Prudential Code of **prudence, affordability** and **sustainability**.

THE CABINET

8 JUNE 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE & COMMERCIAL SERVICES

This report is submitted under Agenda Item 10. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the reporting of the Council's outturn position in respect of its Treasury Management Activities.

Title: Treasury Management Annual Report 2009/10	**For Decision**

Summary:

The Treasury Management Annual Report presents the Council's outturn position in respect of its treasury management activities. The key points to note are as follows:

- Investment income for the year was in line with revised budget; and
- The Council borrowed £20m in 2009/10 to finance the capital programme, in line with the original budget strategy.

The report also sets out amendments to the Council's Treasury Management Strategy as detailed in sections 7 and 10 of the report.

Wards Affected: This is a regular annual report of the Council's treasury management position and applies to all wards.

Recommendation(s)

The Cabinet is asked to:

a) Note the Treasury Management Annual Report for 2009/10;
b) Approve the Revised Minimum Revenue Provision (MRP) Policy as set out in section 7: and
c) Recommend to Assembly the amendment to the Council's Treasury management Strategy as set out in section 10, approving the Council to lend to a Strategic Partnership in accordance with section 2 of the Local Government Act 2000.

Reason(s)
This report is required to be presented to the Cabinet in accordance with the Revised CIPFA Code of Practice for Treasury Management in the Public Services.

Implications:

Financial:
This report sets out the outturn position on the Council's treasury management position and is concerned with the returns on the Council's investments as well as its short and long term borrowing positions. Returns above the budgeted levels on the Council's

investments and borrowing at lower than budgeted levels enable additional funds to be available for other service use.

Legal:
The legal implications have been incorporated into this report.

It is a statutory duty for the Council to remain within authorised limit (as set out in the 2009/10 Treasury Management strategy approved by Cabinet on 19 February 2009).

Members will also note that section 10 proposes inclusion in the Treasury Management Strategy of a power to lend to external organisations. Section 2 of the Local Government Act 2000 (the '2000 Act') allows principal local authorities in England and Wales to do anything they consider likely to promote the economic, social and environmental well-being of their area unless explicitly prohibited elsewhere in legislation. CLG's guidance on 'Practical Use of the Wellbeing Power' confirms that authorities have used the power to spend, lend, and give guarantees among other things. Officers should be mindful of the fiduciary duty to act in the best interests of residents and the usual considerations as to reasonableness and value for money in making individual decisions.

Risk Management:
The whole report concerns itself with the management of risks relating to the Council's cash flow. The report mostly contains information on how the Treasury Management Strategy has been used to maximise income throughout the past year. There is an amendment being recommended as part of this report that allows the Council to lend to external organisations as a way of mitigating cost risk in any future contracts or partnerships the Council may wish to enter into.

Social Inclusion and Diversity:
No specific implications.

Crime and Disorder:
No specific implications.

Options Appraisal:
Insofar as this report is concerned an options appraisal is not required.

Head of Service:		**Contact Details:**
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1. Purpose of Report

1.1. The Council is required to report on the Treasury Management activities of the Council and those of the external cash portfolio managers for each financial year in accordance with the Revised CIPFA Code of practice for Treasury Management in the Public Services 2009 adopted by this Council on 16 February 2010.

1.2. The primary requirements of the Revised Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the Full Council of an annual treasury management strategy report for the year ahead, a midyear review report (as a minimum to be reported to the Executive) and an annual review report of the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to the Public Accounts and Audit Select Committee PAASC.

1.3. Treasury management in this context is defined as:
"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "
The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual report of treasury management activities, for the financial year 2009/10.

1.4 This Annual Treasury Report covers:

- The Council's treasury position as at 31st March 2010;
- Annual Strategy Statement 2009/10;
- Economic Factors in 2009/10;
- Performance Management in 2009/10;
- Debt rescheduling;
- Revised MRP Policy;
- Treasury Management costs in 2009/10;
- Compliance with treasury limits and treasury indicators; and
- Policy on lending to a Strategic Partnership.

