

## **Cabinet**

**17 July 2013**

### **2012/13 Final Outturn for General Fund and Housing Revenue Account**



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#### **Report of Corporate Management Team**

**Don McLure, Corporate Director Resources**

**Councillor Alan Napier, Portfolio Holder for Finance**

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#### **Purpose of the Report**

- 1 To provide Cabinet with details of the Final Outturn for both the General Fund and the Housing Revenue Account (HRA) for 2012/13 including an Annual Treasury Management Review. The report will consider both Revenue and Capital.

#### **Background**

- 2 In setting the 2012/13 budget, the Council continued to face unprecedented levels of reductions in Government grants over the current Comprehensive Spending Review (CSR) period to 31 March 2015. The Council's Formula Grant for 2012/13 was £223.2m – a reduction of £17.1m when compared to 2011/12.
- 3 The Council agreed a net revenue budget of £432.58m for 2012/13. Factoring in inflation and other budget pressures required the delivery of £26.6m of savings in 2012/13 in order to deliver a balanced budget.
- 4 Forecast outturn figures based upon information as at 31 December 2012 were reported to Cabinet on 13 March 2013 and at that time it was forecast that there would be an increase in Cash Limit Reserves of £2.130m and an addition to the General Reserve of £2.779m.
- 5 The final outturn for 2012/13 is being determined as part of the production of the Statement of Accounts. During the process of finalising the Statement of Accounts, the Corporate Director Resources will be required to make a number of technical decisions in the best financial interests of the Council. Such decisions will be fully disclosed in the Statement of Accounts.

#### **General Fund Outturn**

- 6 This section of the report shows the following:
  - (i) Cash Limit Outturn for Service Groupings;

- (ii) Overall Revenue Outturn for the General Fund with summarised Service Grouping commentary;
- (iii) Overall Capital Outturn of the General Fund with summarised Service Grouping commentary;

### Cash Limit Outturn

7 The overall outturn for the Council is shown in Appendix 2 and that shows details of how the cash limit outturn for each Service Grouping is calculated. Two key elements have been excluded from the Service Grouping outturn to calculate the cash limit outturn as detailed below:

- (i) Sums Outside the Cash Limit

Some expenditure and Income should be excluded from the Cash Limit for a number of reasons. Some of these are detailed below:

- Items not controlled by the Service Groupings e.g. Capital Charges, Central Administration Recharges and items relating to International Financial Reporting Standards (IFRS).
- Exceptional expenditure pressures which were not accounted for in the service grouping base budget build and which are covered by contingencies or earmarked reserves held corporately e.g. Flooding and additional Winter Maintenance due to exceptional long periods of ice or snow and redundancy costs linked to MTFP savings proposals.

- (ii) Use of or Contribution to Earmarked Reserves

Sums that Service Groupings have utilised or contributed to Earmarked Reserves, have been excluded from their outturn position in order to calculate cash limit position.

8 After taking into account the above exclusions, all Service Groupings have generated a cash limit underspend in 2012/13. The 2012/13 cash limit underspend for each Service Grouping is detailed below:

Service Grouping	Opening Balance as at 1 April 2012	Movement during 2012/13			Closing Balance as at 31 March 2013
		Use of reserve	Contribution to reserve	Transfer to / from Earmarked Reserves	
	£m	£m	£m	£m	£m
Assistant Chief Executive	-1.133	0.456	-0.488	0.000	-1.165
Children and Adults Services	-8.092	2.320	-3.960	0.000	-9.732
Neighbourhoods	-2.205	0.166	-0.419	0.147	-2.311
Regeneration and Economic Development Resources	-2.960	0.100	-0.556	0.000	-3.416
	-1.496	0.000	-1.625	-0.159	-3.280
<b>Total Cash Limit Reserve</b>	<b>-15.886</b>	<b>3.042</b>	<b>-7.048</b>	<b>-0.012</b>	<b>-19.904</b>

## Revenue Outturn

- 9 Appendix 2 provides a detailed Outturn position for the Council's General Fund by Service Grouping. In addition, Appendix 3 provides a detailed Outturn position for the Council by type of expenditure and income. The table below provides a summary of the Final Outturn position:

	<b>£m</b>	<b>£m</b>
Gross Expenditure		1,380.281
Less:		
Gross Income		-953.690
Net Expenditure		426.591
Financed by:		
Council Tax	201.788	
Council Tax Freeze Grant	5.045	
Revenue Support Grant	4.245	
Redistributed Non-Domestic Rates	219.007	
New Homes Bonus	2.344	
LACSEG (Academy Schools Adjustment)	2.145	
Net Contribution to Cash Limit Reserves	-4.018	
Net Contribution from / to (-) Earmarked Reserves:		
Schools and DSG	1.059	
Non-Schools	-2.486	
Net Contribution to the General Reserve	-2.538	
<b>Total Financing</b>		<b>426.591</b>

- 10 The final outturn position for the General Reserve is detailed below:

	<b>£m</b>
Opening Balance as at 1 April 2012	-21.874
Add:	
Net Contribution to the General Reserve in 2012/13	-2.538
<b>Closing General Reserve Balance as at 31 March 2013</b>	<b>-24.412</b>

- 11 The General Reserve balance carried forward is within the Council's General Reserves policy of retaining up to 7.5% of Net Revenue Expenditure (£35m). The position at 31 March 2013 represents 5.2% of 2013/14 Net Revenue Expenditure Budget.

12 The key reasons why the General Reserve has increased are detailed below:

- Local Authority Central Spend Equivalent Grant (LACSEG) income – a £2.145m refund was received from the Department for Education in respect of 2010/11 and 2011/12 LACSEG reductions;
- Interest and Investment income - £2.668m more than budgeted;
- Capital Receipt income from de-minimis asset sales - £0.324m more than budgeted, offset by:
- Interest payable and similar charges - £2.828m more than budgeted

13 Appendix 4 details the use of Earmarked Reserves in 2012/13. The position at the end of the year is as follows:

	<b>Non-Schools</b>	<b>Schools and DSG</b>	<b>Cash Limits</b>	<b>TOTAL</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening Earmarked Reserve Balances as at 1 April 2012	-59.439	-25.100	-15.886	-100.425
Less/Plus Use of / contribution to Earmarked Reserves	-2.486	1.059	-4.018	-5.445
<b>Earmarked Reserve Balance as at 31 March 2013</b>	<b>-61.925</b>	<b>-24.041</b>	<b>-19.904</b>	<b>-105.870</b>

### Service Grouping Commentary

14 A summary from each Service Grouping Outturn follows. Detailed outturn reports will be provided to the relevant Overview and Scrutiny Committees.

### Assistant Chief Executive (ACE)

15 The 2012/13 outturn is a cash limit underspend of £0.488m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserves, year end capital entries and the use of / contributions to earmarked reserves.

16 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.348m.

17 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across ACE to remain within the cash limit. The main reasons for the outturn position are as follows:

- In line with corporate policy employees are budgeted at 97%. As a result of low vacancy levels within the service following restructures (driven by the requirement to meet MTFP savings targets) employee

costs overspent by £21k representing 0.3% of the employees' budget. The overspend in employees has been managed within the service by adjusting planned activity elsewhere within ACE to ensure this overspend is offset.

