

STRATEGIC OVERVIEW AND SCRUTINY COMMITTEE

12 September 2013

Agenda Item: 4

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SUBMISSION BY CLLR MJ WILCOX, THE LEADER OF THE COUNCIL & THE CABINET MEMBER FOR FINANCE, REVENUES & BENEFITS

Money Matters : 2012/13 Review of Financial Performance against the Financial Strategy

1. Purpose of Report

- 1.1. To provide Members with the opportunity to scrutinise the Council's financial performance from April 2012 to March 2013.

2. Background

- 2.1 As part of leading the organisation, managers have to account to Members for their management of the financial resources and for the performance of the organisation against what the Council has agreed.
- 2.2 'A Plan for Lichfield District 2012-16', approved by Council in February 2012, sets out the ambition, focus and priorities for the next 4 years, covering the life of this Council. The Plan has milestones for each year, so that we can bring appropriate focus to delivery.
- 2.3 The Medium Term Financial Strategy (Revenue and Capital) (MTFS (R&C)) sets out the allocation of resources and the policies and parameters within which Managers are required to operate. We are required by law to set a 3-year balanced budget. The MTFS relevant to this paper covers revenue and capital expenditure and was approved on 8 February 2013 and includes Revised Estimate 2012/13 and Original Estimates 2013/14 - 2015/16.
- 2.4 The level of change in Local Government Finance starting in 2013/14 is unprecedented ranging from the Localisation of Council Tax Support, wider welfare reform and local retention of an element of Business Rates. This change introduces significant additional financial risks such as a major proportion (10%) of the Council's funding being dependant on the level of business rate growth or decline.
- 2.5 As a consequence; considerable preparation and planning has taken place during 2012/13 to implement changes and identify strategies that are available to manage these risks. These risks together with financial successes, challenges and future actions are shown in more detail at **APPENDIX A**.
- 2.6 The Council is likely to in the future be funded solely by income generated locally through Council Tax, Local Business Rates, New Homes Bonus and fees and charges. Therefore, the management of Sundry Income debt is a key component of the Council's funding.
- 2.7 Sundry Income represents a substantial sum of money and for 2012/13, the Council faced a challenge to achieve consistent collection rates when our customers were operating in a difficult economic climate. There has been a 1 percentage point improvement in the collection of property debt (from **9%** outstanding to **8%**), now recovered by the Corporate Debt Recovery Team. The overall collection figures consistently remain good. However, 2 large invoices; one for **£2,800,000** and another for **£1,000,000**, in respect of the transfer of Chasewater to Staffordshire County Council and the sale of land associated with the Friary Outer scheme respectively have skewed the comparison of debts collected and outstanding year on year. We have continued to improve the amount of payers by Direct Debit, moving away from Cash and Cheques. At 31st March 2012, **25%** of payments were by Direct Debit representing **5.2%** of total debt. At the end of financial year 2013, this moved to **30%** of payments representing **8.1%** of total debt. Recovery of Housing Benefits Overpayments has remained consistent. Further details are shown at **APPENDIX B**.
- 2.10 The financial performance, covering the period April 2012 to March 2013 is reported against the Budget for year 2012/13 as approved by Council on 8 February 2013.

The Revenue Budget on a Net Direct Expenditure Basis¹

Area	2012/2013		Variance ↑ = adverse ↓ = favourable £	
	Net Direct Expenditure £	Budget £		
Chief Executive	919,570	968,290	(48,720)	↓
Finance, Revenues and Benefits	1,890,380	2,032,250	(141,870)	↓
Leisure, Parks & Play	2,780,050	2,806,750	(26,700)	↓
Democratic, Development and Legal	1,700,710	1,724,110	(23,400)	↓
Community, Health and Housing	2,019,870	2,107,210	(87,340)	↓
Operational Services	1,398,600	1,695,690	(297,090)	↓
Net Cost of Services	£10,709,180	£11,334,300	(£625,120)	
Net Treasury Position	(234,150)	(165,090)	(69,060)	↓
Net Operating Cost	£10,475,030	£11,169,210	(£694,180)	
Transfers from Earmarked reserves not included in Net Operating cost	(39,310)	(35,730)	(3,580)	↓
Transfer from General Reserve	(121,670)	(779,080)	657,410	↑
Net Revenue Expenditure	£10,314,050	£10,354,400	(£40,350)	↓
Financed by:				
Formula grant	4,270,030	4,270,280	250	↑
New Homes Bonus	445,690	485,790	40,100	↑
Total District Council purposes	£5,598,330	£5,598,330	-	

The figures shown in the above table are net cost of services. The gross expenditure and gross income generating the net budget cost, together with the net projected outturn is shown on **APPENDIX C**.

2.11 The format shown above details net expenditure as managed by the relevant Director and their Budget holders. It therefore reflects the internal management of Lichfield District Council and the Portfolio Holders' budget responsibility.

2.12 The outturn for the financial year to 31 March 2013 is below budget by **£657,410**. This is significant, and work has been undertaken to understand the detailed reasons for the variance. Details of the main drivers of this variance at a Net Cost of Service Level (**£625,120**) are shown at **APPENDIX D**. On a Council wide basis the variance falls into 4 main categories:

- **£444,450**: This is the major element. It is made up of **one-off savings** that are exceptional - an example of this is a short term staff vacancy.
- **£128,550: Recurring savings/additional income**. An example of this is decreased utility costs for premises. **£122,410** of these ongoing savings/additional income have been built into the F4F Programme.
- **£64,890: Demand led items (external influences)**. This is where external market forces, for example, Major Planning Fee Applications or customer needs such as Housing Benefit payments due to changes in circumstances, are difficult to control or completely accurately predict.
- **£19,520**: This is mainly as a result of Lichfield Venture employees spending more time during the year on Capital Projects rather than Revenue funded projects. This **recharge of staff time to Capital** was funded from the use of existing unapplied Capital Receipts, which resulted in a Capital rather than a Revenue cost.

The Outturn position provides additional General Reserves some of which are recurring savings/additional income and are built into the Fit for the Future (F4F) Programme as noted above. These will be incorporated into the Council's Medium Term Financial Strategy (Revenue and Capital).

¹ Excludes the impact of IAS 19 Pension adjustments, Capital accounting entries, Central Support service charges and reflects the utilisation of Earmarked Reserves in individual Directorates. See **Appendix E** for further explanation of these terms.

Presentation on a Statutory Basis

2.13 The Service Code of Practice (SERCOP) for Local Government accounts requires statutory presentation to show the full cost of services including pension charges (per international accounting standard requirements), central support and capital charges. It also requires funding from Earmarked reserves to be shown in total after net expenditure incurred as shown at "Net Cost of Services." After these presentation adjustments have been made, the SERCOP format of Lichfield District Council's accounts is shown at **APPENDIX E**.

3. Capital Budget

Management of the Capital Programme in 2012/13

- 3.1 The Council approved an original budget for 2012/13 of **£5,722,000** on 21 February 2012.
- 3.2 There was slippage of £1,422,000 in the Capital Programme in 2011/12 that has been carried forward to 2012/13. This was due to Friary Outer Development £613,000 (see 3.6 below) and Lichfield Heritage Parks Project £169,000.
- 3.3 The Council approved a revised for 2012/13 of £6,133,000 on 19 February 2013.
- 3.4 In addition, there have been a number of other changes, such as the allocation of Section 106, re-phasing of some project spend to later years and new grant awards that total £249,000 that resulted in a final budget of £6,382,000.
- 3.5 Below we look at spend by strategic priority for the 2012/13 Financial Year, focussing on the actual position for the year compared with the Final Budget.