2. Treasury Position as at 31 March 2010

2.1 The Council's debt and investment position at the beginning and end of the financial year was as follows;

	31st March 2010 Principal £'000	Rate /Return	Average Life (yrs)	31st March 2009 Principal £'000	Rate/ Return	Average Life (yrs)
Fixed Rate Funding:						
PWLB	30,000	4.06%	4.5	30,000	4.06%	4.5
Market	20,000	3.98%	69.5	20,000	3.98%	69.5
Variable Rate Funding:						

PWLB	0	0	0	0	0	0
Market	20,000	0.65	2	0	0	0
Total Debt	**70,000**	**3.99%**	**10.86**	**50,000**	**4.02%**	**37.0**
Investments						
In-House	53,172	3.52%		47,023	5.76%	
External Managers:						
Investec	28,007	1.38%		36,961	5.81%	
SWIP	18,785	3.48%		22,942	5.03%	
RBS	15,000	2.86%		15,000	8.00%	
Total Investments	**114,964**	**2.69%**		**121,926**	**5.68%**	

3. Annual Strategy Statement 2009/10

3.1 The Cabinet approved an annual strategy for 2009/10 on the 17th February 2009 and was endorsed by the Assembly on the 25th February 2009.

3.2 The key points from that strategy were:

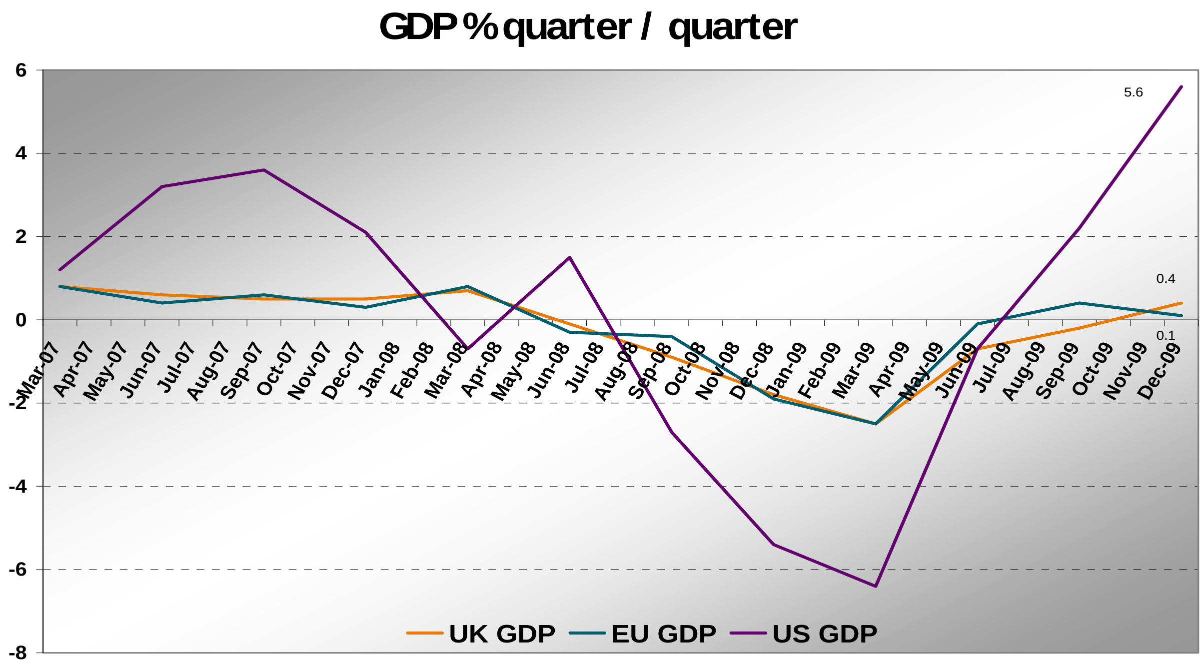
- To set an authorised borrowing limit of £200m;
- After careful consideration of rate forecast that the Council's in-house team and external investment managers would perform against a benchmark of either 2.0%, or the "3 Month LIBID rate", whichever was higher. This ensured that we provided sufficient challenge to our external fund managers;
- That the Council and its fund managers will have regard to the Council's investment priorities being:
  - (a) The security of capital; and
  - (b) The liquidity of its investments
- That the Council and its fund managers adhere to the procedures set for use of different classes of asset (specified and non-specified) and the maximum periods which funds can be committed;
- That the Council and its fund managers adhere to its counterparty limits;
- That the Council would borrow to finance its capital programme below trigger rates of 4.5% for PWLB loans and 4.25% for market loans;
- The Council would operate both borrowing and investment portfolios at short and long term periods and as a consequence reduces the risk of being impacted by a sharp unexpected rise in short-term variable interest rates; and
- That the Council maintain a balance of funding at shorter-term rates to match short-term investments thus maintaining balanced treasury risk.