- The Premises, Transport and Supplies and Services areas of activity are under constant review by managers to minimise spending while still delivering a high level of service and as a result they delivered a £0.315m underspend.
- The Transfer Payments budget underspent by £65k as a result of effectively managing the allocation process of making grants to qualifying bodies.
- Income over recovered by £0.154m. This is primarily related to activity within Partnership and Community Engagement where managers have been able to identify and access additional funding to support additional activity within the AAP areas. Additionally support of the 'Police and Crime Panel' co-ordinated by the Overview and Scrutiny function and additional income achieved by the County Records Office also contributed to the over recovery.
- Each of the 14 area action partnerships (AAP) have an 'Area' budget to contribute to local projects of £0.120m in 2012/13. Combined with revenue budgets carried forward from previous years (related to committed expenditure on agreed projects) the total revenue budget across all 14 AAP's was £2.370m. £1.413m was expended in 2012/13, with the remaining £0.957m committed to projects in 2013/14 by 31 March 2013.
- Each elected member manages a 'Member's Neighbourhood budget' of £25k for priorities in their local AAP areas made up of £15k revenue budget and £10k capital. The revenue funding element has been reduced by £5k per member in 2013/14. Prior to 2012/13 all underspends on these budgets have been carried forward, however due to the Local Elections on 2 May 2013, only committed budgets have been carried forward into 2013/14.
- In 2012/13, the Members' Neighbourhood revenue budget, including sums carried forward from the previous year, totalled £3.495m. Expenditure in 2012/13 was £1.096m however, £2.393m was committed to schemes and members initiatives prior to 31 March 2013 and has therefore been carried forward.
- The Members Initiative Fund outturn was £0.316m which comprises the £0.252m budget for 2012/13 together with £64k of budget carried forward from 2011/12.

18 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the outturn in arriving at the cash limit outturn position:

- £1.233m of capital charges over and above the budget;
  - £17k in respect of repairs and maintenance which is managed centrally;
  - £0.422m in respect of central admin recharges;
  - £36k in respect of design service recharges which is managed centrally;
  - £45k in respect of customer services recharges.
  - £40k in respect of unfunded pensions costs;
  - £2k in respect of staff pay accrued for holidays.
- 19 A range of transfers to and from earmarked reserves held corporately and within ACE have been excluded in arriving at the cash limit outturn:
- £45k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
  - £17k use of the Insurance Reserve to meet corporate insurance costs in excess of the budget;
  - £64k use of the Members Initiative Fund Reserve
  - £0.644m contribution to the AAP Members Reserve.
  - £1.348m contribution to the Members Neighbourhoods Reserve.
- 20 Taking the final outturn position into account, including items proposed to be treated as outside the cash limit, transfers to and from earmarked reserves, the Cash Limit Reserve to be carried forward for ACE is £1.165m.

### **Children and Adults Services (CAS)**

- 21 The 2012/13 outturn for Children and Adults Services (CAS) is a cash limit underspend of £3.960m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from strategic reserves, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 22 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £2.890m.
- 23 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across CAS to remain within the cash limit. The main reasons accounting for the outturn position are as follows:
- Early achievement of a number of future year MTFP management and support service proposals, together with the careful management and control of vacancies and general budgets across the service has created a net underspend for the year from former Adults, Wellbeing and Health services of £2.92m.

- Net spend on adult care packages was £3.2m below budget. This area of spend is closely monitored to assess the impact of demographic changes. Savings have arisen from consistent and effective application of the existing eligibility criteria, reducing the level of care packages subsequently commissioned. The service is reviewing its approach to current savings in order to consider increasing the saving associated with consistent application of eligibility criteria. This will need to be carefully considered in light of transition cases, potential for ordinary residence claims and the potential for increased care package costs linked to older carers and general increases in demand.
- CAS managers have reviewed plans in respect of available one-off additional funding, which has created an in-year contribution to the cash limit of £1.12m. It is anticipated that this funding will be utilised in part to resource the work associated with the outcomes of the LGA efficiency review work linked to the transformation agenda in social care for children and adults.
- To assist in the management of the demographic pressures facing the service over the MTFP period, the service targeted a planned underspend for 2012/13, repeating the approach applied in previous years, and a further contribution of £4.5m to the reserve for demographic pressures/hyperinflation has been actioned during the year.
- Children's Care overspent by a net £1.24m. This service experienced an overspend on independent foster agency and fostering related allowances (£1.74m), which reflects the higher than budgeted number of referrals and caseloads, particularly in the first half of 2012/13, and overspends due to transport costs (£0.41m) to fund contact visits ordered by the courts, together with excess school travel costs and car allowances. Managed underspends on employees (£0.78m) and additional income from Health to fund placements (£0.25m) have helped to partially mitigate the position in year. A Looked After Children (LAC) Strategy is now in place and, together with base budget realignment within CAS and falling numbers of LAC in quarter 4, the 2013/14 budget position is considered more sustainable.
- Home to School and college transport has overspent by £0.62m in 2012/13. This is a timing issue linked to the rollout of the policy changes implemented from September 2012. Whilst the policy changes will deliver the MTFP requirements in totality, the profiling of the savings will not be in line with the original MTFP assumptions and base budget adjustments have been actioned in 2013/14.
- A number of savings across Achievement, Countywide and Early Intervention and Partnership Services (£2.35m) mainly relating to employee related spend through vacancies and the early achievement of MTFP savings and reduced supplies and services expenditure.

- There is also an improved position on bad debts of £0.7m mainly due to the clearing of outstanding debts relating to local Primary Care Trusts.
- 24 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit at year end:
- £96k transfer to the Continuous Professional Development Reserve, relating to the trading account surplus at the year end.
  - a reserve of £0.942m has been created for Tackling Troubled Families which reflects the unspent grant in 2012/13 to fund planned commitments in 2013/14.
  - an amount of £1.589m has been added to the Social Care Reserve from available one-off balances to help support the transformation agenda
  - a number of reserves totaling £0.904m which were planned to be used in 2012/13 but which spend will now be incurred in 2013/14 have been carried forward at year end; and
  - MTFP related redundancy costs of £0.562m have been funded through the use of the corporate reserve set up for this purpose.
- 25 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Children and Adults Services is £9.732m. There is pre-committed planned use of this reserve of £5.041m across the MTFP 3 period.

### **Dedicated Schools Grant**

- 26 The Dedicated Schools Grant (DSG) allocation for 2012/13 was £342.05m, however due to schools converting to academies the budget was reduced by £64.107m in year to £277.943m. This includes both the delegated schools budget and the centrally retained DSG budget.
- 27 The total revised delegated budget for maintained schools was £257.7m and net expenditure for the year was £257.6m.
- 28 Where schools spent more than their delegated budgets, the overspend reduces their accumulated balance. Schools related balances were £19.418m at 31 March 2013, a reduction of £1.472m from the previous year. There has been a reluctance to commit funds due to the freeze on inflation within school budgets and until the impact of the School Funding Reforms, particularly the National Funding Formula from April 2015, becomes clearer.
- 29 The level of school balances is being closely monitored and managed, particularly those schools with a deficit balance and robust arrangements have been put in to place to monitor these in parallel with budget plans given the additional risks from schools that could potentially become a sponsored academy.
- 30 In 2013/14 and beyond there will be greater scrutiny and challenge being put to schools budget plans to identify and address areas of concern and risk to



the Council. Whilst the vast majority of schools are well managed and financially sound, termly updates will now be required from all maintained schools on their projections for the year, with reports also provided to School Governors. The Council will work constructively with schools to address any concerns and where appropriate take action to ensure the risk to the School and the Council is mitigated.

