Nottinghamshire County Council

Report to Council

5th July 2012

Agenda Item: 11

REPORT OF THE FINANCE & PROPERTY COMMITTEE

MANAGEMENT ACCOUNTS 2011/12

Purpose of the Report

1.1 To inform Council of the 2011/12 year end position for the management accounts of the authority.

1.2 To request Council:

a) Approve the carry forward of £1.7m of savings into 2012/13

b) Approve the transfer to County Fund Balances of £1.6m

1.3 To inform Council of the position on other reserves of the authority.

1.4 To inform Council of capital expenditure and financing in 2011/12.

1.5 To inform Council that capital expenditure and borrowing in 2011/12 were managed within the Council's prudential indicators.

1.6 To inform Council of treasury management activities during 2011/12.

Information and Advice

2. Background

2.1 The financial position of the County Council has been monitored throughout the 2011/12 financial year. Monthly reports were prepared for CLT and the Portfolio Holder, to update against progress and ensure decision makers had access to financial information on a timely basis. In addition, quarterly budget monitoring reports were prepared for Cabinet, the most recent being the period 9 report which went to Cabinet on the 14th March. This report is the final out-turn for 2011/12.

3. Summary Financial Position

- Through prudent financial management and some acceleration of future savings plans, Portfolio budgets have achieved a net saving of £34.3m or 6.3% of net Portfolio budgets. After allowing for restructuring costs of £19.5m, additional resources will be earmarked to support the County Council's Capital programme, thereby reducing future borrowing costs, as well as providing further support for the County Council's on-going Improvement Programme.
- Of the total £19.5m of restructuring costs, £16.5m relates to restructuring within the Portfolios, £2.5m is a contribution to School's restructuring costs, and the remainder relates to trading services. The amount of £19.5m includes the net costs incurred this financial year and £5.2m in respect of 2012/13 which must be included in the accounts for this financial year.
- Carry Forward requests totalling £1.7m have been submitted to support key areas and future pressures in Portfolio budgets. These are detailed in Appendix B.

- The overall Schools Reserve has increased by £7.4m to £39.2m. Within this total school accumulated balances have increased by £6.7m to £36.1m (see section 7.2).
- The level of County Fund balances, subject to approval, will increase by £1.6m to £29.7m.
- The relevant figures are summarised in Appendix A, showing details for Portfolio Budgets, Schools, Central items and Use of Reserves and Balances.
- Table 1 shows the summary revenue position of the County Council.

Table 1 – Summary Financial Position

Portfolio	Final Budget £'000	Draft Out-turn £'000	Draft Variance £'000
Children & Young People's Services	165,087	158,038	(7,049)
Adult Social Care & Health	210,818	192,221	(18,597)
Transport & Highways	59,910	60,483	573
Environment & Sustainability	28,311	26,923	(1,388)
Community Safety	4,627	4,078	(549)
Culture & Community	15,485	15,092	(393)
Leader	7,154	6,634	(520)
Deputy Leader	16,566	11,115	(5,451)
Finance & Property	30,520	29,738	(782)
Personnel & Performance	5,931	5,794	(137)
Net Portfolio out-turn before restructuring costs	**544,409**	**510,116**	**(34,293)**
Portfolio Restructuring costs	0	16,535	16,535
Schools Budgets	1,122	(6,265)	(7,387)
Central Items	(33,513)	(49,287)	(15,774)
Forecast prior to use of reserves	**512,018**	**471,099**	**(40,919)**
Carry Forwards 2010/11	(39)	(39)	0
Carry Forwards 2011/12	0	1,689	1,689
School Statutory Reserve	0	7,387	7,387
East Leake PFI	201	184	(17)
Bassetlaw PFI	93	10	(83)
Waste PFI	2,840	2,693	(147)
Capital Projects Reserve	0	12,000	12,000
Improvement Programme	(562)	9,441	10,003
Life Cycle Maintenance	(24)	0	24
DSO Capital Financing	517	597	80
Redundancy Reserve	(3,119)	0	3,119
Pay Review Reserve	1,000	0	(1,000)
Supporting People	(1,200)	0	1,200
Transfer to / (from) reserves	**(293)**	**33,962**	**34,255**
Transfer to / (from) General Fund	(5,100)	1,564	6,664
Net County Council	**506,625**	**506,625**	**0**

4. Portfolio & Corporate Items

4.1 The overall net saving within the Portfolios is £34.3m, which is 6.3% of the net Portfolio budgets.

The principal reasons for the variations are:

4.2 Children & Young People's Services (£7.0m saving, 4.3% of Portfolio budget)

- The Portfolio has contributed £7.6m to the restructuring costs.
- Savings have been achieved in a number of areas as a result of strict budgetary control measures and vacancy savings.
- Youth, Families & Culture Division achieved savings as a result of Early Years and Early Intervention partners' commitment to reduce staffing costs.
- Children's Social Care also achieved savings due to the increase in the number of placements being less than anticipated and the costs associated with the adoption financial support scheme, children looked after projects and works at residential homes being lower than expected.

4.3 Adult Social Care and Health (£18.6m saving, 8.8% of Portfolio budget)

- The Portfolio has contributed £3.4m to the restructuring costs.
- The primary reason for the saving is an additional £8.5m of client contributions. This is a combination of £4.9m from people who are placed in residential and nursing homes, and £1.6m from charges for community based services and personal budgets as a result of introducing a 'Fairer Contributions Policy'. Some of this additional income was forecast and has been included in the savings proposals for 2012/13. A further £2.0m additional income for client contributions to residential and nursing care received in the previous financial year, has resulted in a one off favourable variance in 2011/12 only.
- There was an NHS allocation of £9.6m of which £4m has been used to offset demographic pressures, £1.5m has been used to support the Supporting People budget and £4.1m has been used to fund agreed priorities with the PCT to support pressures in the health service. A further allocation of £2m was received in January 2012 and Bassetlaw PCT transferred £0.5m to deal with winter pressures. This money was allocated to agreed priorities and assisted in delivering the level of savings in Council resources in 2011/12.
- The Younger Adults division have achieved savings of £4.1m as a result of lower spending on packages of care due to a number of factors including reduced numbers of new service users compared to those expected, further reductions in the cost of packages of care negotiated with providers and increased contributions from the Health Service towards jointly funded packages of care.
- The overall Portfolio savings, have been offset by overspends on Supporting People and Putting People First, which were budgeted to be met from reserves. The overall level of savings meant that these reserves were subsequently not required.

4.4 Transport & Highways (£0.6m overspend, 1.0% of Portfolio budget)

- The Portfolio has contributed £0.6m to the restructuring costs.
- The main area of overspend is in Highways as a result of Road Lighting energy costs. Savings of 30% were expected on the rates, but the actual savings have been in the order of 22%. There has also been an overspend on Carriageway Patching and on repairs following Accidents and Vandalism, due to unavoidable works being required.
- This has been partly offset by compensating savings across a number of other budgets, most notably in Employee and related expenses. There has also been a small saving in the Winter Maintenance budget following the milder than expected winter.

- Travel and Transport Services have achieved savings primarily as a result of a £1.1m refund of development costs from Nottingham City Council in relation to NET Line 2. This was in line with the termination agreement approved by Council in January 2011, with the final payment due on financial close, achieved 15th December 2011.

- This is offset by an overspend on the Concessionary Fare scheme as a result of increased passenger numbers, and funding of the discretionary element of the scheme. There has also been an overspend on local bus services, with some services re-instated to meet demand.

4.5 Environment and Sustainability (£1.4m saving, 4.9% of Portfolio budget)

- The Portfolio has contributed £1.5m to the restructuring costs.

- The Waste PFI contract has delivered savings of £1.7m due to lower than anticipated waste tonnages when compared to the expected position.

- Energy and Carbon Management have achieved savings of £0.6m. £0.2m of this is due to changes to street lighting tariffs with the remaining savings attributable to energy saving measures, and the milder than envisaged winter.

- Partnerships and Performance have achieved savings in employee costs and additional savings in the disposal of clinical waste from reduced tonnages.

- The Research and Strategic Analytical Unit have also achieved savings in employee expenses and costs have reduced in mapping services following the transfer of the Ordnance and Survey agreement from the County Council to a national level.

4.6 Community Safety (£0.5m saving, 11.9% of Portfolio budget)

- The Portfolio has contributed £0.4m to the restructuring costs.

- The primary saving is in Trading Standards where savings have been achieved across the whole of the service in addition to increased income.

- Staff savings have also been achieved in Stronger Communities, Safer Communities and Grant Aid.

4.7 Culture and Community (£0.4m saving, 2.5% of Portfolio budget)

- The Portfolio has contributed £1.2m to the restructuring costs.

- The primary saving is in Libraries, Archives & Information as a result of planned staffing savings being delivered from April rather than from June. In addition, there has been further savings in energy and running costs.

4.8 Leader (£0.5m saving, 7.3% of Portfolio budget)

- The Portfolio has contributed £0.3m to the restructuring costs.

- Savings have been achieved in employee expenses, County Hospitality, and travel and subsistence.