Priority	Projected Outturn (8 months) £	Final Budget £	Actual £	Variance £	Note Ref
We'll support local people	916,000	1,171,000	925,000	(246,000)	1
We'll support local places	744,000	1,568,000	1,268,000	(300,000)	
We'll boost local businesses	3,349,000	3,336,000	1,405,000	(1,931,000)	
How our core principles help us deliver	324,000	307,000	313,000	6,000	
Total Capital Expenditure	£5,333,000	£6,382,000	£3,911,000	(£2,471,000)	

KEY :

Actual within **£0.1m** of our final budget ● Actual not within **£0.1m** of our final budget

3.6 The actual outturn for three of our strategic priorities significantly varies from the final budget. However, the major reason for the under spend is:

Note 1: We'll boost local businesses

- ❖ **Friary Outer Development £1,899,762 under spent.** The Council is not required to pay its contribution to the developer until the handover of the car park which has not yet taken place.
- ❖ An important element of the Capital Programme relates to asset replacement. The renewals of vehicles, equipment and systems renewals during 2012/13 are shown in detail at **APPENDIX F**.

Capital Investment at Burntwood Leisure Centre - The Sinking Fund

3.7 The Council is required, under the terms of the funding agreement with the National Lottery in relation to the Burntwood Leisure Centre, to set aside resources to be used for the future repair and renewal of the centre in a 'sinking fund'. Both the level of investment and the Centre in terms of the District Council's leisure provision is significant, therefore monitoring information is provided in the table below for all approved projects in 2012/13.

- These interest rate projections are used as the basis for compiling our investment income budget. Clearly interest rates are projected to stay low for a more sustained period and this will be reflected in the investment income we receive. In order to mitigate the risk that interest rates would remain low over 2012/13 we spread the maturity dates for our investments based on our advisor's maturity limit advice. This strategy was undertaken to take advantage of better yields, whilst not compromising the security of our investments.

4.8 Investment Strategies Approved Covering the 2012/13 Financial Year

- Council approved two Investment Strategies during 2012/13 and these are shown in **APPENDIX G**.

4.9 Investments and Cash flow

- The investments that the Council had outstanding together with a summary of investment activity throughout the 2012/13 financial year and the maturity profile of our investments compared to interest rate projections are shown at **APPENDIX H**.
- The summary of our investment activity shows that our current list of institutions is short and this reflects the suitability of counter parties available for the Council to invest its monies with. This is a reflection of the credit crunch and the ongoing challenges in the banking sector.
- Our actual average cash flow in 2012/13 was within **13%** of our projected budget (**APPENDIX H**).
- We received **£140,166** in net investment income in 2012/13, compared with a revised Budget of **£123,000**, an additional **£17,166** of investment income generated.

4.10 The Performance of the Treasury Management Function

- The performance of the Treasury Management function needs to be measured against our investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments) and these are shown in detail at **APPENDIX I**.
- Our aim for the risk status of our investments was originally **A-**. Our investments at the 31st March 2013 had a more secure risk status of **AA** based on their time length and **A+** based on their value.
- We achieved an average yield of **0.77%** and this compares to our performance indicator of the average 7-day London Inter-bank Bid (LIBID) rate, which was **0.49%**, the 1 month rate was **0.45%**, the 3 month rate was **0.62%** and the 6 month rate was **0.82%**.

4.11 Balance Sheet

- The actual Balance Sheet and Balance Sheet Summary compared with the budgeted Balance Sheet as at 31 March 2013 are shown at **APPENDIX J**.
- The reasons for the major variances between actual and budgets are also shown at **APPENDIX J**.

4.12 Treasury Position

- Our investments (excluding accounting adjustments) at **£12,300,000** on 31 March 2013 compare to a final budget of **£9,150,000** and the reasons for this increase are shown in the Balance Sheet commentary (**APPENDIX J**).
- Our Treasury Position as at 31 March 2013 is set out at **APPENDIX J**.

4.13 Prudential indicators (PI) 2012/13

- The Council can confirm that it has complied with its Prudential Indicators for 2012/13; these were originally approved by Council at its meeting on 22 February 2012 and were fully revised and approved by Council on 19 February 2013 as part of the Council's Treasury Management Strategy Statement.
- In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the Treasury Management Activity during 2012/13.
- None of the other Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The Prudential Indicators are shown in detail at **APPENDIX K** and are summarised in the table below:

PI 2012/13	Details	2012/13 Final Budget	2012/13 Actual
1	Capital Expenditure (£)	£6,382,000	£3,911,000
2	Ratio of Financing Costs to Net Revenue Stream (%)	5%	3%
3	Capital Financing Requirement (£)	£3,669,000	£1,466,000
4	Net external borrowing does not exceed the Capital Financing Requirement in the current year plus the next two years	True	True
5	Incremental impact of capital investment decisions on Band D Council Tax (£)	£0.52	£0.00
6	Authorised Limit (£m)	£12,880,000	£1,573,000
7	Operational Boundary (£m)	£3,748,000	£1,573,000
8	Adoption of the CIPFA Code of Practice in Treasury Management	Yes	Yes
9	Is our gross debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No
10	Upper limit for investments fixed interest rate exposure (Highest)	(100%)	(70%)
10	Upper limit for investments variable interest rate exposure (Highest)	(100%)	(70%)
11	Upper limit for borrowings fixed interest rate exposure (Highest)	100%	100%
11	Upper limit for borrowings variable interest rate exposure (Highest)	30%	0%
	Maturity Structure of Fixed Rate Borrowing (upper limit) (%)		
12	Under 12 months	100%	0%
12	12 months and within 24 months	100%	0%
12	24 months and within 5 years	100%	0%
12	5 years and within 10 years	100%	0%
12	10 years and within 20 years	100%	0%
12	20 years and within 30 years	100%	0%
12	30 years and within 40 years	100%	0%
12	40 years and within 50 years	100%	0%
12	50 years and above	100%	0%
13	Principal Sums invested > 364 days (£m)	£1,900,000	£1,200,000
14	Credit Risk	We consider security; liquidity and yield, in that order, when making investment decisions.	

5 Working Balance, Reserves and Provisions

5.1 The following General Revenue Reserves are available to assist the Council in meeting General Fund expenditure from 2013 to 2016 as part of the Medium Term Financial Strategy.

Detail	2012/2013 £	2013/2014 £	2014/2015 £	2015/2016 £
General Reserve balance as at 1 st April	3,075,603	2,953,933	1,656,933	1,656,933
Less: Contribution to Revenue Budget	(121,670)	(1,297,000)	-	-
General Reserve balance as at 31st March	2,953,933	1,656,933	1,656,933	1,656,933
Minimum reserves requirement policy	1,000,000	1,000,000	1,000,000	1,000,000
General Reserve available for use	£1,953,933	£656,933	£656,933	£656,933

5.2 Earmarked Reserves Outturn Summary for 2012/13 – Revenue & Capital

Detail	1 April 2012	Earmarked Reserves applied in year	Earmarked Reserve no longer required	New Reserve	31 March 2013
	£	£	£	£	£
Chief Executive	52,060	(30,100)	-	-	21,960
Finance, Revenues and Benefits	147,730	(104,250)	-	-	43,480
Leisure, Parks & Play	443,160	(112,620)	-	55,980	386,520
Democratic, Development and Legal	515,120	(97,650)	-	180,540	598,010
Community, Health and Housing	318,370	(63,330)	-	95,570	350,610
Operational Services	347,860	(18,990)	-	113,790	442,660
Capital Reserves	1,157,910	-	-	121,480	1,279,390
Total Earmarked Reserve	£2,982,210	(£426,940)	-	£567,360	£3,122,630

6. Community Benefits

- 6.1 The reporting of timely budget performance statements enables Members to critique and scrutinise performance for the efficient and effective use of resources, in the interest of the community, for the delivery of services and key priorities, as set out in the Strategic Plan.