- 31 At 31 March 2013 there are 15 schools with a deficit balance carried forward totalling £0.46m, 25 schools holding a balance less than 2.5% of their overall funding and 220 schools with balances of more than 2.5% of their overall funding.
- 32 The pressure areas for the centrally controlled element of the DSG in 2012/13 have been within Education Other than at School, placements in independent special schools and school redundancy costs. This has been offset by underspends within the Access and Inclusion, Learning Support Service and capitalised repair and maintenance.
- 33 The overall outturn position for the centrally retained element of the DSG shows an underspend of £0.413m, which has been carried forward to support spend and budget pressures in 2013/14.

### **Neighbourhood Services**

- 34 The 2012/13 outturn for Neighbourhood Services is a cash limit underspend of £0.419m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year-end capital accounting entries and use of / contributions to earmarked reserves.
- 35 The cash limit outturn position compares to the previously forecast position of a cash limit overspend of £0.142m.
- 36 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across Neighbourhoods to bring spend within the cash limit, having previously forecast an overspend position. The main reasons accounting for the outturn position are as follows:
  - There was a shortfall of £1.4m in the surplus generated within Highways Services. This was primarily due to reduced levels of workload across the year. Progress is currently being made to downsize the workforce in order to align it with a more sustainable level of income for 2013/14.
  - There was an overspend of £0.3m within Direct Services due a fall in the projected income from the sale of dry recyclates due to falling market prices.
  - In order to mitigate against previously identified overspends Neighbourhoods Management Team instigated an exercise to further identify areas of the budget where costs could be saved on a one-off basis within the service, and as a result an underspend of

approximately £0.700m was achieved on supplies and services across all areas of Neighbourhood Services.

- There was also an underspend of £1.0m within Strategic Waste, associated with savings from reduced levels of waste being generated, principally due to the economic climate, and the introduction of Alternate Weekly Collections, which increased diversion from landfill by more than was forecast.
- Finally, there was an underspend of approximately £0.400m within the service associated with both the Environment, Health and Consumer Protection service and Projects and Business Services where a number of planned MTFP savings from 2013/14 have been achieved early.

37 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:

- An additional overspend on Winter Maintenance activities of £0.311m
- Other sums outside the cash limit include costs in respect of capital accounting entries, and central administration recharges.

38 In addition, the Service is making a net contribution to earmarked reserves of £0.545m:

- £0.424m relates to a contribution to earmarked reserves in respect of Culture and Sport,
- £0.698m relates to a contribution to earmarked reserves in respect of Highways and Waste Disposal,
- £1.609m relates to a contribution to earmarked reserves in respect of Buildings and Grounds Maintenance, and Street Cleaning,
- £0.294m relates to a contribution to earmarked reserves for Environmental Health, and
- £0.110m relates to a contribution to earmarked reserves for Customer Services.
- Neighbourhoods have utilised £0.404m in respect of additional ER/VR costs, and £2.186m for additional Insurance charges. Both these sums are funded corporately from earmarked reserves held centrally

39 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Neighbourhood Services is £2.311m.

### **Regeneration and Economic Development (RED)**

40 The 2012/13 outturn for Regeneration and Economic Development is a cash limit underspend of £0.556m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from an earmarked reserve, year end capital accounting entries and use of contributions to earmarked reserves.

- 41 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £0.615m.
- 42 The underspend is a managed position, reflecting the proactive management of activity by Heads of Service across RED to remain within the cash limit. The main reasons accounting for the outturn position is as follows:
- Strategy Programmes and Performance - £0.121m saving due to the freezing of vacant posts and other general efficiency savings on Supplies and Services.
  - Economic Development and Housing - £0.117m underspend primarily due to savings on employee costs resulting from vacant posts, maternity leave and other general efficiency savings.
  - Planning and Assets - £0.490m underspend which is broken down into a £0.526m underspend in the Planning service and a £0.036m overspend on Assets. Building control income was lower than budget by £0.295m although planning fee income was higher and is offsetting this budget pressure. The underspend in the Planning Service results from vacant posts and other efficiency savings on Transport, Supplies and Services.
  - There were income pressures within the Assets Service, mainly from Newgate Street in Bishop Auckland, the Brackenhill Centre, Peterlee and Millenium Square in Durham City where rental income targets were not achieved.
  - Transport - £0.201m overspend which is primarily due to the non-realisation of budgeted vacancy savings and additional costs incurred for agency staff to cover for sickness on statutory duties. In addition there was a shortfall in anticipated income resulting from a delay in the implementation of Civil Parking in the South and loss of car parking income due to bad weather in the latter part of the financial year.
  - Central Costs - £29k underspend due to a rebate from Commensura, who manage our agency recruitment process, plus other general efficiency savings
- 43 Further to the quarter 3 forecast outturn report, the following items have been excluded from the outturn in arriving at the cash limit:
- £1.295m – relates to contributions to and from earmarked reserves and cash limits to support specific projects in 2013/14
  - -£3.113m – relates to a range of adjustments associated with capital charges, centralised repairs and maintenance, central administration and concessionary fares.
- 44 Taking the outturn position into account, the Cash Limit Reserve to be carried forward for Regeneration and Economic Development is £3.416m.

## Resources

- 45 The 2012/13 outturn for Resources is a cash limit underspend of £1.625m. This takes into account adjustments for sums outside the cash limit such as redundancy costs which are met from the strategic reserves, year end capital accounting entries and use of / contributions to earmarked reserves.
- 46 The cash limit outturn position compares to the previously forecast position of a cash limit underspend of £1.361m.
- 47 The main reasons accounting for the final outturn position are as follows:
- Employee costs underspent by £1.639m, which is primarily as a result of the planned early achievement of 2013/14 MTFP saving requirements linked to the unitisation of Finance and Human Resources. Proactive management of vacancies within Legal and Democratic Services, Internal Audit and ICT is intended to minimise the cost and disruption of restructures planned for 2013/14. The restructures linked to unitisation achieved the 2013/14 MTFP savings requirements and after accounting for transition contributed significantly to the underspend in 2012/13.
  - Premises costs are marginally underspent by £0.027m. The underspend is due mainly to reduced spend on general repairs and maintenance.
  - Transport costs underspent by £0.267m. This is due to lower than anticipated spend on car allowances across the Service.
  - Supplies and Services costs overspent by £0.920m. Contributing to the overspend are costs in Finance associated with the introduction of Hyperion and Business Intelligence budgeting tools and the cost of outsourced work packages in respect of the Housing Benefits Service.
  - Central Support and Capital is overspent by £0.209m. This is as a result of funding capital expenditure on ICT data centres, vehicles and printing equipment.
  - Income is over recovered by £0.808m. This is primarily due to an increase in court fee income within the Council Tax and Business Rates Service of £0.427m. There was also an over recovery of income in Legal Services, Corporate Finance and Financial Services.
- 48 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the the outturn in arriving at cash limit:
- £1.242m of capital charges over and above the budget;
  - £5k in respect of repairs and maintenance which is managed centrally;
  - £1.569m in respect of central admin recharges;
  - £5k in respect of corporate and democratic core recharges;
  - £9k in respect of customer services recharges;

- £0.202m of costs in respect of the Coroners Service;
- £5k in respect of the single persons discount review in Revenues and Benefits;
- £0.204m of the bad debt provision charge relating to expenditure incurred on the building in Newgate Street Bishop Auckland (the "Mothercare Building");
- £2k for the provision of backdating successful job evaluation appeals.
- £0.324m for capital receipts less than £10k;
- £18k in respect of staff pay for accrued holidays.
- £22k in respect of unfunded pensions.
- £6k in respect of equal pay provision.