- In addition Communications and Marketing received additional income from printing and a saving on the printing of various publications.

4.9 Deputy Leader (£5.5m saving, 32.9% of Portfolio budget)

- The Portfolio has contributed £0.2m to the restructuring costs.

- Savings of £8.3m have been achieved in the Improvement Programme as a result of slippage on the Ways of Working (WOW) Programme of £2.2m, a revenue saving on BMS following the capitalisation of some costs and general savings across the remaining programme.

- In addition, savings have been achieved in the Customer Services Centre and Customer Management.
- There has been a shortfall of £3.0m on the Procurement savings, due to the focus of the Procurement Centre's efforts being primarily on supporting the delivery of approximately £40.0m savings across Portfolios.
- Procurement and Payments and Legal Services also overspent due to additional staff costs and reduced income respectively.

4.10 Finance and Property (£0.8m saving, 2.6% of Portfolio budget)

- The Portfolio has contributed £0.7m to the restructuring costs.
- Property Services saved £0.5m from reduced running costs and £0.2m due to lower water monitoring costs within Building Maintenance works.
- In addition IT services have achieved savings due to a delay in the equipment replacement programme, and employee savings have been delivered in Finance and Strategic Services through acceleration of budget reductions planned for 2012/13.

4.11 Personnel and Performance (£0.1m saving, 2.3% of Portfolio budget)

- The Portfolio has contributed £0.6m to the restructuring costs.
- Human Resources have achieved savings on Learning and Development budgets and Performance have made staff savings through the acceleration of planned 2012/13 savings.
- This has been offset by an overspend on the Business Support Centre due to additional employee costs incurred to support the introduction of BMS.

4.12 Carry Forwards

- The Council has a carry forward protocol which enables planned savings to be carried forward into the following financial year to support Committee priorities. This approach encourages rigorous financial management and budgetary control whilst at the same time providing a degree of flexibility for budget managers.
- In accordance with this protocol, Council is asked to approve carry forwards of £1.7m to support priority areas within Portfolio budgets in 2012/13. The details are set out in Appendix B.

5 Schools Budgets (£7.4m surplus)

5.1 Schools are transferring a net £7.4m surplus into the accumulated balances within the Schools Statutory Reserve. This is broken down as follows:

- £7.0(-)m from Standards Fund balances
- £13.8m into Schools balances
- £1.0(-)m from Schools Capital balances
- £1.5m into the Non-Individual Schools Budget (ISB) balances
- £0.2m in repayment of loans

6 Central Items (£15.8m saving)

6.1 General contingency (£16.1m saving)

The original budget included a contingency of £25.7m, of which £5.0m was earmarked for Children's Social Care and a further £4.1m was earmarked for Adult Social Care & Health. The total allocations, as set out in Appendix C, amount to £9.6m, resulting in a saving of £16.1m, primarily due to restructuring payments being funded by Portfolios. There are no additional contingency allocations awaiting approval.

6.2 Interest (£2.2m saving)

The saving is due to a net reduction in interest payable as a result of delays in the phasing of the capital programme, which has reduced the need to undertake additional borrowing.

6.3 Statutory Provision for Debt Redemption (£0.9m overspend)

The budget included an estimate of the Minimum Revenue Provision (MRP) that was based on the assumption that the mix of assets types on which capital expenditure would be incurred in 2010/11 would be similar to that of previous years. This was not the case and as a result MRP was higher than had been forecast.

6.4 Government grants (£0.9m saving)

The saving is primarily due to receiving additional Local Services Support Grant (LSSG).

6.5 Schools restructuring (£2.5m overspend)

Central funding of £2.5m has been used to meet one-off restructuring costs in 2011/12 relating to schools that have converted to academies, are due to convert or which have expressed an interest in doing so.

7 Movements on Balances and Reserves (see Appendix D)

7.1 County Fund Balances

County Fund Balances increased by £1.6m during the year due to the net savings set out above. The balance now stands at £29.7m.

7.2 **Schools Reserve**

The Schools Reserve has increased by £7.4m, which brings the balance at the end of 2011/12 to £39.2m, analysed as follows in Table 2:

Table 2 – Schools Statutory Reserve

Description	Balance £'000
Standards Fund balances held by schools	0
Accumulated net surplus' by schools	36,076
Total schools balances (held by Governors)	**36,076**
Adjustments:	
Balance carried forward for Building Schools for the Future	0
Non-Individual Schools Budget Balances	4,386
Internal borrowing against the Reserve (school loans scheme – repayable by schools)	(1,311)
Schools Statutory Reserve	**39,151**

The movement in school balances by sector is shown in Table 3.

Table 3 – School Balances by Sector

Sector	01/04/11 £'000	Movement £'000	31/03/12 £'000
Nursery	181	57	**238**
Primary	14,795	10,019	**24,814**
Secondary	5,933	3,045	**8,978**
Special	1,402	644	**2,046**
Total	**22,311**	**13,765**	**36,076**

The number of primary and secondary schools with budget deficits has decreased, largely due to some becoming Academies. The total amount owed by schools in deficit is £3.0m and recovery plans have been put in place to address these deficits. Where schools have surpluses above a level regarded acceptable for contingency purposes (5% for secondary schools and 8% for all other schools) these are also monitored and challenged.

7.3 **Other Earmarked Reserves**

At the end of 2011/12 the total of other ‘earmarked’ reserves stood at £129.3m, which consists of the following:

- **PFI Reserves**

£31.1m of reserves are held for PFI schemes, this equates to 24.1% of other earmarked reserves. The initial arrangements for calculating PFI grant meant that more grant was received in the early years of a PFI scheme than was needed to meet the payments to providers of the service. These surpluses need to be kept in an earmarked reserve to cover the corresponding deficits in later years. The amounts set aside at the end of 2011/12 are shown in Table 4 below.

Table 4 – PFI set aside 2011/12

PFI Scheme	£’000
East Leake	3,114
Bassetlaw Schools	1,289
Waste	26,739
Net Line 1	-
Total	**31,142**

In 2011/12 Nottinghamshire County Council withdrew from the Tram PFI scheme. As a result, £4.0m of the Net Line 1 Reserve has been used to remove the debtor from the County Council’s balance sheet and the remaining balance has been transferred to the Capital Projects reserve to be used on other capital projects.

Following the Council’s withdrawal from the Tram PFI scheme, the balance of £1.8m on the Tram Phase 2 Reserve is no longer required and so has been transferred to the Capital Projects Reserve to be used for future capital projects.

- **Insurance Reserve**

The Authority operates a self-insurance scheme and covers risks up to a certain amount. External insurers cover risks in excess of this figure. The Insurance Reserve is set aside to cover possible insurance claims losses that are not yet known about.

As proposed in the County Council Budget report (23/02/12), and following an independent assessment of the amount required in this reserve, £10.0m has been transferred to the Capital Projects Reserve. In addition £3.1m has been used this year, leaving a balance of £7.6m as at the 31 March 2012.

- **Capital Projects Reserve**

The Budget Report to County Council (23/02/2012) proposed to increase the Capital Projects Reserve to support future capital commitments, thereby reducing reliance on borrowing and the associated repayment costs. As outlined above, contributions have been made from the Insurance Reserve, the PFI Reserve and £12m from in year revenue savings (negating the planned contribution from County Fund Balances). As at the 31 March 2012, the balance on the Capital Projects Reserve is £27.6m.

- **Improvement Programme**

  Over the five years, the Improvement Programme has a revenue allocation of £21.3m. £8.3m of the 2011/12 allocation was not utilised due to slippage on the Ways of Working (WOW) Programme of £2.2m, a saving on BMS and general savings across the remaining programme. This has been transferred into the Improvement Programme Reserve along with an additional £1.1m for future BMS and Electronic Document Records Management System (EDRMS) costs, bringing the total in the reserve to £18.0m at the end of 2011/12.

- **Life Cycle Maintenance**

  The Life Cycle Maintenance Reserve was established to spread the cost of maintaining new buildings. An annual contribution is usually made to the reserve in the earlier years which will be gradually offset by increasing maintenance costs as the new buildings become older. There was no budgeted contribution in 2011/12 due to savings required to balance the budget. Therefore the balance on the reserve remains at £3.7m. An annual budgeted contribution of £0.5m has been reinstated in the 2012/13 Budget.

- **Trading Activities**

  The principal purpose of the Trading Activities Reserve is to accumulate funds for asset replacement, and after contributions to and uses of the reserve during 2011/12, there was £3.2m in this reserve at the year end.

- **Redundancy Reserve**

  The Redundancy Reserve created in 2009/10 has not been used in 2011/12 and therefore remains £3.1m. This will be used to help meet restructuring costs in excess of the amount already held in contingency for future years.

- **Performance Reward Grant**

  The balance of £1.1m brought forward has been fully shared with the District Councils.

- **Pay Review Reserve**

  The Pay Review Reserve balance remains unchanged at £2.1m after savings in the Portfolios meant that the cost of the project team and the remaining costs associated with the Council's Job Evaluation Scheme could be funded without the use of the reserve. The remaining reserve is earmarked for the future costs of the job evaluation team and any additional costs associated with the Pay Review for Schools.