7. Financial Implications

- 7.1 There was a contribution from General Reserves of £121,670 compared with a budgeted contribution from General Reserves of £779,080. This means £657,410 of General Reserves has not been used in 2012/13 as budgeted.
- 7.2 This has a positive impact for the Council by making more funds available to be used in future years.
- 7.3 Detailed analysis on the Financial Performance for 2012/13 is shown in the Appendices attached.

8. Risk Management Issues

Risk Description	Likelihood/ Impact	Risk Category	How are the risks being managed?	Responsibility
Management of the Council's Revenue and Capital budget is critical to the successful delivery of key Council's priorities, and control measures need to be in place to manage the re-scheduling or re-profiling of projects and to respond to the changing financial climate.	Medium/High	Financial	Close monitoring of expenditure. Maximising the potential of efficiency gains. Early identification of any unexpected impact on costs, for example, central Government policy changes, movement in the markets, and changes in the economic climate. Prioritisation of capital expenditure. Project management of projects.	Leadership Team
Counterparty default	Medium / High	Financial	Investments are restricted to those organisations with the lowest credit risk: <ul style="list-style-type: none"> a) The Debt Management Agency Deposit Facility. b) Money Market Funds with an AAA rating. c) Deposits with other Local Authorities. d) Business Reserve, Certificates of Deposit and Term Deposits with a long term credit rating of A- As conditions in the Financial Sector improve, we may diversify the counterparty list based on our advisor's recommendations.	
Adverse Interest Rate fluctuations	Low / Low	Financial	The budget for investment income will be monitored as part of the Council's budget monitoring procedures.	
Actual cash flows are different to those that are planned	Low / High	Financial	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect both actual and planned cash flows. An element of the Council's investment portfolio will be invested in call accounts.	
Planned Capital receipts are not received.	Medium/High	Financial	The budget for Capital receipts is monitored as part of the Council's normal budget monitoring procedures.	Leadership Team
The Recession	High/High	Financial/ Economic/ Environmental/ Social/Legal	Close monitoring of the higher risk key business areas and those areas affected by the downturn. Managers continuously gather and analyse information and are taking action where it is possible to do so.	Leadership Team
Friary Outer Car Park	Medium/Low	Financial	Close monitoring of the position as part of the Council's normal Budget monitoring procedures.	

Background Documents:

CIPFA Code of Practice for Treasury Management in the Public Services

Treasury Management Strategy Report 2012-15 – Cabinet 14 February 2012.

Half Year Report on Treasury Management Services and Projected Prudential Indicators 2012/13 – Cabinet 15 January 2013

Treasury Management Strategy Report 2013-16 – Cabinet 8 February 2013.

The Prudential Code for Capital Finance in Local Authorities.

Successes, Risks, Challenges and Future Actions

Financial Successes	Financial Risks
<p data-bbox="147 407 813 495">In December 2012 we secured £170,000 from the Department of Health to tackle fuel poverty in the district by improving the energy efficiency of local homes</p> <p data-bbox="147 527 821 615">In December 2012 we sold Donegal House to Lichfield City Council generating capital income for the District and ensuring its heritage continues to be cared for</p> <p data-bbox="147 653 805 800">In February 2013 the Garrick Theatre became an independent Charitable Trust. The Theatre is now able to raise external funding supported by a finite funding commitment from the Council which will decrease over time</p> <p data-bbox="147 835 813 1014">External Audit issued an unqualified opinion on the Council's 2011/12 Financial Statements included in the Council's Statement of Accounts and concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p data-bbox="147 1050 813 1167">In April 2012 we sold a long leasehold of £1,120,000 on part of the sites land to contribute to Friary Outer Car Park allowing our partners, Bromford Housing and Harrisons to progress the development</p> <p data-bbox="293 1205 667 1243">Financial Challenges</p> <p data-bbox="168 1287 792 1346">Mitigating inflationary increases in fuel heat, light & power – inflation is currently 2.6%</p> <p data-bbox="159 1379 805 1470">Revenue budgets for our demand led income areas such as car parks, planning fees and leisure activity remain an annual challenge to achieve</p> <p data-bbox="147 1503 816 1621">Take measures to mitigate the increasing cost of our pay bill in April 2017 due to a single flat-rate state pension and its resultant increase in National Insurance contributions</p> <p data-bbox="147 1654 816 1713">Revenue support grant reduction to £nil over the next 6 years (currently £2.7m)</p> <p data-bbox="147 1747 816 1837">Maintaining the collective needs of our residents within a maximum rise of 2% in Council Tax revenue before a referendum is legally required</p> <p data-bbox="164 1871 802 1929">To continue to operate a Local Council Tax Support Scheme as required by government.</p>	<p data-bbox="854 396 1459 546">Our government funding is part replaced by the retention of business rates meaning we are more financially reliant on local economic growth. This represents a significant change to local authority funding.</p> <p data-bbox="854 579 1463 697">The triennial review of the Staffordshire local government Pension Scheme. Results are due in Autumn 2013 and early indications suggest higher contribution rates</p> <p data-bbox="854 730 1459 882">The Government recently announced that £0.4m Single Local Growth Funding for 2015/16 will be funded by New Homes Bonus. This could mean 40% of our New Homes Bonus being paid to Local Enterprise Partnerships to support house building</p> <p data-bbox="854 915 1456 1064">The new Local Council Tax Support scheme will mean that a number of citizens will for the first time be required to pay Council Tax. This change could increase risks around arrears management and cash flow monitoring</p> <p data-bbox="948 1205 1365 1243">Finance Future Actions</p> <p data-bbox="865 1287 1451 1346">To address the Budget funding gap of £3.7m as approved by Council in February 2013</p> <p data-bbox="854 1379 1459 1470">To manage the exposure of business rate growth risk by liaising with our local authority partners on a business rates pool</p> <p data-bbox="891 1503 1422 1562">To ensure we help our residents manage the financial impact of Welfare Reform</p> <p data-bbox="854 1583 1459 1764">Our assets require regular capital investment to ensure they meet the needs of users and customers. The level of internal resources available to fund this capital investment is limited. Therefore alternative funding sources and asset delivery models increasingly need to be considered.</p> <p data-bbox="854 1797 1459 1915">A review of the Council's Capital Programme will be completed as part of the preparation of the Medium Term Financial Strategy (Revenue and Capital) beyond 2015/16</p>

Sundry Debtor Performance

Details	31 March 2012		31 March 2013		All Debts Change (%)	Variance ↑ = adverse ↓ = favourable
	All Debts	Property Debts	All Debts	Property Debts		
Value of sundry income raised	10,860,310	1,111,477	6,547,013	906,511	-39.72%	↑
Value of debts written off	127,871	78,257	49,315	1,073	-61.43%	↓
Value of invoices outstanding	1,028,888	101,347	1,178,472	74,270	14.54%	↑
% of income raised	9.47%	9.12%	18.00%	8.19%		↑

Aged Debtor Analysis						
Less than 6 months	749,513	74,293	841,242	53,185	12.24%	↑
More than 6 months	279,375	27,054	337,230	21,085	20.71%	↑