49 A range of transfers to and from earmarked reserves held corporately and within Resources have been excluded the outturn in arriving at the cash limit position:

- £31k use of the MTFP Redundancy and Early Retirement Reserve connected with MTFP linked restructuring exercises;
- £54k use of the Equal Pay Reserve to fund the implementation of the Job Evaluation exercise;
- £1.654m use of the Insurance Reserve to meet the costs of insurance;
- £0.100m contribution to the Revenues and Benefits CIVICA Development Reserve;
- A further contribution of £0.321m to the Corporate Procurement Reserve;
- A contribution of £0.479m to the Housing Benefit Subsidy Reserve;
- £91k contribution to the Discretionary Housing Payments Reserve;
- £0.350m contribution to the Oracle Development Reserve to pay for the implementation of Oracle Release 12;
- £80k to the ICT Mobile Infrastructure Reserve;
- £0.400m to the ICT Trading Account Reserve.
- £16k contribution to the DWP Welfare Assistance Reserve.

50 Taking the final outturn position into account, the Cash Limit Reserve to be carried forward for Resources is £3.280m.

### **Resources - Centrally Allocated Costs**

51 The 2012/13 outturn for Resources – Centrally Allocated Costs is an underspend of £80k. The outturn has been adjusted to take into account the removal of sums outside the cash limit in respect of Central Administration recharges.

- 52 The outturn position compares to the previously forecast position of an underspend of £64k.
- 53 The main reasons accounting for the final outturn position are as follows:
- Supplies and Services underspent by £0.106m primarily due to an underspend on audit fees.
  - Income is under recovered by £26k from the VAT sharing arrangement with North Star Housing Group.
- 54 Further to the quarter 3 forecast of outturn report, the following items have been excluded from the cash limit:
- £1.561m in respect of central admin recharges.

## **Central Budgets**

### **Interest Payable and Similar Charges**

- 55 The Revenue Summary at Appendix 2 shows a £2.828m overspend at year end against this heading. In-year savings of £9.385m, due to lower than forecast interest rates on loans and delayed borrowing decisions due to higher levels of cash balances than forecast, have been used to offset the cost of borrowing utilised to support the capital programme.

### **Interest and Investment Income**

- 56 There has been an overachievement of investment income of £2.668m which is due to the higher than anticipated levels of cash balances held during 2012/13. This is due in the main to lower than expected use of reserves and re-profiling of capital expenditure originally anticipated to be expended in 2012/13. In addition, £0.299m in respect of the interest has been accounted for on the loan to Newcastle International Airport Limited (NIAL) and £0.230m received for granting permission to Copenhagen Airport for the sale of their shares in the Airport.

### **Local Authority Central Spend Equivalent Grant (LACSEG) Fund**

- 57 Following a successful legal challenge, the Council received an amount of £0.646m in 2012/13 in respect of the Government's top slice of the LACSEG grant to fund new academy schools in 2011/12 which was proven to have been 'illegal'. This payment will be used to offset any redundancy costs associated with downsizing of 'centrally managed' Behavioural Support Services, following the decision by the Schools Forum on 15 October 2012 not to 'de-delegate' Dedicated School Grant to fund these pan-county strategic services from 1 April 2013. At present the payment has been added to the Council's general reserves and future reports will detail the redundancy costs as they become known.

- 58 In addition, a further £1.499m was received in May 2013 relating to the year ended 31 March 2013 in respect of the Government's top slice of the LACSEG grant in 2012/13.

### **Durham County Waste Management Company**

- 59 The Durham County Waste Management Company (and its subsidiary Premier Waste Management) entered into a Company Voluntary Arrangement (CVA) on 12 February 2013 as part of a managed liquidation of the company from 1 June 2013. This follows the Council's decision to re-let its Waste Disposal and Treatment contracts from that date.
- 60 The company was unable to submit a bid for the new contract and, having explored a range of options, resolved that it was in the best interest of its creditors to wind up the company.
- 61 As part of agreeing the CVA, the Council made a number of financial concessions, which were necessary to ensure continuity of service provision (access to Transfer Stations; Household Waste Recycling Centres etc.) to 31 May 2013. As part of these concessions, the Council has waived its right to a claim against the liquidator for a dividend distribution linked to an outstanding loan obligation for the funding of one of the now demolished anaerobic digesters. The balance on the loan that has been written off is £0.797m.
- 62 The Council's concession was fundamental to the successful delivery of the CVA and continuity of service was maintained. The new waste Contract commenced 1 June 2013 and will deliver significant savings for the Council going forward.

### **2012/13 Capital Outturn**

#### **Capital**

#### **Background**

- 63 The General Fund (GF) capital budget for 2012/13 approved by Council in February 2012 was £197.436m. Spend originally planned in the 2011/12 capital programme was re-profiled into 2012/13. This amounted to £32.214m and was approved by Cabinet on 11 July 2012.
- 64 During the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. This included consideration of requests for re-profiling at year end once the outturn position was known. The recommendations following the MOWG review are included in this report.
- 65 The following table summarises the original budget and revisions reported through and agreed by MOWG, which were approved by Cabinet on 6 February 2013 as well as the outturn position for each service. The table also details the request for budget to be carried forward, which was approved at the Member Officers Working Group held on 14 May 2013.

## General Fund Capital Programme 2012/13

Service	Revised 2012/13 Budget	2012/13 Outturn	Structural Maintenance outturn adjustment	Other amendments to Service Outturn	Total Revised outturn	Variance		Budget carried forward
	£m	£m	£m	£m	£m	£m	%	£m
Assistant Chief Executives	1.867	1.422	-0.043	0.122	1.501	-0.366	-19.6	0.367
Children and Adults Services	70.041	57.248	-1.559	-	55.689	-14.352	-20.5	14.989
Neighbourhoods Regeneration and Economic Development	26.403	24.572	-3.666	-0.080	20.826	-5.577	-21.1	5.673
Resources	40.521	30.997	5.272	-0.042	36.227	-4.294	-10.6	4.996
Other	4.582	2.847	-0.004	-	2.843	-1.739	-38.0	1.916
	9.540	-	-	-	-	-9.540	-	-
<b>Total</b>	<b>152.954</b>	<b>117.086</b>	<b>0.000</b>	<b>0.000</b>	<b>117.086</b>	<b>-35.868</b>	<b>-23.5</b>	<b>27.941</b>

- 66 In addition to underspends against schemes that are being requested to carry forward into 2013/14, the variances in the table above also include overspends that are due to accelerated spending, where 2013/14 budgets will be adjusted accordingly, and also overspends that are being financed from additional funding that was received after the revised capital budget was approved by the Council in February 2012.
- 67 The Capital Programme is financed via various funding sources including grants, capital receipts; revenue contributions; contributions from reserves and borrowing. The financing of the 2012/13 Outturn is detailed in the table below.