- **Departmental Reserves**

  All departments have reserves for identified purposes. In addition, Financial Reporting Standards require grant income to be carried on the Balance Sheet until the conditions of the grant have been satisfied. During the year, these departmental balances increased by £0.8m to £31.2m. The original budget included the net use of £6.1m reserves, which has been avoided by the achievement of additional savings in the Portfolio revenue budgets.

8 Capital Expenditure

8.1 Capital Expenditure in 2011/12 totalled £91.1m. Table 5 below shows the final 2011/12 Capital Programme broken down by Portfolio.

Table 5 – 2011/12 Capital Expenditure

Portfolio	Original Budget £'000	Revised Budget £'000	Total Out-turn £'000	Variance £'000
Children & Young People's Services	30,324	32,504	26,079	(6,425)
Adult Social Care & Health	1,905	2,089	1,324	(765)
Transport & Highways	33,984	42,179	39,839	(2,340)
Environment & Sustainabilty	4,146	5,747	4,805	(942)
Culture & Community	5,692	4,675	4,117	(558)
Deputy Leader	4,324	5,272	4,738	(534)
Finance & Property	9,721	13,204	9,640	(3,564)
Personnel & Performance	520	840	562	(278)
Contingency	22,744	47	0	(47)
Total	**113,360**	**106,557**	**91,104**	**(15,453)**

Note: These figures exclude any expenditure from the Schools Devolved Formula Capital Grant of £2.5m and schools' capital expenditure of £9.6m funded from their own revenue budgets.

8.2 Appendix E gives a more detailed breakdown of capital expenditure in 2011/12. Some major areas of investment in 2011/12 are listed in Table 6 below.

Table 6 – Major investment areas 2011/12

Portfolio	Scheme	2011/12 Capital Expenditure £'000
CYPS	Primary Capital Programme	5,663
	Schools Capital Refurbishment Programme	4,788
	Special Schools Programme	3,872
	Springbank	3,819
	Greasley Beauvale Infants and Junior	2,749
	Eastwood and Mansfield Young People's Centres	1,633
	School Access Initiative	939
ASCH	Day Services Modernisation	316
	Bassetlaw Specialist Day Centre	301
Transport & Highways	Road Maintenance & Renewals	16,911
	Local Transport Plan	7,344
	Highways Depots Rationalisation	6,543
	Street Lighting Renewal	2,000
	Mansfield Public Transport Interchange	1,644
	Flood Alleviation & Drainage	1,116
Environment & Sustainability	Local Improvement Schemes	3,685
Culture & Community	Mansfield Library	2,490
	West Bridgford Library	615
Deputy Leader	Business Management System	2,966
	Ways of Working Programme	1,619
Finance & Property	Building Works	4,072
	Various IT Capital Projects	3,262
	IT Data Centre	1,672

Capital Programme Variations

8.3 The changes in the gross Capital Programme for 2011/12, since its approval at Council (24/02/11) are summarised in Table 7 below.

Table 7 2011/12 Capital Programme

	2011/12 £'000	2011/12 £'000
Approved per Council (Budget Book 2011/12)		**113,360**
Incorporated in Budget Report (Council 23/02/12)		
Net slippage from 2010/11 and financing adjustments	29,400	
Variations noted at Cabinet 14/03/12	(11,369)	
Re-phasing/slippage from 2011/12 to future years	(24,834)	
Subsequent to Budget Report (Council 23/02/12)		
Variations noted/approved by F&P Portfolio	(2,958)	
Variations approved by F&P Committee	1,140	
Net re-phasing/slippage from 2011/12 to future years	(13,635)	
		(22,256)
Final revised gross Capital Programme		**91,104**

Slippage/re-phasing of Capital Schemes

8.4 In addition to the slippage and re-phasing of schemes incorporated into the Budget Report 2012/13 and previously notified to Cabinet (14/03/12), there has been £13.6m of further net slippage/re-phasing on a number of schemes, of which £8.5m relates to schemes funded by capital allocations (borrowing). The main areas of this further slippage/re-phasing are:

- Schools Capital Refurbishment Programme (£1.7m slippage)
- Schools Basic Need Programme (£0.9m)
- Transport & Travel Services Vehicle Replacements (£0.9m)
- Ways of Working Programme (£1.5m)
- Building Works (£1.3m).

Acceleration of £1.1m in the Roads Maintenance Programme has followed the planned over-programming of schemes.

Capital Financing

8.5 The following Table outlines how the 2011/12 capital expenditure has been financed.

Table 8 - 2011/12 Capital Financing

	Original Budget £'000	Revised Budget £'000	Actual Expenditure £'000
Funding Source:			
Prudential Borrowing	59,278	48,356	37,838
Capital Grants	52,746	54,071	53,266
Revenue/Reserves	1,336	4,130	0
Gross Capital Programme	**113,360**	**106,557**	**91,104**

8.6 Capital receipts for 2011/12 totalled £16.1m, which is close to the £17.0m originally anticipated. These capital receipts, together with £3.3m of revenue and reserves funding that had been earmarked to support the Capital Programme, have been set against the principal of borrowing in previous years. Analysis has determined that this application of funding sources is optimum in terms of reducing the impact of the Capital Programme on the revenue account.

8.7 Total borrowing for the year is £37.8m, which is £21.5m less than the original planned borrowing for 2011/12 of £59.3m. This is primarily as a result of the slippage/re-phasing of capital expenditure to be funded from prudential borrowing. The corresponding funding (capital allocations) will be carried forward and incorporated into the Capital Programme for 2012/13.

8.8 Council (24/02/11) approved Prudential Indicators to aid the Authority to ensure that its capital investment plans in 2011/12 would be prudent, affordable and sustainable. Capital expenditure and borrowing in 2011/12 were managed within these indicators. Appendix F contains further details, including actual values of indicators required to be reported after the year end.

8.9 The Capital Programme for 2012/13 will be monitored to ensure that borrowing for 2012/13 is managed within the prudential limits approved by Council (23/02/12). Funding by borrowing in 2012/13 is now projected to be £75.9m. Although this is £11.8m more than the budgeted borrowing figure in the Budget Report 2012/13, any new capital expenditure slippage in 2012/13 will offset this and the Council's overall level of indebtedness is not expected to exceed previous forecasts. The size of the revised Capital Programme for 2012/13 is £132.8m.

9 Treasury Management Activities

9.1 All treasury management activities during 2011/12 were carried out within approved limits and adhered to approved policies and practices. Net additional borrowing amounted to £23.7m. During the year, the Council had an average investment balance of £56.8m and earned £0.471m in interest. Appendix G provides a full report on these activities.

10 Statement of Accounts

10.1 The pre-audited Statement of Accounts were certified by the S151 Officer before 30th June to meet the statutory requirements, the external audit will take place over the summer months and therefore figures are provisional, pending the completion of the audit.

Statutory and Policy Implications

11.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

12.1 To note the 2011/12 year end revenue position.

12.2 To approve the year-end carry forwards set out in section 4.12 and Appendix B.

12.3 To approve the level of County Fund Balances set out in section 7.1 and Appendix A.

12.4 To note the movements in reserves as detailed in section 7 and Appendix D.

12.5 To note the Capital Programme and its financing.

12.6 To note that the Council's Prudential Indicators were not breached in 2011/12.

12.7 To note the treasury management outturn report in Appendix G.

Paul Simpson
Service Director – Finance & Procurement

Constitutional Comments (KK 27/06/2012)

The proposals in this report are within the remit of Full Council.

Financial Comments (PM 11/06/2012)

The financial implications are set out in the report.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

MANAGEMENT ACCOUNTS SUMMARY 2011/12

	2011/12 Final Budget £'000	2011/12 Final Out-turn £'000	Variance £'000
Portfolios			
Children and Young People's Services	165,087	158,038	(7,049)
Adult Social Care and Health	210,818	192,221	(18,597)
Transport & Highways	59,910	60,483	573
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Personnel and Performance	5,931	5,794	(137)
Portfolio Requirements	544,409	510,116	(34,293)
Portfolio Restructuring costs	-	16,535	16,535
Contribution to Schoools Restructuring costs	-	2,488	2,488
Net Portfolio Requirements	**544,409**	**529,139**	**(15,270)**
Schools Budget (after Dedicated Schools Grant)	1,122	(6,265)	(7,387)
Traders	-	-	-
Central Items Managed through Finance Portfolio			
Flood Defence Levies	281	264	(17)
DSO Pension and NJE Costs	1,801	1,727	(74)
General Contingency	16,096	-	(16,096)
Capital Expenditure Financing	-	-	-
Capital Charges included in Portfolios	(49,060)	(48,988)	72
Interest etc	18,006	15,855	(2,151)
Statutory Provision for Debt Redemption	16,731	17,587	856
Local Services Support Grant	-	(780)	(780)
New Homes Bonus	(660)	(619)	41
Early Intervention Grant	(29,008)	(29,142)	(134)
Council Tax Freeze Grant	(7,700)	(7,679)	21
Expenditure before Use of Reserves	512,018	471,099	(40,919)
Reserves and Balances			
2010/11 Carry Forwards	(39)	(39)	-
2011/12 Carry Forwards	-	1,689	1,689
Schools' Statutory Reserve	-	7,387	7,387
PFI Reserves:		-	-
East Leake PFI	201	184	(17)
Bassetlaw PFI	93	10	(83)
Waste PFI	2,840	2,693	(147)
Tram Net Line 1	-	-	-
Tram Phase 2	-	-	-
Capital Projects Reserve	-	12,000	12,000
Improvement Programme	(562)	9,441	10,003
Life Cycle Maintenance	(24)	-	24
Capital adjustment with Trading Activities	517	597	80
Corporate Redundancy	(3,119)	-	3,119
Pay Review	1,000	-	(1,000)
Departmental Reserves	-	-	-
Supporting People Reserve	(1,200)	-	1,200
Transfer to/(from) County Fund	**(5,100)**	**1,564**	6,664
Funding Required	**506,625**	**506,625**	**-**
Funding			
Council Tax/Surplus on Collection	(307,898)	(307,898)	-
Revenue Support Grant/Business Rates	(198,727)	(198,727)	-
Total Funding	**(506,625)**	**(506,625)**	**-**