4. Economic Factors in 2009/10

4.1 During 2009/10, the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession in the UK economy for many years. Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year. Gilts prices and corporate bonds were boasted due to the effect of quantitative easing.

4.2 The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

The table below shows the movement in GDP figures (economic growth) for the UK, Europe and USA.



Source of Diagram: Sector Treasury Services

4.3 Key interest rate positions for borrowing and investments in 2009/10 were;

- At the start of 2009/10, investment rates were enhanced by a substantial credit crunch induced margin for investments entered into before 2008/09.
- The 12- month investment rates started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. The year closed at 1.15%.
- In respect of borrowing, the 5 year PWLB rate started the year at 2.54% before then rising sharply to hit a peak of 3.29% in July. From there it fell reaching a low of 2.54% in October and then rose back up to a peak of 3.13% in January, closing at 2.89%.
- In respect of longer-term interest rates, the PWLB 50 year rate started the year at 4.57%. Rates peaked at 4.85% in June before falling back to a bottom of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

5. Performance Measurement

Economic Issues Which Directly Impacted Performance

5.1 The major issue for treasury management in 2009/10 has been the huge difference between investment rates and borrowing rates that emerged during

the recession due to the unprecedented fall in Bank Rate and the disappearance during the year of the margins over more normal investment rates caused by the credit crunch.
A further strong theme has been the major emphasis on mitigating risk by giving heightened preference to security and liquidity at a time when the world banking system was still under stress. In addition the issue of new CIPFA and statutory guidance on investing has meant that more of our investment portfolio was moved to being moved into investment instruments with lower rates of return but higher security and liquidity. This has compounded the significant fall in total investment earnings compared to previous years.

Overall Performance

5.2 Overall the general fund position was balanced.

5.3 **Specific Performance**

- **In–House Team**
  The rate of return for the year was 3.52%. Performance was improved by investments fixed for long periods when interest rates was at around 6.0%
- **Investec**
  The rate of return for the year was 1.38%. Performance in 2009/10 was adversely affected by consistent low interest rates through out the year and unrealised profit for 2009/10 realised in 2008/09.
- **Scottish Widows Investment Partnership (SWIP)**
  SWIP's rate of return in 2009/10 was 3.48%. Overall year end performance was well above benchmark. This was due to deals locked into when interest rates were still high.

Investment Funds Available

5.4 The level of investments available to the Council on the 1st April 2009 was £122.6 million. This figure was made up of a range of balances including, revenue reserves and general operational cash balances. The amount available for investment will vary throughout the financial year depending on:

- Use of investment funds ;
- Profile for the receipt of grants;
- Temporary use of internal cash to fund new capital projects rather than borrowing at periods of high borrowing interest rates; and
- Cash flow management.

At 31 March 2010 the level of investments had decreased to £114.9m. This position was anticipated through the regular monitoring and projections of cash flow movement and was in line with projections at the beginning of the year.

Management of Investment Funds

5.5 The Council's investments are managed by four sources being:

- Council In House Team including investments with Royal Bank of Scotland;
- Scottish Widows Investment Partnership Limited; and
- Investec Asset Management Limited.

The Council meets quarterly with its two external investment managers as well as with its Investment Adviser to discuss financial performance, objectives and targets in relation to the investments and borrowing managed on behalf of the Council

Internally, the Council manages a proportion of its investments in-house. This is invested with institutions of high credit standing listed in the Council's approved lending list and specified limits. The Council invests for a range of periods from overnight to 30days and one year dependent on the Council's cash flows, its treasury management adviser's views, its interest rate view and the interest rates on offer.