### Financing – General Fund Capital Programme 2012/13

Financed by	2012/13 Outturn
	£m
Grants	63.354
Reserves	2.743
Direct Revenue Financing	
DSG	1.992
Other	11.150
Capital Receipts	8.154
Borrowing	29.693
<b>Total</b>	<b>117.086</b>

### Service Grouping Commentary

- 68 The Capital Member Officer Working Group has approved the outturn against the agreed programme on a scheme by scheme basis for each service grouping. Reasons for any slippage and necessary reprofiling have been thoroughly challenged. A summary of the Capital Outturn for each Service Grouping is shown below:



### **Assistant Chief Executive (ACE)**

- 69 The 2012/13 outturn capital spend for ACE was £1.501m, against the revised budget of £1.867m, a £0.366m underspend for the year.
- 70 Included in the capital outturn position is overspending resulting from the accelerated delivery of schemes that span the 2012/13 - 2013/14 financial years. A £0.010m overspend on Community Buildings in 2012/13 is a profiling issue and has been managed by reducing the 2013/14 budget.
- 71 Planned and budgeted capital expenditure of £0.377m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

### **Children and Adults Services (CAS)**

- 72 The 2012/13 outturn capital spend for Children and Adults Services was £55.689m, against a revised budget of £70.041m, a £14.352m underspend for the year.
- 73 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £2.213m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £1.482m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 74 Planned and budgeted capital expenditure of £16.470m will be reprofiled into 2013/14 and budgets adjusted accordingly.

### **Neighbourhood Services**

- 75 The 2012/13 outturn capital spend for Neighbourhood Services was £20.826m, against a revised budget of £26.403m, a £5.577m underspend for the year.
- 76 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.670m and accelerated spend of £79k that have been financed by reducing 2013/14 budget.
- 77 Planned and budgeted capital expenditure of £5.752m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.
- 78 In addition, unspent Neighbourhood's capital budgets of £0.925m were released back to capital contingencies.

### **Regeneration and Economic Development (RED)**

- 79 The 2012/13 outturn capital spend for Regeneration and Economic Development was £36.227m, against a quarter 3 revised budget of £40.522m a £4.295m underspend for the year.

- 80 The RED capital budget was revised at quarter 3 to include £9.385m for the refinancing of the Newcastle International Airport Limited loan which was approved by Cabinet on 13 March 2013. Further information has recently been received and following a review of accounting regulations, the refinancing of the loan is no longer to be classified as capital expenditure and is now being accounted for as a long term debtor, which means the revised budget is no longer required. For presentation purposes this budget is shown in 'Other' on the table under paragraph 65.
- 81 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.700m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £0.954m. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 82 Planned and budgeted capital expenditure of £5.949m will be re-profiled into 2013/14 and budgets adjusted in year accordingly.

### **Resources**

- 83 The 2012/13 outturn capital spend for Resources was £2.843m, against a revised budget of £4.582m, a £1.739m underspend for the year.
- 84 Included in the capital outturn position is overspending on schemes financed by additional capital grants and contributions that were not included in the budget of £0.178m and accelerated spend on 2013/14 schemes that have been brought forward and commenced in quarter 4 of £76k. The 2013/14 capital budgets will be adjusted in quarter 1 2013/14 to reflect this.
- 85 Planned and budgeted capital expenditure of £1.992m will be reprofiled into 2013/14 and budgets adjusted in year accordingly.

### **Housing Revenue Account (HRA) – 2012/13 Revenue and Capital Outturn**

#### **Revenue Outturn**

- 86 Appendix 5 details the outturn position on the HRA showing the actual position compared with the original budget. In summary it identifies a surplus outturn position on the revenue account of £24k alongside a balance on the general HRA reserve of £7.155m. The following table summarises the position:

Housing Revenue Account	2012/13 Budget	2012/13 Outturn	Variance
	£m	£m	£m
<b>Income</b>			
Dwelling Rents	-60.115	-60.173	-0.058
Other Income	-1.350	-1.546	-0.196
Interest and Investment Income	-0.114	-0.266	-0.152
<b>Total Income</b>	<b>-61.579</b>	<b>-61.985</b>	<b>-0.406</b>
<b>Expenditure</b>			
ALMO Fees	17.266	17.266	0
Repairs, Supervision and Management Costs	11.975	11.964	-0.011
Negative Subsidy Payment to CLG	0	-0.094	-0.094
Depreciation	15.510	7.851	-7.659
Interest Payable	12.234	11.303	-0.931
Revenue Contribution to Capital Programme	4.570	13.671	9.101
<b>Total Expenditure</b>	<b>61.555</b>	<b>61.961</b>	<b>0.406</b>
<b>2012/13 Surplus transferred to balances</b>	<b>-0.024</b>	<b>-0.024</b>	<b>0</b>

87 The HRA outturn showed a surplus position on the revenue account alongside a balance on the general HRA reserve of **£7.155m**. The main variances detailed in Appendix 5, are explained below:

- a) **Dwelling Rents £58k additional income** – overall rental income was in line with the budget with a slightly lower than anticipated void rate;
- b) **Charges for Services and Facilities £22k additional income** – primarily resulting from the enhanced management of Communal Halls within the Durham City area;
- c) **Contributions towards Expenditure £0.163m additional income** – resulting from additional water rates collection commission, furniture pack administration service charge and right to buy administration allowance;
- d) **Repairs and Maintenance £0.536m overspend** – arising from an improved increased cost per void as a result of the implementation of the lettable standard scheme. An overspend is being incurred as a result of problems encountered with specific gas boilers purchased prior to LGR, which are now out of warranty. Adverse weather conditions also resulted in additional repairs being carried out in 2012/13;
- e) **Supervision and Management £36k underspend** – a small underspend in overall terms. This is partly off-set by an overspend on customer services recharges of £100k and additional expenditure on the housing stock options process;

- f) **HRA Subsidy £94k underspend** – relates to a refund due to the Council resulting from Housing Subsidy payments made to the CLG in 2011/12;
- g) **Depreciation £7.659m underspend** – under HRA Self Financing Local Authorities can no longer use the Major Repairs Allowance as proxy for depreciation. Underspends on depreciation reduce the finance available to finance the HRA Capital Programme and as such an increased revenue contribution is required;
- h) **Bad Debt Provision £0.514m underspend** – this is due to lower than anticipated rent arrears at the year end;
- i) **Interest Payments £0.931m underspend** – this results from a lower interest rate achieved and lower overall level of debt;
- j) **Revenue Support to Capital £9.101m overspend** – this is the balancing item on the HRA, which identifies the potential resources available to support the capital programme and reduce reliance on borrowing.
- k) **Interest and Investment Income £0.152m additional income** – this results from an increase in the value of Investment Properties held in the HRA (such as shops).

88 The final position on HRA general and earmarked reserves as at 31 March 2013 is as follows:

- Stock Options Reserve - £0.500m
- Durham City Homes Improvement Plan - £0.650m
- HRA Reserve - £7.154m

### **Capital Outturn**

89 The Housing Revenue Account (HRA) capital budget was set at £44.854m with re-profiling of £1.465m from 2011/12 to 2012/13 agreed by Cabinet on 11 July 2012.

90 The following table summarises the original budget and revisions reported through and agreed by MOWG, which were approved by Cabinet on 6 February 2013, as well as the outturn position for the HRA Capital Programme. The table also details the request for budget to be carried forward which was approved at the Member Officers Working Group held on 14 May 2013.