APPENDIX B

MANAGEMENT ACCOUNTS SUMMARY 2011/12

	£'000	£'000
Children and Young People's Services		
Use a carry forward rather than charge the Schools budget for the Carbon Reduction Scheme.	350	
Support for the Richard Noble Education Programme	100	
Subtotal Children and Young People's Services		450
Adult Social Care and Health		
Refurbishment of the 6 remaining Care Homes		600
Transport & Highways		
Lengthmans Scheme		80
Culture and Community		
Creation of a Jubilee Fund		100
Deputy Leader		
National Graduate Development Programme 3 Posts		120
Finance and Property		
Under the rules set up for the Councillors Divisional Fund individual members are allowed to carry forward underspends of up to 10%		39
Personnel and Performance		
Council support for the Apprentice Scheme		300
Total proposed budget carry forward		**1,689**

APPENDIX C

MANAGEMENT ACCOUNTS SUMMARY 2011/12

	£'000	£'000
Contingency Per Original Budget		25,662
Less Approved Allocations:		
Specialist Placements to CYP	5,000	
Schools Income Generation Saving to CYP	270	
DOH Grant Funded Expenditure to ASCH	4,124	
Gypsy Liaison Officer to Leader	25	
Governance Officer, Health & Wellbeing board to Leader	42	
I Pledge to CSP	30	
Citizens Advice Bureau to Deputy Leader	75	
		9,566
Unallocated (Net)		**16,096**

MANAGEMENT ACCOUNTS SUMMARY 2011/12

	Actual 1/4/2011 £'000	Use (-) in in 2011/2012 £'000	Contrib'n (+) 2011/2012 £'000	Transfers 2011/2012 £'000	Actual 31/3/2012 £'000
County Fund Balances	**28,124**		**1,564**		**29,688**
Schools Reserves	**31,764**		**7,387**		**39,151**
Other Earmarked Reserves					
2010/11 Carry Forwards	39	(39)			-
2011/12 Carry Forwards	-		1,689		1,689
PFI Reserves:					
East Leake	2,776		338		3,114
Bassetlaw Schools	2,759	(1,520)	50		1,289
Waste	22,736		4,003		26,739
Tram (NET Line 1)	4,016	(3,977)		(39)	-
Tram Phase 2	1,770			(1,770)	-
Capital Projects	4,294	(549)	12,082	11,809	27,636
Improvement Programme	8,556		9,441		17,997
Life Cycle Maintenance	3,705				3,705
Trading Activities	2,885	(1,156)	1,432	-	3,161
Redundancy Reserve	3,119				3,119
Performance Reward Grant	1,061	(1,061)			-
Pay Review	2,059				2,059
Departmental*	30,436	(4,664)	5,410	-	31,182
Insurance	20,640	(3,068)		(10,000)	7,572
Total Other Earmarked Reserves	**110,851**	**(16,034)**	**34,445**	**-**	**129,262**

DEPARTMENTAL RESERVES DETAIL

	Actual 1/4/2011 £'000	Use (-) in in 2011/2012 £'000	Contrib'n (+) 2011/2012 £'000	Transfers 2011/2012 £'000	Actual 31/3/2012 £'000
Environment & Resources					
Asset Replacement	1,316	(865)	165	-	616
Capital	1,210	-	-	-	1,210
Other	1,070	(161)	1,056	-	1,965
Revenue Grants	717	(396)	-	-	321
Children, Families & Cultural Services					
Asset Replacement	451	-	-	(20)	431
Other Capital	1,057	(40)	296	174	1,487
Other	3,991	(605)	-	1	3,387
Revenue Grants	2,772	(508)	1,231	(323)	3,172
Policy, Planning & Corporate Services					
Asset Replacement	200	(7)	459	(80)	572
Other	-	-	-	57	57
Revenue Grants	181	(72)	94	111	314
Adult Social Care, Health & Public Protection					
Asset Replacement	593	-	-	-	593
Capital	60	-	-	-	60
Sheltered Employment	1,044	(67)	-	-	977
Other	8,372	-	2,000	80	10,452
Revenue Grants	7,402	(1,943)	109	-	5,568
Total Departmental Reserves	**30,436**	**(4,664)**	**5,410**	**-**	**31,182**

FINAL CAPITAL PROGRAMME 2011/12

CHILDREN AND YOUNG PEOPLE'S SERVICE PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11)	Approved Variations	Revised Budget Budget Report (Council 23/02/12)	Actual Expenditure	Variance
	£'000	£'000	£'000	£'000	£'000
Primary Schools					
Primary Capital Programme	4,200	1,592	5,792	5,663	(129)
Springbank Primary	3,133	915	4,048	3,819	(229)
Greasley Beauvale Primary	1,365	1,480	2,845	2,749	(96)
Other Projects	3,176	(1,261)	1,915	912	(1,003)
Secondary Schools					
Secondary School Improvement	-	418	418	267	(151)
Other Projects	-	207	207	21	(186)
Special Schools					
Carlton Digby	6,027	(2,092)	3,935	3,872	(63)
Other Education Programmes					
Capital Refurbishment Programme	-	6,500	6,500	4,788	(1,712)
School Modernisation Programme	-	1,173	1,173	316	(857)
School Access Initiative	600	526	1,126	939	(187)
School Basic Need Programme	9,500	(9,000)	500	104	(396)
School Kitchens	-	300	300	187	(113)
Other Projects	-	512	512	39	(473)
Young People					
Eastwood Young People's Centre	398	723	1,121	1,029	(92)
Mansfield Young People's Centre	225	345	570	604	34
Other Projects	-	135	135	(20)	(155)
Children's Social Care					
Short Breaks Capital Fund	-	1,090	1,090	735	(355)
The Big House	1,700	(1,450)	250	54	(196)
Other Projects	-	67	67	1	(66)
Total Portfolio	**30,324**	**2,180**	**32,504**	**26,079**	**(6,425)**

ADULT SOCIAL CARE AND HEALTH PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Personal Care and Support Older Adults					
Aiming for Excellence	-	-	-	-	-
Residential Homes (PCT Payment)	-	605	605	605	-
Personal Care and Support Younger Adults					
Short Breaks Schemes	309	(309)	-	34	34
Day Services Modernisation	-	498	498	316	(182)
Bassetlaw Specialist Day Centre	1,500	(751)	749	301	(448)
Joint Commissionning,Quality and Business Change					
Sheltered Employment	96	(9)	87	-	(87)
Promoting Independence and Public Protection					
Social Care Transformation Capital Grant	-	150	150	68	(82)
Total Portfolio	**1,905**	**184**	**2,089**	**1,324**	**(765)**

TRANSPORT AND HIGHWAYS PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Major Schemes					
Major Schemes	2,171	2,352	4,523	3,932	(591)
Highways & Roads					
Highway Maintenance	12,039	2,706	14,745	16,911	2,166
Manage & Operate Partnerships-Terminate	-	200	200	20	(180)
Street Lighting Renewal	2,150	677	2,827	2,000	(827)
Flood Alleviation & Drainage	680	119	799	1,116	317
Road Safety	621	111	732	641	(91)
Highways Depot Rationalisation	5,712	703	6,415	6,568	153
Integrated Transport Measures					
ITM	6,345	2,054	8,399	7,344	(1,055)
Other Schemes					
Land Reclamation	1,110	33	1,143	845	(298)
Civil Parking Enforcement	-	112	112	-	(112)
Rights of Way	-	22	22	21	(1)
Vehicle Purchase-Gritters	-	240	240	186	(54)
Transport & Travel Services	1,156	40	1,196	257	(939)
Transport & Highways External Funding	2,000	(1,174)	826	(4)	(830)
Total Portfolio	**33,984**	**8,195**	**42,179**	**39,837**	**(2,342)**