The Council has investments managed externally by Investec and Scottish Widows Partnership (SWIP). The fund management agreements between the Council and the Fund Managers defines the limits for maximum weighting in gilts, CD's and maximum duration of the fund. Counterparty criteria and exposure limits defined in the treasury management annual strategy also apply to Fund Managers.

6. Debt Rescheduling

6.1 The council started borrowing in 2008/09 having not borrowed previously, there was no debt rescheduling in 2009/10. Debt rescheduling will be a future treasury management decision with considerations for savings, portfolio mix, capital programme requirement and interest rates. As investment rates continue to remain at an all time low, the council considered short term savings it could make by internally financing new capital expenditure using existing cash balances which are only earning minimal rates of interest due to the fact that Bank Rate was kept at 0.5% all year. Using cash balances also meant reduced counterparty risk on the investment portfolio.

7. Revised Minimum Revenue Provision (MRP) Policy

7.1 With effect from 1 April 2008, local authorities are required to make a 'prudent provision' for repayment of debt having regard to the statutory guidance issued by the Department for Communities and Local Government. This is known as Minimum Revenue Provision. The Council's revised MRP policy will be as follows:

"The MRP on expenditure financed by borrowing under Supported Capital Expenditure is 4% of that expenditure. The MRP on expenditure financed by borrowing that is unsupported is calculated using the Equal Instalment Method, i.e. the borrowing is written down over the life of the asset that it financed. The MRP for the PFI scheme is equivalent to the capital repayment required."

This is a change of accounting policy brought about as a result of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. Previously, the Council had determined that the calculation of the Minimum Revenue Provision be based on 4% of the non-housing Capital Financing Requirement at the end of the preceding financial year.

8. Treasury Management Costs

8.1 The costs associated with the internal Treasury Management function (including an element for the regular performance monitoring of the external managers) were as follows:

Salaries Sector Treasury Advice	74,678 17,000
	91,678

8.2 Fees paid to the external managers during 2009/10 were as follows:

Investec Asset Management Scottish Widows	47,740.08 24,342.50
	72,082.58

9. Compliance with Treasury Limits

During the financial year the Council operated within the treasury limits and Treasury Indicators set out in the Council's annual Treasury Strategy Statement. The Council's prudential indicators are set out in Appendix A to this report.

10. Lending to commercial and external organisations

10.1 The Council will be required to work in different ways to obtain better outcomes for less in the future. As part of our mitigation of risk strategies around delivering continued value for money services with external organisations the council should have the ability to make loans to external organisations. The Treasury Management Strategy does not currently allow for this feature.

10.2 Section 2 of the Local Government Act 2000 (power of well-being) gives authorities the power to lend as part of promotion or improvement of economic /social wellbeing of the Borough. The guidance encourages local authorities to use the well-being power as the power of first resort removing the need to look for powers in other legislation. Further the power provides a strong basis on which to deliver many of the priorities identified by local communities and embodies in community strategies.

10.4 It is recommended that the Council's treasury management strategy is updated to enable the Council to lend to external organisations in accordance with the legislation under the 2000 act.

11. Conclusions

11.1 The key conclusions to draw from this report are as follows:

a) The position in respect of investment income and borrowing for the general fund was balanced at the end of the financial year;
b) That the value of investments as at 31st March 2010 totalled £114.97; and
c) That value of long term borrowing as at 31st March 2010 totalled £70m. This comprised both market and Public Works Loans Board (PWLB) loans.

12. Consultees

John Hooton (Strategic Financial Controller)
Tracie Evans (Corporate Director of Finance & Commercial Services)
Winston Brown (Legal Partner)
Sector Treasury Services

Background Papers

- Assembly Report 25 February 2009 - Treasury Management Annual Strategy Statement 2009/10
- Assembly Report 24 February 2010 – Treasury Management Annual Strategy Statement 2010
- Revised CIPFA Code of Practice for Treasury Management in the Public Services 2009

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