ANALYSIS OF GROSS EXPENDITURE AND INCOME TOGETHER WITH NET EXPENDITURE FOR 2012/2013

Directorate	Gross Expenditure £	Income £	Net Expenditure £	Budget £
Chief Executive	1,216,140	(296,570)	919,570	968,290
Finance, Revenues and Benefits	28,959,070	(27,068,690)	1,890,380	2,032,250
Leisure, Parks & Play	6,835,000	(4,054,950)	2,780,050	2,806,750
Democratic, Development and Legal	3,870,530	(2,169,820)	1,700,710	1,724,110
Community, Health and Housing	2,688,130	(668,260)	2,019,870	2,107,210
Operational Services	7,187,590	(5,788,990)	1,398,600	1,695,690
Net Expenditure of Services	£50,756,460	(£40,047,280)	£10,709,180	311,334,300
Net Treasury Position	8,350	(242,500)	(234,150)	(165,090)
Net Operating Cost	£50,764,810	£(40,289,780)	£10,475,030	£11,169,210

**2012/13 Council Net Direct Expenditure Outturn compared to the Revised Budget
Inclusive of new/used earmarked reserves or receipts in advance**

HIGH LEVEL EXPLANATION OF VARIANCE

	£	£
CE Lichfield Venture	(14,668)	
Additional work on Capital projects means more salary cost is recharged to the Capital Budget & not borne by Revenue		
Communications & Information	(14,503)	
Reduced employee costs due to a vacant post & one off Income from the District Council Network for LDC communication services.		
Other areas	(19,549)	
Small salary underspends & general equipment/office expenses budget underspent, Lichfield Garrick Service Level Agreement (SLA) income, all partly offset by higher legal expenses for Garrick Trust start up		
TOTAL		(48,720)
FRB Housing Benefit Payments	(66,029)	
Clawing back of benefit income from residents generates income to LDC. This occurs when benefits have been paid in error due to a change in residents' circumstances. This is the main reason for this actual's variance.		
Corporate Management	(29,569)	
Rebate on External Audit fees; Lower than budgeted bank charges and council revenue yet to be allocated to services as at 31st March 2013		
Financial Services	(18,843)	
Mainly additional income for Lichfield Garrick SLA; Remaining variance due to underspends on employee costs & general office expenditure (printing/courses etc)		
EBIS	(10,344)	
Income in respect of Garrick SLA and additional Street Naming & Numbering revenue		
Other areas	(17,085)	
TOTAL		(141,870)
LPP Leisure Centres, Mobile Leisure & Play	(59,115)	
Careful management of staff resource and the achievement of additional income.		
Parks	(50,296)	
More effective use of team. Some activity and expenditure delayed to allow for staging of Torch Relay and Royal Visit.		
Insurance and Health & Safety	(14,783)	
Mainly underspend on broker commission & insurance premiums		
Garrick Theatre (inc LDC funding subsidy from Feb 2013)	98,124	
Underachievement of production income particularly the Christmas Show. This result partly offset by income received by other services in the Council of £23K for services provided to the Garrick.		
TOTAL		(26,700)

APPENDIX D

	£	£
CHH Customer Services & Postage	(40,734)	
Vacant posts; Additional income from Staffs County Council for operation of Blue Badge scheme; underspend on Central postage		
Community & Partnerships	(37,024)	
Additional Community Transport Income; Underspend on small projects Budget; Partnership savings as a result of securing contribution to central support costs - reflected in MTFS from 2013/14; Other small underspends		
Housing & Environmental Health	(9,582)	
TOTAL		(87,340)
DDL Members Allowances	(11,479)	
Equipment & Courses underspend		
Electoral Registration	(20,517)	
Employee cost underspend due to vacant post		
Land & Property	21,309	
£27K provision to fund result of legal claims on personal searches (supported also by an Earmarked reserve)		
Other areas	(12,713)	
TOTAL		(23,400)
OS Car Parks	(117,407)	
£30K lower contribution required for Multi Storey sinking fund; £nil contribution to Lombard Street Sinking Fund as planned in revised budget (£17K); Water bill at 31 March 2012 accrued was lower than expected £8K (prudent 11/12 estimate due to dispute over leak at multi storey). Under spent maintenance/security£27K; Improved Multi-Storey income on PCN's & Cash machines £13K; Remaining - general underspend on premises, equipment & supplies & services		
Waste Shared Service	(63,799)	
Fuel costs lower than anticipated by £37K (7%), Recycling credit claim was under-recovered following the 2011/12 audit in July 2012 (year end based on estimate): Therefore this includes a one-off recycling credit for £22K		
CCTV	(23,431)	
A £26K contribution to the sinking fund was planned at revised estimate. Subsequent to this a corporate decision was taken to address sinking fund contributions via the Capital programme, therefore £26K underspent		
Street Cleansing & Grounds Maintenance	(27,460)	
Underspend due to deliberately not purchasing 'non-critical' equipment £23K in an effort to help with savings for the Authority. Additional ad hoc income for Grounds Maintenance internal works instructions of £27K with costs reflected in Directorate outturns above; partly offset by contribution to Capital for new JCB £(26K)		
Carbon Reduction - Climate Change	(20,000)	
Entire Budget under spent to form a contribution to Fit for the Future going forward		
Other areas (inc Burntwood Depot utilities underspend of £19K)	(44,993)	
		(297,090)
Below Budget 2012/13: Net Cost of Services on a Direct Expenditure basis		(£625,120)

**GENERAL FUND TOTAL REQUIREMENT - DISTRICT COUNCIL PURPOSES
FOR FINANCIAL YEARS 2012/13
ANALYSIS IN ACCORDANCE WITH SERVICE REPORTING CODE OF PRACTICE (SERCOP)**

The adjustments as referred to on Page 3, have a net £nil impact on General Revenue reserves as they are either not required by Statute to be funded from Council Tax, or they reflect a recharging process from one Directorate to another. These adjustments are explained below with their resultant impact reflected in the table:

IAS 19 Pension Charges: These entries replace the cash contributions made by LDC to the pension scheme with a annual charge relevant to meeting the estimated pension liability as calculated by our actuaries at 31st March 2013.

Central Support Service Charges: These entries allocate the cost of central services performed to the front facing service for which they relate. This includes central services such as Finance & Accounting, Personnel, Internal Audit and Information and Communication Technology (ICT).

Capital Charges: The depreciation or amortisation of assets and capital grants in use by a front facing service is required to be charged to the service's revenue budget. This provides a fully absorbed reflection of the cost to operate the activity at a Net Cost of Services level. However, capital spend is funded by the Capital Programme via Capital receipts and therefore is reversed for Statutory revenue purposes.

Earmarked Reserves: These are required to be shown as a funding contribution to the Net Cost of services, and therefore are shown in total for the council on a Statutory SERCOP basis below. The table on Page 2 includes the utilisation of Earmarked Reserves on a directorate basis in order that the net expenditure for each directorate is presented on a more meaningful basis.