ENVIRONMENT AND SUSTAINABILITY PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Local Improvement Schemes					
Local Improvement Schemes	3,496	605	4,101	3,687	(414)
Environ & Sustainability External Funding	200	(4)	196	-	(196)
Carbon Management					
Carbon Management	450	160	610	405	(205)
Waste Management					
Waste Management	-	840	840	715	(125)
Total Portfolio	**4,146**	**1,601**	**5,747**	**4,807**	**(940)**

CULTURE AND COMMUNITY PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Libraries					
Mansfield Library	1,743	760	2,503	2,490	(13)
West Bridgford Library	2,702	(2,002)	700	615	(85)
Worksop Library	-	283	283	174	(109)
Other Projects	222	354	576	357	(219)
Other Schemes					
National Watersports Centre	1,000	(676)	324	416	92
Sherwood Forest Visitor Centre	-	196	196	8	(188)
Other Projects	25	68	93	57	(36)
Total Portfolio	**5,692**	**(1,017)**	**4,675**	**4,117**	**(558)**

DEPUTY LEADER PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Policy, Planning & Corporate Services					
Customer Services Centre	600	(380)	220	120	(100)
Strategic Communications Initiatives	53	91	144	33	(111)
Improvement Programme					
Business Management System	500	1,326	1,826	2,966	1,140
Ways of Working	3,171	(89)	3,082	1,619	(1,463)
Total Portfolio	**4,324**	**948**	**5,272**	**4,738**	**(534)**

FINANCE AND PROPERTY PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Property					
Building Works	4,598	830	5,428	4,072	(1,356)
Corporate Fire Remedial Works	-	20	20	20	-
Gresham Park / Other	-	55	55	16	(39)
Sun Volt Programme	-	800	800	460	(340)
Property Acquisition & Disposal Costs	500	247	747	-	(747)
Risk Management					
Risk Management-Security	250	34	284	138	(146)
ICT Schemes					
Network Development	80	956	1,036	929	(107)
ICT Infrastructure	1,000	393	1,393	1,217	(176)
IT Data Centre	1,482	228	1,710	1,672	(38)
Microsoft Enterprise Agreement	1,061	(80)	981	888	(93)
ICT Disaster Recovery	300	-	300	15	(285)
Lotus Domino Migration	300	-	300	156	(144)
Fixed/Mobile Convergence	150	-	150	57	(93)
Total Portfolio	**9,721**	**3,483**	**13,204**	**9,640**	**(3,564)**

PERSONNEL AND PERFORMANCE PORTFOLIO
CAPITAL PROGRAMME 2011/12

	Original Budget Budget Report (Council 24/02/11) £'000	Approved Variations £'000	Revised Budget Budget Report (Council 23/02/12) £'000	Actual Expenditure £'000	Variance £'000
Environment & Resources Trading					
Highways - Vehicles and Plant	450	320	770	509	(261)
Landscape Services	70	-	70	53	(17)
Total Portfolio	**520**	**320**	**840**	**562**	**(278)**

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

ACTUAL VALUES OF 2011/12 PRUDENTIAL INDICATORS

1. Purpose

To note the County Council's 2011/12 year end position in terms of capital expenditure, external debt, financing costs as a percentage of net revenue stream and the capital financing requirement relative to the Prudential Code indicators for 2011/12 approved by Council (24/02/11).

Information and Advice

2. Background

The Prudential Code for Capital Finance in Local Authorities was developed by CIPFA as a professional code of practice to support local authorities in determining their programmes for capital investment. Local authorities are required by Regulation to have regard to the Prudential Code under Part 1 of the Local Government Act 2003. Individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to the Prudential Code. The Executive Summary of the Code states that "The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice."

In particular, the Prudential Code requires the Council to be aware of the impact of financing capital expenditure on its overall revenue expenditure position. The costs of financing additional capital expenditure are the interest payable to external lenders and the amounts set aside to reduce the level of borrowing. In deciding whether or not borrowing is affordable, prudent and sustainable, the most important consideration is whether, over the term of the borrowing, these costs can be met from the revenue budget without unacceptable consequences.

3. Prudential Indicators

3.1 Monitoring Requirements

Under the Prudential Code, an authority is required to establish indicators that are sufficiently robust and credible for it to be able to use them to form a judgement as to whether its proposed capital investment is affordable, prudent and sustainable. The Prudential Code requires that the prudential indicators are monitored regularly throughout the year and that the actual values of some of them are reported at year end.

This appendix is concerned only with prudential indicators relating to capital investment. Indicators relating specifically to treasury management are reported in Appendix G.

3.2 Overview of Prudential Indicators

The following prudential indicators, whose actual values must be reported at year end, relate to affordability and prudence.

3.2.1 Estimate of capital expenditure

In any year, the level of capital expenditure is likely to deviate from the estimate in the budget report as a result of new additions to the Capital Programme, cancellations of schemes, and slippage, acceleration and changing specifications of projects. The Capital Programme is monitored on a monthly basis and variations to the Capital Programme are reported to Cabinet approximately quarterly.

3.2.2 Estimate of the capital financing requirement (CFR)

The capital financing requirement is a measure of the Authority's underlying need to borrow for capital purposes. This relates to capital expenditure which has not yet been financed by capital receipts, capital grants or contributions from revenue income. This is not the same as external debt since the Authority manages its position in terms of borrowings and investments in accordance with its integrated treasury management strategy and practices. For example, rather than borrowing from an external body, the Authority may judge it prudent to make use of cash that it has already invested for long-term purposes, such as reserves, for 'internal borrowing'. This means that there is no immediate link between the need to borrow to pay for capital spending and the level of external borrowing.

In order to ensure that, over the medium term, net borrowing will only be for a capital purpose, the local authority should ensure that net debt does not, except in the short term, exceed the total of the capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

3.2.3 External debt

External debt includes gross borrowing and other long-term liabilities.

Operational boundary for external debt

The operational boundary is the estimated maximum level of external debt in the most likely (i.e. prudent, but not worst-case) scenario. The operational boundary is a key management tool for in-year monitoring. It will probably not be significant if the external debt temporarily breaches the operational boundary on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and would require investigation and possible action (e.g. to ensure that borrowing, other than temporary borrowing, is not undertaken for purposes other than funding approved capital expenditure).

Authorised limit for external debt

The authorised limit is the intended absolute limit for external debt and exceeds the operational boundary by an amount that provides sufficient headroom for events such as unusual cash movements. If it appears that the authorised limit might be breached, the Service Director – Finance and Procurement has a duty to report this to the County Council for appropriate action to be taken.

3.2.4 Financing costs as a percentage of net revenue stream

The Prudential Code requires the Council to be aware of the impact of financing capital expenditure on its overall revenue expenditure position. The relevant indicator is the financing costs of capital expenditure expressed as a percentage of the net revenue stream, where:

- the costs of financing capital expenditure are interest payable to external lenders less interest earned on investments plus amounts set aside to reduce the level of borrowing; and
- the net revenue stream is the amount of the revenue budget to be met from government grants and local taxpayers.

3.3 Prudential Indicators: 2011/12 Year-End Actuals

The following table shows those indicators that were approved for 2011/12 (in the Budget Report to Council 24/02/11) whose actual values must be reported at year end, together with their actual values.

<table>
<tr><th>Indicator</th><th>Comments</th></tr>
<tr>
<td>Estimated capital expenditure
(excluding Schools Devolved Formula Capital and schools' capital expenditure funded from their own revenue budgets, but including PFI Finance Lease Liabilities)

Indicator: £116.655m (incl. £3.295m relating to PFI Finance Lease Liabilities)

Actual: £92.642m (incl. £1.538m relating to PFI Finance Lease Liabilities)

No breach of Prudential Indicator</td>
<td>Capital expenditure was £24.013m less than anticipated, as explained in the table:

<table>
<tr><th>Reason</th><th>£m</th></tr>
<tr><td>Slippage from 2010/11 to 2011/12</td><td>29.400</td></tr>
<tr><td>Re-phasing/slippage in the 2011/12 Capital Programme</td><td>(38.469)</td></tr>
<tr><td>Unused budget set aside for anticipated future scheme spend in 2011/12</td><td>(7.058)</td></tr>
<tr><td>Other net variations</td><td>(6.129)</td></tr>
<tr><td>Additions to the PFI waste scheme in 2011/12 less than anticipated</td><td>(1.757)</td></tr>
<tr><td>TOTAL</td><td>(24.013)</td></tr>
</table>
</td>
</tr>
<tr>
<td>Estimated capital financing requirement
(taking into account PFI Finance Lease Liabilities)

Indicator: £728m

Actual: £668m

No breach of Prudential Indicator</td>
<td>The actual level of the capital financing requirement was £60m less than the indicator, as explained in the table:

<table>
<tr><th>Reason</th><th>£m</th></tr>
<tr><td>Borrowing below budgeted level in 2010/11 (primarily due to slippage of expenditure funded by borrowing)</td><td>(23)</td></tr>
<tr><td>Borrowing below budgeted level in 2011/12 (primarily due to slippage of expenditure funded by borrowing)</td><td>(22)</td></tr>
<tr><td>MRP repayments and voluntary contributions (from capital receipts, revenue and reserves) higher than forecast</td><td>(4)</td></tr>
<tr><td>Differences between forecast and actual PFI additions and repayments (primarily PFI waste scheme additions in 2010/11)</td><td>(11)</td></tr>
<tr><td>TOTAL</td><td>(60)</td></tr>
</table>
</td>
</tr>
</table>

<table>
<tr><th>Indicator</th><th>Comments</th></tr>
<tr><td>External debt
(incl. PFI Finance Lease Liabilities)

Authorised limit for borrowing: £335m
Authorised limit for other long-term liabilities: £151m
Authorised limit for external debt: £486m

Operational boundary for borrowing: £300m
Operational boundary for other long-term liabilities: £151m
Operational boundary for external debt: £451m

Actual borrowing: £289m
Actual other long-term liabilities: £138m
Actual external debt at 31/03/12: £427m

No breach of Prudential Indicators</td><td>The actual level of external debt was well below both the authorised limit of £486m and the operational boundary of £451m throughout 2011/12.