## Housing Revenue Account Capital Programme 2012/13

Service	Revised 2012/13 Budget	2012/13 Outturn	Variance		Budget carried forward
	£m	£m	£m	%	£m
HRA	45.474	43.919	-1.555	-3.4	0.958
<b>Total</b>	<b>45.474</b>	<b>43.919</b>	<b>-1.555</b>	<b>-3.4</b>	<b>0.958</b>

- 91 The following table summarises the recommended financing of the HRA capital programme spend in 2012/13:

### Financing – Housing Revenue Account Capital Programme 2012/13

Financed by	2012/13 Outturn
Grants	13.088
Reserves	2.000
Direct Revenue Financing	13.671
Capital Receipts	0.960
Major Repairs Allowance	7.692
Borrowing	6.508
<b>Total</b>	<b>43.919</b>

- 92 The 2012/13 outturn capital expenditure was £43.919m against a revised budget of £45.474m, a £1.555m underspend for the year.
- 93 The majority of the underspend (£0.930m) relates to underspending in Durham City Homes, which has achieved significant procurement efficiencies in year. This underspend has been re-profiled into 2013/14, to enable the improvement of dwellings in the Durham City area to be continued.
- 94 The HRA programme has been enhanced by £13m of Homes and Communities Agency Decent Homes Backlog Grant funding, with £12m being used in the East Durham Homes area.
- 95 During the year, 3,439 properties were been brought up to the Decent Homes standard.

## Annual Treasury Management Review

### Executive Summary

- 96 Treasury Management is the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. It is concerned with how the Council manages its cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk against return on investment.
- 97 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would not rise until quarter 4 of 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU).
- 98 The UK Coalition Government maintained its tight fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Moody's followed up this warning by actually downgrading the rating to AA+ in February 2013 and Fitch then placed their rating on negative watch, after the Budget statement in March 2013. Key to retaining the AAA rating from Fitch and Standard and Poors will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within a reasonable timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 of 2016.
- 99 The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with EU 'bailouts' after difficult and fraught negotiations.
- 100 Gilt yields oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of quantitative easing (QE) in July and widely expected further QE still to come, combined to keep Public Works Loan Board (PWLB) rates depressed for much of the year at historically very low levels.
- 101 The Government's 'Funding for Lending' Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the European Central Bank (ECB) statement in July that it would do "whatever it

takes” to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

### Treasury Position

102 The Treasury position at the beginning and end of 2012/13 is shown in the table below:

	31-Mar-12	Rate/ Return	Average Life	31-Mar-13	Rate/ Return	Average Life
	£m	%	yrs	£m	%	yrs
<b>Total Debt</b>	418	5.03		440	4.61	
<b>Capital Financing Requirement (CFR)</b>	579			605		
<b>Over / (-) Under Borrowing</b>	-161			-165		
<b>Total Investments</b>	144	1.1	0.3	112	1.72	0.3
<b>Net Debt</b>	274			328		

103 Investments decreased by £32m across the period, reflecting an outflow of cash from the Council, however by identifying core cash levels that could be invested in longer dated deposits it was possible to improve the average rate earned on those balances by 0.62%.

104 The Council’s underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

105 In addition, another £30m of loans was taken from the Public Works Loans Board (PWLB) during the year. This enabled the Council to take advantage of historically low interest rates and to maintain its under-borrowed position at a manageable level.

### Capital Expenditure and Financing

106 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants or revenue contributions), which has no resultant impact on the Council’s borrowing need, or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

- 107 Actual capital expenditure forms one of the required prudential indicators. The table below shows actual capital expenditure and how this was financed.

	2011/12 Actual	2012/13 Estimate	2012/13 Actual
	£m	£m	£m
Non-HRA Capital Expenditure	143.77	152.96	111.99
Non-HRA PFI and Finance Lease	2.75	-	5.09
HRA Capital Expenditure	41.73	45.47	43.92
HRA Self-Financing	52.89	-	-
<b>Total capital expenditure</b>	<b>241.14</b>	<b>198.43</b>	<b>161.00</b>
Resourced by:			
Capital receipts	9.46	20.34	9.11
Capital grants	95.42	78.19	76.44
Capital reserves	11.70	18.04	7.69
Revenue	15.63	18.68	31.56
<b>Unfinanced capital expenditure</b>	<b>108.93</b>	<b>63.18</b>	<b>36.20</b>

### Overall Borrowing Need

- 108 The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2012/13 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 109 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Corporate Director Resources' treasury management group organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.
- 110 This may be sourced through borrowing from external bodies (such as the Government, through the PWLB or the money markets), or utilising temporary cash resources within the Council.
- 111 The Council's (non HRA) underlying borrowing need known as its capital finance requirement (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR).
- 112 The Council's 2012/13 MRP Policy, as required by the Department of Communities and Local Government (CLG) guidance was approved as part of the Treasury Management Strategy Report for 2012/13 on 22 February 2012.



- 113 The Council's CFR for the year is shown below, and represents a key prudential indicator.

<b>CFR</b>	<b>31-Mar-12 Actual</b>	<b>31-Mar-13 Estimate</b>	<b>31-Mar-13 Actual</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Opening balance	484.646	579.135	579.135
Add unfinanced capital expenditure (as above)	108.943	64.504	41.293
Less MRP/VRP	-14.454	-14.995	-15.600
<b>Closing balance</b>	<b>579.135</b>	<b>628.645</b>	<b>604.828</b>

- 114 The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure.
- 115 The authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
- 116 The table below demonstrates that during 2012/13 the Council has maintained gross borrowing within its authorised limit.
- 117 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	<b>2012/13 £m</b>
Authorised limit	682.000
Operational boundary	629.000
Average gross borrowing position	435.703

### **Investment Strategy**

- 118 The prime objective of the Council's Investment Strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance. The Council has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

119 Therefore the primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

### **Selection Criteria**

120 The criteria for providing a pool of high quality investment counterparties are:

1. Banks 1 – the Council's strategy requires the use of UK banks only which have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poors</b>
Short Term	F1	P1	A-1
Long Term	A	A2	A
Viability/Financial Strength	bb-	C1	-
Support	3	-	-

2. Banks 2 - Part nationalised UK banks – Lloyds Bank and Royal Bank of Scotland. These banks are included so long as they continue to be part nationalised or they meet the ratings in Banks 1 above.

3. Banks 3 – Co-operative Bank - The Council's own banker for transactional purposes. If the bank falls below the above criteria balances will be minimised in both monetary size and time.

4. Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

5. Building societies. The Council only use building societies which meet the ratings for banks outlined above.

6. Money Market Funds.

7. UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility).

8. Local authorities and parish councils.

## Time and Monetary Limits applying to Investments

121 The time and monetary limits for institutions on the Council's Counterparty List are as follows:

	<b>Long Term Rating</b>	<b>Money Limit</b>	<b>Time Limit</b>
Banks 1 category high quality	AA	£50m	1 year
Banks 1 category medium quality	A	£25m	3 months
Banks 2 category – part-nationalised	n/a	£60m	1 year
Banks 3 category – Council's banker	A-	£25m	3 months
DMADF/Treasury Bills	AAA	unlimited	6 months
Local Authorities	n/a	£10m each	1 year
Money Market Funds	AAA	£10m each (overall £50m)	liquid

### Amendments to Limits

- 122 In June 2012 the Corporate Director Resources, in consultation with the Cabinet Portfolio Holder for Resources, has increased the monetary limit for the 'Banks 2' category from £50m to £60m.
- 123 With widespread and multiple downgrades of the ratings of many banks and sovereigns, continued Eurozone concerns, and the significant funding issues still faced by many financial institutions access to high quality counterparties is becoming restricted and this change will enable the Council to place additional funds with part-nationalised UK banks.
- 124 In order to provide more flexibility to act in such circumstances, the power to amend counterparty monetary and time limits has been delegated to the Corporate Director Resources. Any changes to the Annual Strategy made during the financial year are reported to County Council in either the Mid-Year Review or the Final Outturn Report.