	2012/13			
	Approved Budget £	Revised Budget £	Actual £	Variance £
Central Services	3,696,960	3,600,260	3,652,617	52,357
Cultural and Related Services	3,996,340	4,048,520	4,843,970	795,450
Environmental and Regulatory Services	3,894,170	3,870,390	2,954,959	(915,431)
Highways and Transport Services	(568,210)	(527,980)	(833,447)	(305,467)
Housing Services	1,771,430	1,764,530	824,686	(939,844)
Planning Services	1,320,210	1,644,920	1,731,232	86,312
Net cost of services	14,110,900	14,400,640	13,174,017	(1,226,623)
Investment income				
Interest Payment	12,500	12,500	39,044	26,544
Interest Receipts	(128,540)	(138,540)	(245,575)	(107,035)
	(116,040)	(126,040)	(206,532)	(80,492)
LESS:				
Transfer from Capital, Pension and Absence Reserves	(3,105,390)	(3,105,390)	(2,672,199)	433,191
Transfer to/(from) Revenue Reserves		-		
Transfer to/(from) Earmarked Reserves	45,930	(35,730)	140,420	176,150
Transfer to/(from) General Revenue Reserves	(581,000)	(779,080)	(121,665)	657,415
	(535,070)	(814,810)	18,755	833,565
Amounts to be met from Government Grants and Local Taxpayers	10,354,400	10,354,400	10,314,042	(40,358)
LESS:				
Total Formula Grant	(4,270,280)	(4,270,280)	(4,270,020)	260
New Homes Bonus Scheme Grant	(485,790)	(485,790)	(445,692)	40,098
Transfer to/(from) Collection Fund	-	-	-	-
Council Tax Requirement	5,598,330	5,598,330	5,598,330	-
Council Tax Base	38,248	38,248	38,248	-
Lichfield District Council Tax Levy	£146.37	£146.37	£146.37	-

Vehicle, Equipment and Systems Renewal Schedule 2012/13

Detail	Capital Programme 2012/13	Actual Spend	Cost Centre	Existing Registration Number	Budgeted Funding	Comments
1. Vehicles						
Cage Tipper	£22,000	Nil	Grounds Maintenance	HX08 XDS	Finance Lease	Likely to take place in 2013/14
Cage Tipper	£22,000	Nil	Street Cleansing	HX08 XDT	Finance Lease	Likely to take place in 2013/14
Recycling Vehicle	£45,000	Nil	Refuse	VU06 VCN	Finance Lease	Likely to take place in 2013/14
JCB	£0	£34,500	Grounds Maintenance	M848 ROL		Funded from Revenue
Total Vehicle Budget	£89,000	£34,500				
2. Other						
IT Upgrades	£218,000	£234,290	Corporate ICT		Capital Receipts and Reserves	Overspend is due to the requirement of additional Oracle Licenses following a supplier audit. This cost will be offset by a reduction in the 2013/14 Capital Programme budget.
	£218,000	£234,290				

Investment Strategies Approved covering the 2012/13 Financial Year Specified Investments²

Financial Asset Category	Strategy Approved 22 February 2012		Strategy Approved 23 February 2013	
	Minimum Criteria	Limits	Minimum Criteria	Limits
UK Banks and Building Societies	<u>Minimum Short Term Rating</u> Fitch = F1 Moody's = P-1 Standard and Poors = A-1 <u>Minimum Long Term Rating</u> Fitch = A- Moody's = A3 Standard and Poors = A-	£2 million and subject to Arlingclose advice	<u>Minimum Long Term Rating</u> Fitch = A- Moody's = A3 Standard and Poors = A-	£2 million and subject to Arlingclose advice
Deposits with Money Market Funds	Fitch = AAmmf Moodys = Aaa/MR1+ Standard and Poors = AAAM	£1.5 million	Fitch = AAmmf Moodys = Aaa/MR1+ Standard and Poors = AAAM	£1.5 million
UK Government	Not applicable	No limit	Not applicable	No limit
Local Authorities, Parish Councils etc	Not applicable	No limit	Not applicable	No limit
Group Limit	£3 million		£3 million	
Money Market Funds Limit	No limit		No limit	
Sovereign Limits	100% UK		100% UK 25% Canada 25% Australia 25% Singapore	

Non Specified Investments

Financial Asset Category	Strategy Approved 22 February 2012		Strategy Approved 23 February 2013	
	Minimum Criteria	Limits	Minimum Criteria	Limits
The Council's own bank (where credit ratings are not sufficient)	The Authority banks with National Westminster Bank. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. However, Even if the credit rating falls below the Authority's minimum criteria National Westminster Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.		The Authority banks with National Westminster Bank. At the current time, it does meet the minimum credit criteria of A- (or equivalent) long term. However, Even if the credit rating falls below the Authority's minimum criteria National Westminster Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.	
Deposits with a maturity of greater than one year	<u>Minimum Short Term Rating</u> Fitch = F1 Moody's = P-1 Standard and Poors = A-1 <u>Minimum Long Term Rating</u> Fitch = A+ Moody's = A1 Standard and Poors = A+	£2.1 million	<u>Minimum Long Term Rating</u> Fitch = A- Moody's = A3 Standard and Poors = A-	£2.0 million
Group Limit	£3 million		£3 million	
Sovereign Limits	100% UK		100% UK 25% Canada 25% Australia 25% Singapore	

² Specified Investments are the lowest risk investments being in high security and high liquidity investments made in Sterling, Short term investments made with UK Government and other Local Authorities and short term money market transactions with a "high credit quality".

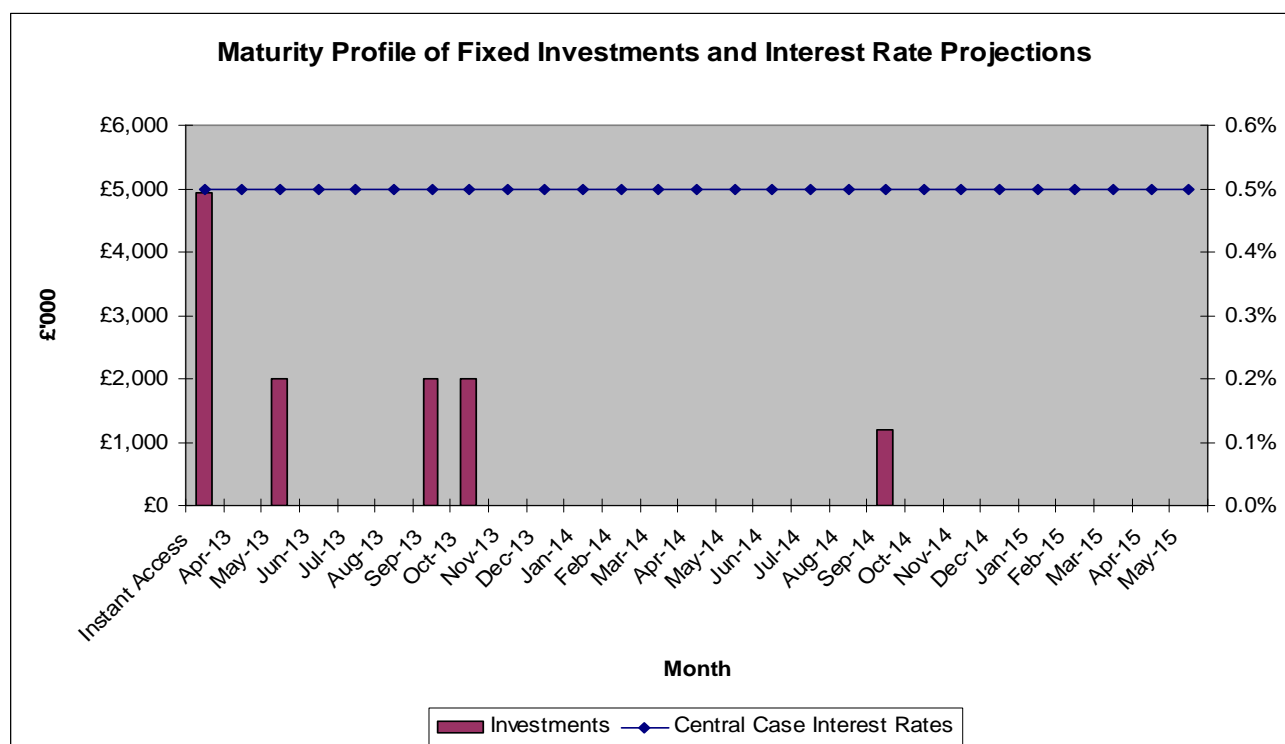
Investments and Cash flow in 2012/13

Investments at 31 March 2013

The table below shows a breakdown of our investments at the end of the financial year:

Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating	Foreign Parent
Money Market Funds						
Ignis	£1,000,000	01-Apr-13	Instant Access	0.380%	AAA	N/A
Prime Rate	£430,000	01-Apr-13	Instant Access	0.390%	AAA	N/A
Other Counterparties						
Northumberland County Council	£1,200,000	24-Sep-14	541	0.900%	AAA	No
LloydsTSB	£2,000,000	01-May-13	30	1.600%	A	No
Barclays Bank	£2,000,000	31-Oct-13	213	1.057%	A	No
Santander UK Bank	£2,000,000	01-Apr-13	Instant Access	0.500%	A	Yes
NatWest Bank	£1,500,000	01-Apr-13	Instant Access	0.800%	A-	No
Certificates of Deposit						
Standard Chartered	£2,000,000	19-Sep-13	171	0.590%	A+	No
Total Investments	£12,130,000					
Accounting Adjustments and Other Balances	£170,000					
Balance Sheet Total³	£12,300,000					

The graph below compares the current maturity profile of our investments at the 31 March 2013 to our projections for interest rates. This shows we are continuing to keep the maturity profile of our portfolio relatively short to manage the risks of interest rate increases together with enabling us to be able to react to changes in the credit risk of counterparties.



³ Long term investments, short term investments, cash and cash equivalents.

However, the previous table and graph only shows the investment position on one particular day of the financial year, the table below shows a summary for the whole of the financial year:

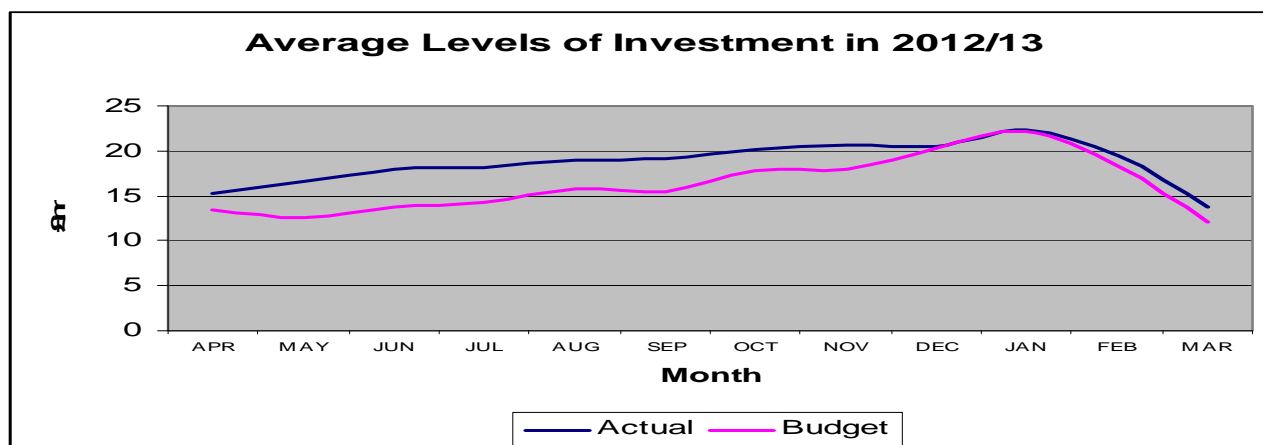
Counterparty	Number of Deals	Total Principal Invested	Is the Counterparty on our list of eligible institutions at 31 March 2013?
SWIP	25	18,150,000	Yes
Blackrock	17	15,775,000	Yes
Legal & General	17	13,640,000	Yes
Insight	18	8,845,000	Yes
Deutsche Bank	16	8,660,000	Yes
Invesco	10	8,360,000	Yes
Nationwide	4	8,000,000	Yes
JP Morgan	9	7,965,000	Yes
Debt Management Office	3	7,200,000	Yes
Lloyds TSB	3	6,000,000	Yes
Barclays Bank	4	5,000,000	Yes
Standard Chartered	2	4,000,000	Yes
NatWest	3	3,000,000	Yes
BNP Paribas	2	3,000,000	Yes
Ignis	6	2,835,000	Yes
Santander	2	2,700,000	Yes
BNY Mellon	2	1,890,000	Yes
Northumberland County Council	1	1,200,000	Yes
Bank of Scotland	1	1,000,000	Yes
UK Treasury Bills	1	696,150	Yes
Prime Rate	2	515,000	Yes
Total	148	£128,431,150	

This list is reviewed on an ongoing basis and takes account of the following sources of information:

- Advice from our Treasury Management advisors.
- Credit Ratings.
- Credit Default Swaps prices.
- Share Prices.
- Information in the general and financial media.

Cash flow for 2012/13

The graph below compares the budget for average investment levels in 2012/13 with the actual levels.



The graph shows that the actual trend of investments followed the budgeted trend quite closely.

Net Treasury Position for 2012/13

Net Investment Income

In terms of interest receipts, there are two key risks / sensitivities:

- a) The interest rate receivable.
- b) The amount of money we have available to invest.

The interest rates, amounts of money we had available to invest, interest receipts, interest paid and net investment income is shown in the table below:

Details	2012/13 Final Budget	2012/13 Actual
Average Amount we had available to Invest (£m)	£16.15m	£18.56m
Average Interest Rate (%)	0.84%	0.77%

Interest Receipts	(£135,500)	(£141,715)
Interest Paid and Other Costs	£12,500	£1,549

Net Investment Income (£)	(£123,000)	(£140,166)
----------------------------------	-------------------	-------------------

External Borrowing Costs

No new borrowing was undertaken in 2012/13.

Other Finance Costs and Income

Details	2012/13 Final Budget £	2012/13 Actual £
Revenue Funding of Capital Expenditure	£2,950	£6,800
Car Loan Interest	(£3,040)	(£2,039)
Reserves Interest	£0	£3,077
Finance Lease and Other Income	(£42,000)	(£101,822)
Net Other Finance Costs	(£42,090)	(£93,984)

Performance of the Treasury Management Function

The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

Security

Our aim for the risk status of our portfolio was **A-** utilising the lowest rating from the three credit rating agencies.

The investments outstanding at the 31 March 2013 had a risk status of **AA** based on the length of the investment and **A+** based on the value of the investment, which is a more secure risk status. These risk statuses are both compliant with our aim and the recommendations from our Treasury Management advisors. The recent history of the security of our investments is shown in the table below:

Date	The Value of the Investment	The Maturity Date of the Investment
31 March 2012	A+	AA-
30 June 2012	A+	AA
30 September 2012	AA+	AA
30 November 2012	AA	AA
31 March 2013	A+	AA

In addition, we are currently keeping the length of our investments relatively short term to ensure that we can react to changes in counterparty credit risk very easily. At 31 March 2013 our Treasury Management Advisors had recommended new investments were for the following periods:

Bank or Building Society	Country	Investment Time Limit
Santander (UK)	United Kingdom	100 days
Lloyds	United Kingdom	6 Months
Bank of Scotland	United Kingdom	6 Months
Barclays	United Kingdom	12 Months
HSBC	United Kingdom	12 Months
Royal Bank of Scotland	United Kingdom	6 Months
National Westminster Bank	United Kingdom	6 Months
Nationwide Building Society	United Kingdom	12 Months
Standard Chartered	United Kingdom	12 Months
Australia and New Zealand Banking Group	Australia	12 Months
Commonwealth Bank of Australia	Australia	12 Months
National Australia Bank Ltd	Australia	12 Months
Westpac Banking Corporation	Australia	12 Months
Bank of Montreal	Canada	12 Months
Bank of Nova Scotia	Canada	12 Months
Canadian Imperial Bank of Commerce	Canada	12 Months
Royal Bank of Canada	Canada	12 Months
Toronto Dominion Bank	Canada	12 Months
DBS Bank	Singapore	100 days
Overseas Chinese Banking Corporation	Singapore	100 days
United Overseas Bank Ltd	Singapore	100 days

The time limits were relatively short to manage counterparty credit risk (a bank or building society being unable to repay our investment). We also maintained balances in Money Market Funds and Instant Access Accounts to provide for unforeseen cash flow requirements. The average length of investments we made in 2012/13 was **156 days**.