The differences between the actual level of external debt and the operational boundary are detailed in the following table:

<table><tr><th>Reason</th><th>£m</th></tr><tr><td>Unused contingency for unforeseen borrowing</td><td>(10)</td></tr><tr><td>Borrowing below budgeted level</td><td>(1)</td></tr><tr><td>Deferred liability below budgeted level</td><td>(1)</td></tr><tr><td>Differences between budgeted and actual PFI finance liabilities (primarily relating to the PFI waste scheme)</td><td>(12)</td></tr><tr><td>TOTAL</td><td>(24)</td></tr></table></td></tr>
<tr><td>Financing costs as a percentage of net revenue stream
(incl. impact of PFI Finance Lease Liabilities)

Indicator: 13.7%

Actual: 12.2%

No breach of Prudential Indicator</td><td>The total of actual financing costs as a percentage of net revenue stream, was slightly below the indicator.</td></tr>
</table>

4. Summary

The Prudential Code indicators for 2011/12 were not breached.

5. Recommendation

The report be noted.

PAUL SIMPSON CPFA
SERVICE DIRECTOR - FINANCE AND PROCUREMENT and S151 Officer

REPORT OF THE SERVICE DIRECTOR – FINANCE AND PROCUREMENT

TREASURY MANAGEMENT OUTTURN REPORT 2011-12

1. Purpose

To provide a review of the Council's treasury management activities for the year to 31 March 2012.

Information and Advice

2. Background

2.1 Treasury management is defined as "the management of the council's investments and cashflows; 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".

2.2 The Council's Treasury Management Strategy is approved annually by Full Council and there will also be a mid year report which will go to Full Council. Audit Committee currently undertakes the scrutiny role for the Treasury Management function although a separate report to this meeting notes this will now be the responsibility of the Finance and Property Committee in accordance with the Council's new constitution.

2.3 In 2011-12, borrowing and investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points from this report are:

- All treasury management activities were effected by authorised officers within the limits agreed by the Council
- All investments were made to counterparties on the Council's approved lending list
- £30m of long-term borrowing was raised in 2011/12
- The Council earned 0.83% on short term lending, outperforming the average local authority 7 day rate of 0.38%.
- Reports have been submitted to Council and the audit committee as required.

3. Outturn Treasury Position

3.1 The Council's treasury management strategy and associated policies and practices for 2011/12 were approved on 31 March 2011 by Full Council. The Service Director – Finance and Procurement complied with the strategy throughout the financial year 2011/12. The Council's treasury portfolio position at 31/03/2012 is shown in Table 1 below.

Table 1. Treasury Position at 31 March 2012		**£m**	**£m**	**Average Interest Rate**
EXTERNAL BORROWING				
Fixed Rate	PWLB	188.8		6.81%
	Market Loan	100.0	288.8	3.86%
Variable Rate	PWLB	0.0		
	Market Loan	0.0	0.0	
Total			**288.8**	5.74%
Other Long-Term Liabilities			**138.0**	
Total Gross Debt			**426.8**	
Less: Investments			38.5	0.83%
Total Net Debt			**388.3**	

Note 1: PWLB = Public Works Loans Board
Note 2: Market Loans = Lenders' Option, Borrowers' Option (LOBO) loans

4. Economic Background

4.1 The UK's economic performance over the past year is summarized in Table 2 below showing the quarterly percentage change for gross domestic product, the annualized change to the consumer price index each quarter together with the percentage unemployed each quarter. This shows the economy fell back into recession in 2012 following two consecutive quarters of negative growth.

Table 2 Economic Indicators	**2011 Q1**	**2011 Q2**	**2011 Q3**	**2011 Q4**	**2012 Q1**
Consumer Prices Index	4.0	4.2	5.2	4.2	3.5
Gross Domestic Product	0.2	-0.1	0.6	-0.3	-0.3
Unemployment	7.8	7.7	8.1	8.4	8.3

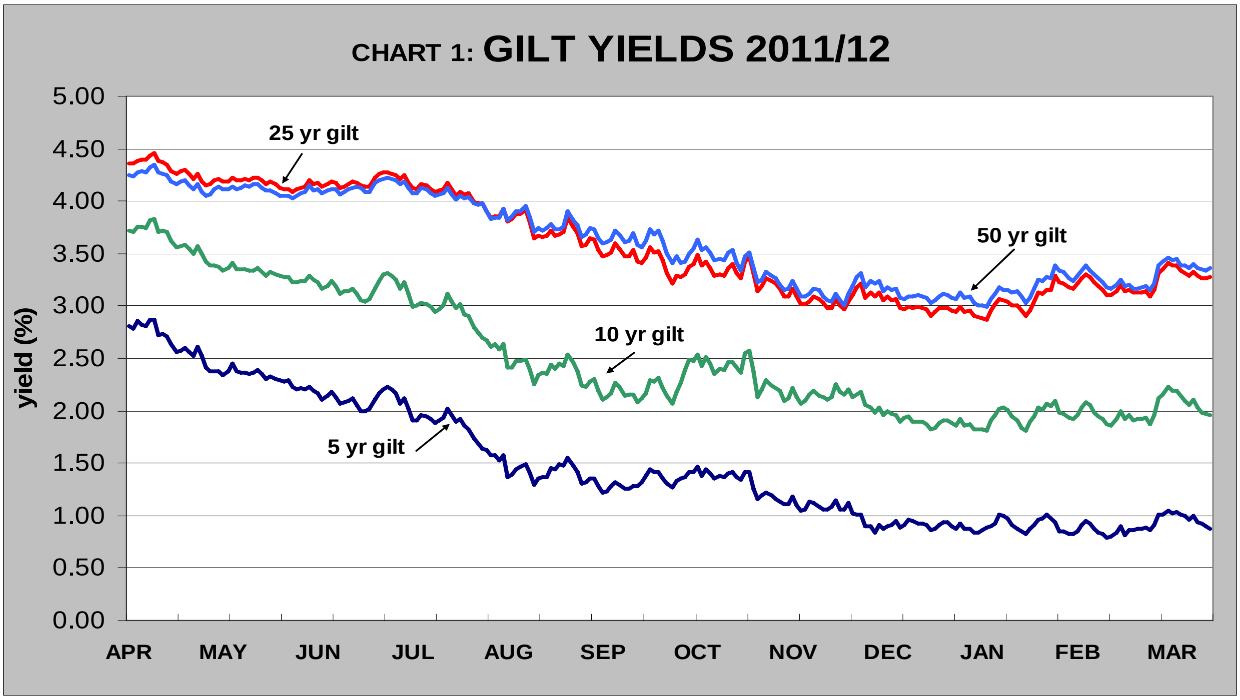
4.2 The consumer price index reduced over the year to 3.5%, having peaked in the third quarter of 2011 at 5.2%. That fall reflected the effects of earlier increases in energy prices and VAT dropping out of the twelve-month comparison. The future prospects of inflation falling to below 2% by the end of 2012 have been revised by the Bank of England (BoE) which expects this level to be reached by the end of 2013. This is a consequence of a variety of factors in the global economy such as commodity and oil prices together with the depreciation of sterling.

4.3 The fragile state of the UK economy has meant that the BoE has maintained base rates at 0.5% throughout the year with no immediate prospect of an increase. This contrasts with the optimism in early 2011 that UK economic growth would lead to an increase in base rates by the end of the year. Further, the Bank undertook additional quantitative easing in September 2011 and February 2012 of £75bn and £50bn respectively to bring the total to £325bn.

4.4 Government finances were reviewed in the Autumn Statement. This extended the period of austerity by a further 2 years to 2016/17 in order to eliminate the structural deficit. The lack of growth in the UK will lead to lower tax revenues and higher welfare payments than were factored into the original deficit reduction plan.

4.5 Gilt yields fell for much of the year before largely stabilizing in the last quarter except (as shown in Chart 1). The 5 year yield has reduced by 1.75% compared to a 0.5% reduction in 25-50 year yields. These movements reflect a number of factors:

- UK seen as a safe haven from the eurozone crisis, especially over the summer
- demand for gilts boosted by the BoE's quantitative easing programme
- demand from banks to hold more secure assets under Basel III
- lower prospects for UK economic growth.