## Icelandic Deposits Update

- 125 In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £7m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested	Interest Rate
			£	%
KSF	30/10/07	28/10/08	1,000,000	6.120
Landsbanki (1)	12/04/07	13/10/08	1,000,000	6.010
Landsbanki (2)	12/04/07	14/04/09	1,000,000	6.040
Glitnir Bank (1)	25/10/06	24/10/08	3,000,000	5.620
Glitnir Bank (2)	18/12/07	16/12/08	1,000,000	6.290
<b>Total</b>			<b>7,000,000</b>	

- 126 All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.
- 127 The current situation with regards to recovery of the sums deposited varies between each institution.

### Kaupthing Singer and Friedlander Ltd

- 128 The current position on actual payments received and estimated future payments is as shown in the table. The Council has decided to recognise an impairment based on it recovering 85.25p in the £ compared to 83.5p in the £ at 31 March 2012.

Date	Repayment
	%
Received to 31 March 2013	76.00
Received in June 2013	3.00
January 2014	3.25
January 2015	3.00

- 129 Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 7 October 2008.

### Landsbanki

- 130 Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee.

- 131 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board making a distribution to creditors in a basket of currencies in February 2012. Further distributions were made in May and October 2012.
- 132 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 4.17% as at 31 March 2013. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.
- 133 The current position on estimated future payouts is as shown in the table below and the Council has used these estimates to calculate the impairment based on recovering 100p in the £.

<b>Date</b>	<b>Repayment</b>
	%
Received to 31 March 2013	49.65
December 2013	7.5
December 2014	7.5
December 2015	7.5
December 2016	7.5
December 2017	7.5
December 2018	7.5
December 2019	5.35

- 134 Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to the deposit maturity date.

### **Glitnir Bank hf**

- 135 Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee.
- 136 The Icelandic Supreme Court's decision to grant UK local authorities priority status was followed by the winding up board made a distribution to creditors in a basket of currencies in March 2012.
- 137 An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4% up to 22 June 2012 and 4.2% thereafter. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.
- 138 The distribution has been made in full settlement, representing 100% of the claim.

## **Recommendations and reasons**

- 139 It is recommended that Cabinet note:
- (i) the addition to the Cash Limit Reserves of £4.018m in the year. These sums will be held as Earmarked Reserves and be available for Service Groupings to utilise to manage budgets effectively.
  - (ii) the closing General Reserve balance of £24.412m.
  - (iii) the closing balance on Earmarked Reserves (excluding Cash Limit Reserves) is £85.966m of which £19.418m relate to schools balances.
  - (iv) the closing HRA balance of £7.155m.
  - (v) the closing balance on HRA Earmarked Reserves of £1.150m.
- 140 It is recommended that Cabinet approve:
- (i) that capital budget carried forward of £26.820m for the General Fund and £0.958m for the HRA is moved into 2013/14 and that Service Groupings regularly review capital profiles throughout 2013/14 reporting revisions to MOWG and Cabinet as necessary.

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## **Appendix 1: Implications**

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### **Finance**

The report details the financial outturn for the Council for 2012/13 for Revenue and Capital. The report covers General Fund and Housing Revenue Account for both Revenue and Capital.

### **Staffing**

None.

### **Risk**

None.

### **Equality and Diversity / Public Sector Duty**

None.

### **Accommodation**

None.

### **Crime and Disorder**

None.

### **Human Rights**

None.

### **Consultation**

None.

### **Procurement**

None.

### **Disability Issues**

None.

### **Legal Implications**

None.





## Appendix 2: Revenue Summary 2012/13

	Cash Limit Adjustments								
	Original Budget	Revised Budget	Service Groupings Final Outturn	Variance	Sums outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves	Cash Limit Position	Cash Limit Carry Forward
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assistant Chief Executive	11,369	12,628	12,070	-558	-1,795	-1	1,866	-488	488
Children and Adults Services	273,278	264,213	248,576	-15,637	5,486	0	6,191	-3,960	3,960
Neighbourhood Services	98,176	114,088	101,247	-12,841	11,877	-47	592	-419	419
Regeneration and Economic Development	42,513	53,186	54,448	1,262	-3,113	-38	1,333	-556	556
Resources	20,369	22,446	20,001	-2,445	201	0	619	-1,625	1,625
<b>Cash Limit Position</b>	<b>445,705</b>	<b>466,561</b>	<b>436,342</b>	<b>-30,219</b>	<b>12,656</b>	<b>-86</b>	<b>10,601</b>	<b>-7,048</b>	<b>7,048</b>
Contingencies	11,248	6,497		-6,497		0	0	-6,497	6,497
Centrally Held Budgets	0	0	3,540	3,540	0	0	-2,743	797	-797
Corporate Costs	0	1,641	0	-1,641	1,561	0	0	-80	80
<b>NET COST OF SERVICES</b>	<b>456,953</b>	<b>474,699</b>	<b>439,882</b>	<b>-34,817</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-12,828</b>	<b>12,828</b>
Capital charges	-49,115	-51,722	-70,353	-18,631				-18,631	18,631
Gain/Loss on disposal of fixed assets	0	0	35,122	35,122				35,122	-35,122
Interest and Investment income	-577	-577	-3,245	-2,668				-2,668	2,668
Interest payable and similar charges	30,715	21,582	24,410	2,828				2,828	-2,828
HR Accrual - reversal	0	0	775	775	-775			0	0
<b>Net Expenditure</b>	<b>437,976</b>	<b>443,982</b>	<b>426,591</b>	<b>-17,391</b>	<b>13,442</b>	<b>-86</b>	<b>7,858</b>	<b>3,823</b>	<b>-3,823</b>
<b>Funded By:</b>									
Council tax	-201,788	-201,788	-201,788	0				0	0
Council tax freeze grant	-4,989	-4,989	-5,045	-56				-56	56
Use of (-) / Contribution to earmarked reserves	-2,633	-8,459	1,427	9,886				9,886	-9,886
Revenue Support Grant	-4,245	-4,245	-4,245	0				0	0
Re-distributed Non Domestic Rates	-219,006	-219,006	-219,007	-1				-1	1
New Homes Bonus	-2,551	-2,551	-2,344	207			-206	1	-1
LACSEG Grant	0	0	-2,145	-2,145				-2,145	2,145
Contribution to Cash Limit Reserve	-2,764	-2,944	4,018	6,962				6,962	-6,962
Contribution to the General Reserve	0	0	2,538	2,538				2,538	-2,538
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,442</b>	<b>-86</b>	<b>7,652</b>	<b>21,008</b>	<b>-21,008</b>