Liquidity

Measuring the performance in relation to liquidity is a much more difficult task and the easiest way to assess performance is to see how frequently we needed to borrow on a temporary basis during the financial year. We are actively managing liquidity risk in 2012/13 by purchasing Certificates of Deposit and Treasury Bills because they can be sold on the secondary market in the event the money is required for unforeseen circumstances. We also have significant sums invested in call accounts and Money Market Funds which provide instant access to cash. Therefore, due to the level of our liquid investments in 2012/13 we did not need to temporarily borrow.

Yield

APPENDIX G

In 2012/13 we achieved an average interest rate of **0.77%** and this compares to our performance indicator of the average 7-day London Inter-bank Bid (LIBID) rate, which was **0.49%**, the 1 month rate was **0.45%**, the 3 month rate was **0.62%** and the 6 month rate was **0.82%**.

Balance Sheet

	2011/12 Actual £	31/03/13 Actual £	2012/13 Budget £	Variance to Budget £
Non Current Assets				
1. Property, Plant and Equipment, Investment Property and Intangibles	47,892,000	48,223,000	50,500,000	(2,277,000)
4. Long Term Debtors	248,000	234,000	227,000	7,000
2. Long Term Investments	0	1,206,000	0	1,206,000
Current Assets				
4. Current Assets	3,289,000	2,723,000	3,289,000	(566,000)
2. Short Term Investments	4,059,000	6,027,000	4,059,000	1,968,000
2. Cash and Cash Equivalents	8,857,000	5,067,000	5,091,267	(24,267)
Current Liabilities				
3. Short Term Borrowing	(3,000)	0	(15,528)	15,528
3. Finance Leases	(504,000)	(229,000)	(304,302)	75,302
4. Short Term Creditors	(6,753,000)	(5,583,000)	(6,662,000)	1,079,000
4. Provisions	(40,000)	(881,000)	0	(881,000)
4. Receipts in Advance	(60,000)	(406,000)	(22,000)	(384,000)
Long Term Liabilities				
3. Long Term Borrowing	(33,000)	0	(784,000)	784,000
3. Finance Leases	(810,000)	(461,000)	(575,366)	114,366
4. Pension Scheme	(25,037,000)	(31,246,000)	(25,037,000)	(6,209,000)
4. Receipts in Advance	(553,803)	(100,000)	(257,803)	157,803
Total Asset Liabilities	£30,551,198	£24,574,000	£29,508,269	(£4,934,269)

Unusable Reserves				
1. Revaluation Reserve	(4,939,000)	(5,613,000)	(4,939,000)	(674,000)
1. Capital Adjustment Account	(41,550,000)	(41,144,000)	(41,891,892)	747,892
4. Deferred Credits	(10,000)	(70,000)	(84,000)	14,000
4. Pension Scheme	25,037,000	31,246,000	25,037,000	6,209,000
4. Benefits Payable During Employment Adjustment Account	296,000	220,000	264,000	(44,000)
5 Collection Fund	8,000	(5,000)	8,000	(13,000)
Usable Reserves				
4. Unapplied Grants and Contributions	(1,269,198)	(1,248,000)	(926,698)	(321,302)
5. Usable Capital Receipts	(1,443,000)	(1,392,000)	(1,070,680)	(321,320)
5. Burntwood Leisure Centre Sinking Fund	(538,000)	(420,000)	(395,000)	(25,000)
5. Burntwood Leisure Centre Synthetic Pitch Sinking Fund	(29,000)	(29,000)	(29,000)	0
5. City Centre Redevelopment Sinking Fund	(25,000)	(25,000)	(25,000)	0
5. King Edwards Leisure Centre Sinking Fund	(31,000)	(17,000)	(31,000)	14,000
5. Lombard Street Car Park Sinking Fund	(34,000)	(34,000)	(44,000)	10,000
5. Elections	(75,000)	(98,000)	(75,000)	(23,000)
5. Promotion of District	0	0	0	0
5. Public Open Spaces	(6,000)	(6,000)	(6,000)	0
5. Three Spires Multi Storey	(1,124,000)	(1,245,000)	(1,280,000)	35,000
5. Building Regulations	0	0	0	0
5. Other Earmarked Reserves	(1,697,000)	(1,684,000)	(1,677,000)	(7,000)
5. Grant Aid - Development	(46,000)	(56,000)	(46,000)	(10,000)
5. General Fund Balance	(3,076,000)	(2,954,000)	(2,297,000)	(657,000)
Total Equity	(£30,551,198)	(£24,574,000)	(£29,508,269)	£4,934,269

Balance Sheet Summary

1. Capital Financing Requirement	1,403,000	1,466,000	3,669,108	(2,203,108)
2. Investments	12,916,000	12,300,000	9,150,267	3,149,733
3. Long Term Borrowing	(1,350,000)	(690,000)	(1,679,195)	989,195
4. Net Creditors	(4,853,000)	(5,111,000)	(4,172,500)	(938,500)
5. Balances and Reserves	(8,116,000)	(7,965,000)	(6,967,680)	(997,320)
Total	£0	£0	£0	£0

Balance Sheet Commentary

The main changes to the budget and its assumptions that impacted on the Balance Sheet are detailed below:

Property, Plant and Equipment

The budgeted Balance Sheet assumed the contribution (excluding retention) related to the Friary Outer Development plus other costs of **£1,899,762** would be made near to the end of 2012/13. However, due to a number of issues around the construction of the car park, this contribution has not yet been made to the Developer. The impact is that the level of property on our Balance Sheet is lower than was planned.

Pensions

The latest valuation of the pension fund took place in 2012/13 and this valuation has resulted in the Pension scheme liability increasing from **£25,037,000** to **£31,246,000**. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

General Fund

The Revenue Budget under spent by **£657,000** and this meant that the General Fund balance was higher than planned.

Investments

The impact of the non payment of the contribution for the Friary Outer Development and the under spend on the revenue budget plus a number of other smaller variances is that the level of our investments at **£12,300,000** was **£3,150,000** higher than budgeted.

Treasury Portfolio

The Balance Sheet can be used to assess the underlying need to borrow (known as the Capital Financing Requirement). The table below shows that we had sufficient balances and reserves to mean we did not need to undertake any long-term borrowing in 2012/13.

31 Mar 2012 Actual £	Details	31 Mar 2013 Original £	31 Mar 2013 Revised £	31 Mar 2013 Final £	31 Mar 2013 Actual £
1,403,000	The amount of our capital spend that is not financed from capital receipts, revenue, grants and contributions (Capital Financing Requirement)	1,145,000	3,669,000	3,669,000	1,466,000
(1,350,000)	Less: current funding provided through finance leases and long term borrowing	(1,145,000)	(879,000)	(879,000)	(690,000)
53,000	Borrowing Need	0	2,790,000	2,790,000	776,000
(8,116,000)	Less: the level of our balances and reserves we currently hold as investments	(5,882,000)	(7,036,000)	(6,968,000)	(7,965,000)
(8,063,000)	Our net borrowing need (a positive figure indicates when we need to borrow)	(5,882,000)	(4,246,000)	(4,178,000)	(7,189,000)

Our current Balance Sheet projections indicate we could continue to follow this strategy for the medium term. However, we will need to constantly review these projections in line with changes to our budgets.