4.6 The rise in gilt yields in the first quarter of 2012 reflected market expectations of improving global economic growth prospects arising from economic data principally from the United States and China. This created a "risk-on" mentality with investors who sold government bonds to buy into risk assets such as equities.

5. Treasury Management Activities 2011-12

5.1 The Council manages its investments in-house and invests with institutions on the Council's approved lending list, aiming to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Council's temporary borrowing and lending activity over the year is set out in Table 3 below.

Table 3 Temporary Borrowing and Lending	**Borrowing £m**	**Lending £m**	**Net Position £m**
Outstanding 1st April 2011	0.00	(33.35)	(33.35)
Raised/ (lent) during period	1.90	(1,020.40)	(1018.50)
Repayments during period	(1.90)	1015.25	1013.35
Outstanding 31 March 2012	0.00	(38.50)	(38.50)

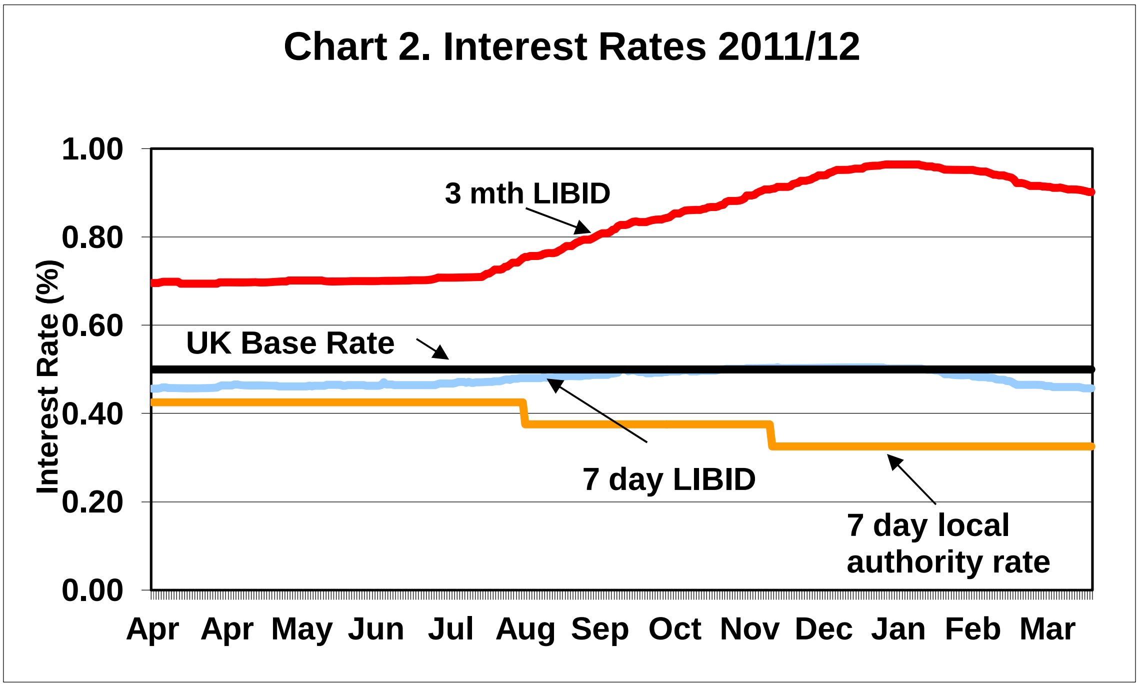
5.2 Over the 12 months to 31 March 2012, the Council's cashflows were maintained through borrowing and lending activities on the wholesale money market and the net position at 31 March 2012 shows outstanding temporary lending of £38.5m. The average level of funds available for investment purposes over the year was £56.8m. This was mainly dependent on the timing of precept payments, receipt of grants, progress on the capital programme and net movement on creditors and debtors. During the year temporary borrowing was required for a period of 3 days at the end of September 2011.

5.3 Council investment returns outperformed the benchmark (7 day local authority rate) every month in the 2011/12 financial year. The Council has significantly outperformed the benchmark for the year which averaged 0.38% against actual returns of 0.83%, an outperformance of 0.45%. This equates to additional interest of over £250,000 for the year. Table 4 shows the returns achieved by type of investment. The use of fixed term investments of up to 3 months has allowed a higher return to be achieved. Also the use of call accounts has allowed the Council to optimize liquidity versus returns.

Table 4 Returns on Investments	**Average Balance £m**	**Interest Earned £k**	**Average Return %**
Fixed Term Investments	28.8	264.0	0.92%
Bank Call Accounts	19.5	152.0	0.78%
Money Market Funds	8.5	54.7	0.65%
Total	**56.8**	**470.7**	**0.83%**

5.4 Investment rates available in the market are at a historical low point. Chart 2 shows how key benchmarks have moved over the year. Base rates remain at 0.5% but other rates have displayed greater variability. The 7 day local authority rate has declined over the year, following gilt yields. In contrast the 7 day and 3 month London Interbank bid rate (LIBID) have increased over the year, reflecting credit concerns over the major international banks principally in the UK and

Europe as a consequence of the Eurozone crisis. The fall in these rates in the first quarter of 2012 partly reflects the longer-term refinancing operation of the European Central Banks which provided access to funds for European banks.

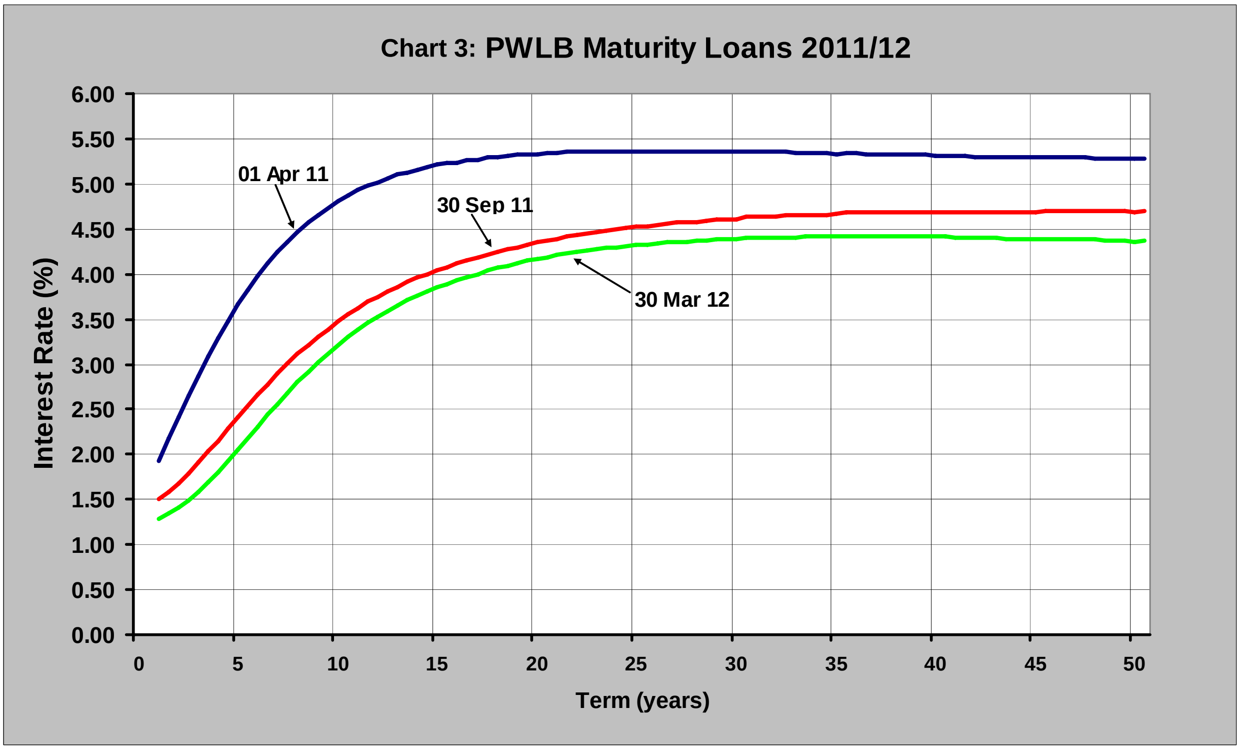


5.5 The Council has maintained cash balances at around £50m in order to minimize long-term borrowing yet maintain sufficient liquidity to meet payments as they fall due. A further two money market funds were opened in the latter part of the year in order to diversify the Council's portfolio and to maintain or increase yields.