COMPLIANCE WITH PRUDENTIAL INDICATORS 2012/13

1 Background:

There is a requirement under the Local Government Act 2003 for Local Authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008 and issued revised Code in November 2009.

The Council implemented its strategy within the limits and parameters set in its treasury policy, strategy statement and Prudential Indicators against the prevailing market conditions and opportunities as follows:

- (a) Financing its capital spending from government grants / usable capital resources / revenue contributions, etc. rather than from external borrowing.
- (b) Adhering to the paramount requirement of safeguarding the council's invested balances during a period of unprecedented money market dislocation; maintaining adequate diversification between institutions; optimising investment returns subject to the overriding requirement of security and liquidity.
- (d) Forecasting and managing cash flow and undertaking short-term borrowing and lending to preserve the necessary degree of liquidity.

2. Net Borrowing and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Local Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

The Director of Finance, Revenues and Benefits reports that the Authority had no difficulty meeting this requirement in 2012/13. There are there no difficulties envisaged for future years.

3. Estimates of Capital Expenditure (Prudential Indicator 1):

- 3.1 This indicator is set to ensure that the level of proposed Capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Financing	2012/13 Original £	2012/13 Revised £	2012/13 Final £	2012/13 Actual £
Non Current Assets	3,526,000	4,215,000	4,274,000	2,022,000
Revenue Expenditure Funded from Capital under Statute	2,196,000	1,918,000	2,108,000	1,889,000
Total	£5,722,000	£6,133,000	£6,382,000	£3,911,000

- 3.2 This capital expenditure has been financed as follows:

Capital Financing	2012/13 Original £	2012/13 Revised £	2012/13 Final £	2012/13 Actual £
Capital receipts	3,406,000	1,924,000	1,902,000	2,185,000
Burntwood Sinking Fund	151,000	67,000	143,000	119,000
Other Sinking Funds	60,000	0	0	0
Capital Grants and Contributions	1,679,000	1,272,000	1,427,000	999,000
Revenue contributions and earmarked reserves	26,000	56,000	96,000	168,000
Finance Leases / Borrowing	400,000	2,814,000	2,814,000	440,000
Total	£5,722,000	£6,133,000	£6,382,000	£3,911,000

4. Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 2):

4.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Original %	2012/13 Revised %	2012/13 Final %	2012/13 Actual %
General Fund	6	5	5	3
Total	6%	5%	5%	3%

5. Capital Financing Requirement (Prudential Indicator 3):

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

Capital Financing Requirement	2012/13 Original £	2012/13 Revised £	2012/13 Final £	2012/13 Actual £
General Fund	1,145,000	3,669,000	3,669,000	1,466,000
Total	£1,145,000	£3,669,000	£3,669,000	£1,466,000

6. Actual External Debt (Prudential Indicator 4):

6.1 This indicator is obtained directly from the Council's Balance Sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31 March 2013	Short Term £	Long Term £	Total £
Borrowing	0	0	0
Finance Leases	229,000	461,000	690,000
Total	£229,000	£461,000	£690,000

7. Incremental Impact of Capital Investment Decisions (Prudential Indicator 5):

7.1 This is an indicator of affordability that shows the impact of Capital investment decisions on Council Tax levels when the budget for the year was set.

Incremental Impact of Capital Investment Decisions	2012/13 Original £	2012/13 Revised £	2012/13 Final £	2012/13 Actual £
Incremental Impact of Capital Investment Decisions	0.14	0.52	0.52	0.00
Total	£0.14	£0.52	£0.52	£0.00

8. Affordable Borrowing Limit, Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit (Prudential Indicator 6)**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was originally set at **£11,638,000** for 2012/13 and revised to **£12,880,000**.

8.3 **Operational Boundary (Prudential Indicator 7)**: This is limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was originally set at **£2,948,000** and revised to **£3,748,000**.

8.4 Levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was:

Details	£
External Borrowing	36,000
Bank Overdraft	223,000
Other Long Term Liabilities (Finance Leases) (Maximum Outstanding)	1,314,000
Total	£1,573,000

9. Adoption of the CIPFA Treasury Management Code (Prudential Indicator 8):

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 25 February 2003. The Council has incorporated any changes resulting from the CIPFA Treasury Management Code within its treasury policies, practices and procedures.

At its meeting on 21 February 2012 the Council originally approved its Prudential Indicators for 2012/13.

The Prudential Indicators were fully revised and approved by Council on 19 February 2013.

10. Gross Debt (Prudential Indicator 9)

10.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

Gross Debt	2012/13	2012/13	2012/13	2012/13
	Original £	Revised £	Final £	Actual £
Outstanding Borrowing (at nominal value)	(30,000)	(800,000)	(800,000)	0
Other Long-term Liabilities (at nominal value)	(1,115,000)	(880,000)	(880,000)	(690,000)
Gross Debt	(1,145,000)	(1,680,000)	(1,680,000)	(690,000)
Capital Financing Requirement	1,145,000	3,669,000	3,669,000	1,466,000
Is our Gross Debt in excess of our Capital Financing Requirement and are we therefore borrowing in advance of need?	No	No	No	No

11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure (Prudential Indicators 10 and 11):

11.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a gross basis. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

Interest Rate Exposures	2012/13	2012/13	2012/13	2012/13 Actual (during the financial year)		
	Original %	Revised %	Final %	Highest %	Lowest %	Average %
Fixed Interest Rates						
Upper Limit for Fixed Interest Rate Exposure (Investments)	(100)	(100)	(100)	(70)	(30)	(48)
Upper Limit for Fixed Interest Rate Exposure (Borrowing)	100	100	100	100	100	100
Net Fixed Exposure	0%	0%	0%	(30%)	(70%)	(52%)
Variable Interest Rates						
Upper Limit for Variable Rate Exposure (Investments)	(100)	(100)	(100)	(70)	(30)	(52)
Upper Limit for Variable Interest Rate Exposure (Borrowing)	30	30	30	0	0	0
Net Variable Exposure	(70%)	(70%)	(70%)	(70%)	(30%)	(52%)

12. Maturity Structure of Fixed Rate borrowing (Prudential indicator 12):

12.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

12.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit	Actual Borrowing as at 31 March 2013	Percentage of total as at 31 March 2013
	%	%	£	%
Under 12 months	0%	100%	£0	0%
12 months and within 24 months	0%	100%	£0	0%
24 months and within 5 years	0%	100%	£0	0%
5 years and within 10 years	0%	100%	£0	0%
10 years and within 20 years	0%	100%	£0	0%
20 years and within 30 years	0%	100%	£0	0%
30 years and within 40 years	0%	100%	£0	0%
40 years and within 50 years	0%	100%	£0	0%
50 years and above	0%	100%	£0	0%

13. Upper Limit for total principal sums invested over 364 days (Prudential Indicator 13):

13.1 This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2012-13 this limit was originally set at **£1,900,000**. At their peak, these investments totalled **£1,200,000** (£1,206,000 with accumulated interest).

14. Credit Risk (Prudential Indicator 14):

14.1 We consider security, liquidity and yield, in that order, when making investment decisions.

14.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in our assessment of counterparty credit risk.

14.3 We also consider alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

14.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.