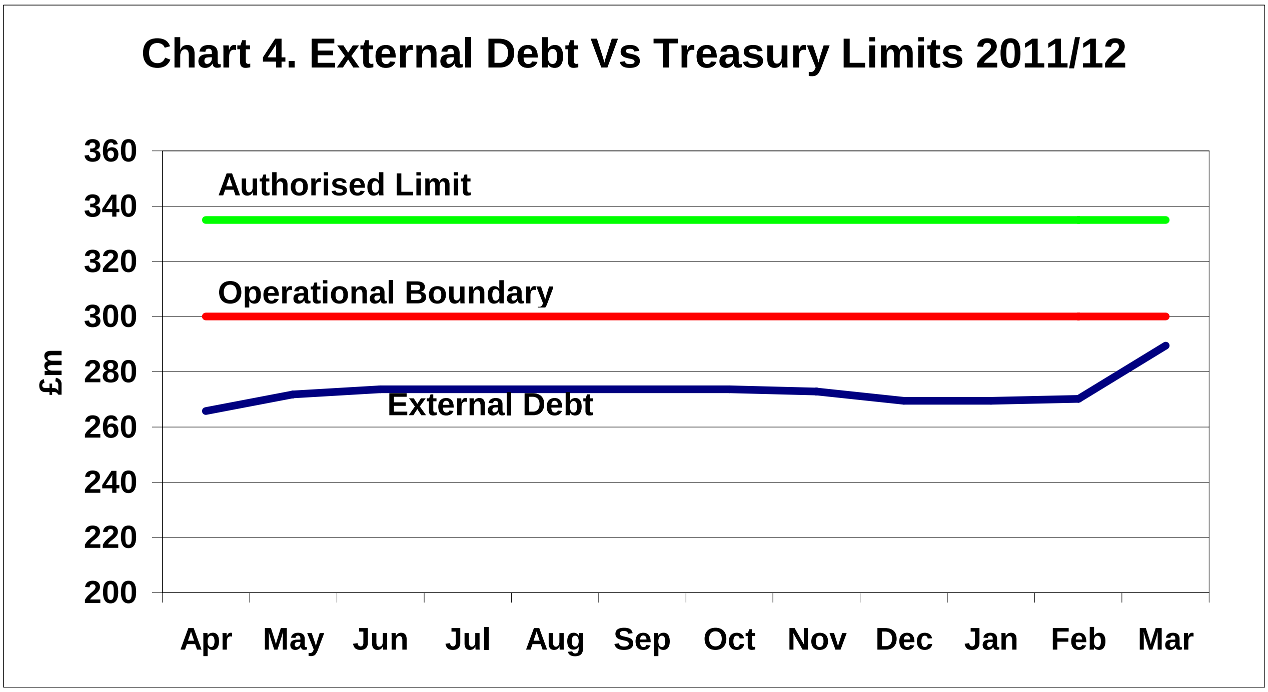
5.6 During the year as the crisis in the Eurozone developed the Treasury Management Group decided as a prudent measure to suspend German banks from the approved counterparty list. The approved list continues to be monitored and action taken to suspend counterparties where concerns arise over security of funds and indeed Santander UK has recently been suspended from the list following concerns over its Spanish parent.

6. Long Term Borrowing

6.1 The Council's Treasury management Strategy Report for 2011/12 presented to Council in February 2011 outlined the Council's long term borrowing strategy for the year. The expectations of rising interest rates following a return to growth for the UK economy have not been borne out as described above. Longer term borrowing rates were budgeted for based on a 5.5% average borrowing rate but the graph below shows that interest rates have fallen with the low point being reached for most durations in mid-January. The rates for 25-50 year PWLB loans were around 4.3% for the year compared to 5.3% at the start.



6.2 Long term borrowing stood at £288.8m on the 31 March 2012 which is within the authorized limit agreed by the Council. Chart 4 below shows that the average level of external debt throughout the year was below the key treasury indicators of the authorized limit and the operational boundary, demonstrating that borrowing was within plan during the year. Further details on these treasury prudential indicators are provided in Appendix F



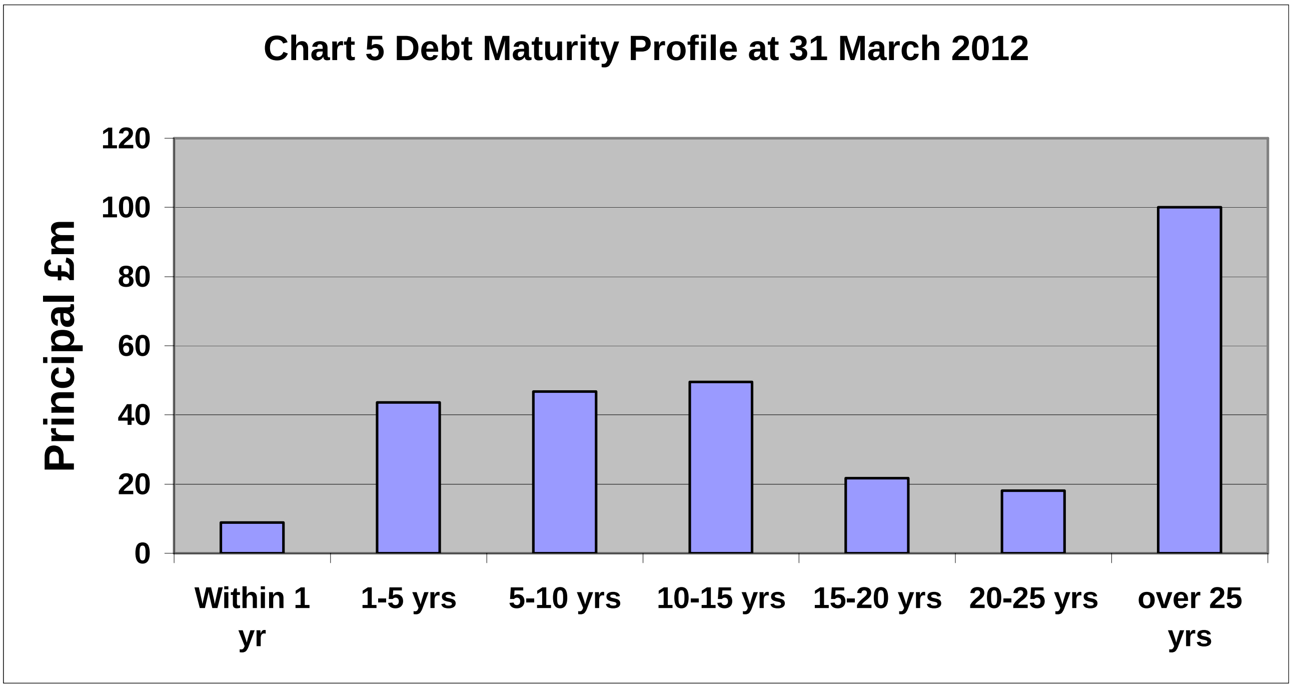
6.3 Net new borrowing of £23.7m in 2011/12 compares with an estimate of £25m in the Strategy report. In May 2011 a new LOBO was taken out with Royal Bank of Scotland on the same terms as the one that had been redeemed in December 2010. In addition, new borrowing was raised in February 2012 in the form of annuity loans from the PWLB for periods between 8 and 9 years at an average rate of 1.80%.

6.4 The loan portfolio comprises of 10 LOBO loans of £10m each, 4 of which had call options in 2011/12 but were not exercised by the lenders. The rates on these loans ranged from 3.25% to 4.17% which compare favorably with the 50 year PWLB rate of 4.36% at the end of March 2012.

Table 5 Movements in Long-term Borrowing 1011-12

Lender	B/fwd	Advances	Repayments at maturity	Premature Repayments	C/fwd
	31/3/11	2011/12	2011/12	2011/12	31/3/12
	£m	£m	£m	£m	£m
PWLB	175.1	20.0	6.3	0.0	188.8
LOBO	90.0	10.0	0.0	0.0	100.0
Total	265.1	30.0	6.3	0.0	288.8

6.5 The chart below shows that the debt maturity profile is well spread over the next 15 years with a maximum duration of 25 years for PWLB debt. The £100m shown in the over 25 year category comprises of the LOBOs, the earliest redemption date of which is 2055. The average rate on external debt is 5.74% compared to 5.78% at the start of the year.



6.6 The Council has the option of rescheduling its existing long-term debt should market conditions indicate opportunities for savings. This is achieved by redeeming fixed rate debt and raising new debt at a lower rate of interest. This opportunity is provided primarily for PWLB debt and may give rise to premiums or discounts depending on the rate differentials. No opportunities for debt rescheduling arose over the reporting period.

7. Prudential Indicators for Treasury Management

7.1 Table 6 below shows how the treasury management indicators compare with the outturn position. The objective of these indicators is to manage treasury management risks effectively. No indicators were breached during the year.

Table 6 **TREASURY MANAGEMENT INDICATORS 2011/12**	**Approved limits** **£m**	**Outturn** **£m**	
Net Debt	411	388	
Upper limit for Rate Exposure			
Fixed Rate	100%	100%	
Variable Rate	75%	0%	
Upper limit for principal sums invested for over 364 days	Higher of £20m and 15%	0	
Maturity structure of fixed rate borrowing	**Approved Lower limit**	**Approved Upper limit**	**Outturn**
Under 12 months	0%	25%	3%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	75%	11%
5 years and within 10 years	0%	100%	16%
10 years and above	0%	100%	66%
Adoption of CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes – **Adopted**			