**Appendix 3: Revenue Summary by Expenditure / Income for 2012/13**

	Original Budget	Revised Budget	Service Groupings Final Outturn	Corporate Costs	Variance	Cash Limit Adjustments			Cash Limit Position	Cash Limit Carry Forward (including Corporate Costs)	Variance - Corporate Costs
						Sums Outside the Cash Limit	Cash Limit Reserve	Contribution to / Use of Earmarked Reserves			
						£'000	£'000	£'000			
<b>Employees</b>	516,389	524,165	517,661	0	-6,505	-1,775	-1	-1,962	-10,243	10,243	0
<b>Premises</b>	55,144	51,377	52,489	0	1,112	-74	0	15	1,053	-1,053	0
<b>Transport</b>	52,620	52,966	49,504	0	-3,462	564	0	43	-2,855	2,855	0
<b>Supplies and Services</b>	120,541	127,891	144,424	1,693	18,226	12	-38	1,459	19,659	-19,659	-106
<b>Agency and Contracted</b>	228,398	230,854	226,218	56	-4,580	-1,232	0	5,501	-311	311	0
<b>Transfer Payments</b>	258,751	257,299	261,423	0	4,124	0	0	1,130	5,254	-5,254	0
<b>Central Costs</b>	85,038	92,052	84,477	0	-7,575	-4,930	0	-1,286	-13,791	13,791	0
<b>Other</b>	1,131	-1,059	2,999	0	4,058	-428	0	2,460	6,090	-6,090	0
<b>DRF</b>	0	9,385	15,900	0	6,515	0	0	-2,743	3,772	-3,772	0
<b>Capital Charges</b>	49,115	51,722	35,231	0	-16,491	16,491	0	0	-0	0	0
<b>GROSS EXPENDITURE</b>	<b>1,367,127</b>	<b>1,396,653</b>	<b>1,390,326</b>	<b>1,749</b>	<b>-4,578</b>	<b>8,628</b>	<b>-39</b>	<b>4,617</b>	<b>8,628</b>	<b>-8,628</b>	<b>-106</b>
<b>Income</b>											
- Specific Grants	597,299	605,499	605,436	14	-49	0	0	-578	-627	627	0
- Other Grants and contribs	25,984	28,709	35,889	0	7,180	-34	0	-11	7,135	-7,135	0
- Sales	8,397	8,597	9,978	0	1,381	-324	0	-400	657	-657	0
- Fees and charges	102,147	106,618	106,235	0	-383	0	47	-149	-485	485	0
- Recharges	172,201	165,046	174,719	1,577	11,250	-5,231	0	-172	5,847	-5,847	0
- Other	15,394	13,982	18,187	158	4,363	0	0	-1,931	2,432	-2,432	26
<b>Total Income</b>	<b>921,422</b>	<b>928,451</b>	<b>950,444</b>	<b>1,749</b>	<b>23,742</b>	<b>-5,589</b>	<b>47</b>	<b>-3,241</b>	<b>14,959</b>	<b>-14,959</b>	<b>26</b>
<b>NET EXPENDITURE</b>	<b>445,705</b>	<b>468,202</b>	<b>439,882</b>	<b>0</b>	<b>-28,320</b>	<b>14,217</b>	<b>-86</b>	<b>7,858</b>	<b>-6,331</b>	<b>6,331</b>	<b>-80</b>

## Appendix 4: Earmarked Reserves as at 31 March 2013

EARMARKED RESERVES AND CASH LIMIT RESERVES	SERVICE GROUPING	2011/12 CLOSING BALANCE	USE OF RESERVES	CONTRIBUTION TO RESERVES	TRANSFERS BETWEEN RESERVES	TOTAL MOVEMENT ON RESERVES	2012/13 CLOSING BALANCE
ACE AAP/Members Reserve	ACE	-2,364	1,571	-1,061	0	510	-1,854
ACE Grant Reserve	ACE	-233	0	0	0	0	-233
ACE Operational Reserve	ACE	-140	0	0	0	0	-140
Heritage and Culture Reserve	CAS	-209	0	0	209	209	0
Social Care Reserve	CAS	-9,368	3,652	-7,778	9,441	5,315	-4,053
Health and Wellbeing Reserve	CAS	-1,347	847	0	0	847	-500
Community Safety Reserve	CAS	-75	53	0	0	53	-22
Aycliffe Young People's Centre Reserve	CAS	-475	47	0	0	47	-428
Continuing Professional Development Reserve	CAS	-373	0	-96	0	-96	-469
Education Reserve	CAS	207	167	-6	-751	-590	-383
Tackling Troubled Families	CAS	0	0	-942	0	-942	-942
CYPS Leisure Reserve	CAS	-52	17	0	0	17	-35
Special Projects Reserve	CAS	-60	0	0	0	0	-60
Neighbourhoods AAP Reserve	NS	-504	477	-39	0	438	-66
Customer Services Reserve	NS	-360	300	-50	0	250	-110
Direct Services Reserve	NS	-1,406	96	-1,284	0	-1,188	-2,594
Env. Health and Consumer Protection Reserve	NS	-141	0	-289	0	-289	-430
Culture and Sport Reserve	NS	-1,765	695	-790	-396	-491	-2,256
Strategic Waste Reserve	NS	-104	0	-272	0	-272	-376
Technical Services Reserve	NS	0	0	-445	0	-445	-445
Transport Asset Management Programme Reserve	NS	-365	47	0	0	47	-318
Economic Development Reserve	RED	-1,666	470	-531	709	648	-1,018
Planning Reserve	RED	-1,774	86	0	0	86	-1,688
North Pennines AONB Partnership Reserve	RED	0	0	-919	0	-919	-919
Employability and Training Reserve	RED	-855	130	-121	0	9	-846
RED Regeneration Reserve	RED	-990	163	0	-224	-61	-1,051
Housing Regeneration Reserve	RED	-95	79	-61	0	18	-77
Housing Solutions Reserve	RED	-1,321	444	-110	0	334	-987
Restructure Reserve	RED	-500	271	0	-500	-229	-729
LSVT Reserve	RED	-122	11	0	0	11	-111
Transport Reserve	RED	-364	0	0	0	0	-364
Funding and Programmes Management Reserve	RED	-193	63	0	-45	18	-175
Resources Corporate Reserve	Resources	-1,164	0	-739	60	-679	-1,843
Resources DWP Grant Reserve	Resources	-159	0	-107	159	52	-107
Resources System Development Reserve	Resources	-700	300	-450	0	-150	-850
Resources Housing Benefit Subsidy Reserve	Resources	-1,200	0	-1,379	0	-1,379	-2,579
Resources Land Search Fees Reserve	Resources	-1,000	0	0	0	0	-1,000
Resources Legal Expenses	Resources	0	0	-200	0	-200	-200
Resources Elections Reserve	Resources	-800	0	0	0	0	-800
Resources ICT Reserves	Resources	0	0	-480	0	-480	-480
Corporate Regeneration Reserve	Corporate Fin	-578	0	0	578	578	0
Cabinet Reserve	Corporate Fin	-498	278	0	0	278	-220
Corporate Reserve - Demographic Pressures	Corporate Fin	0	0	0	-8,650	-8,650	-8,650
Equal Pay Reserve	Corporate Fin	-3,408	131	-3,834	0	-3,703	-7,111
Insurance Reserve	Corporate Fin	-11,841	4,154	-145	0	4,009	-7,832
Performance Reward Grant Reserve	Corporate Fin	-1,319	162	0	-578	-416	-1,735
MTFP Redundancy and Early Retirement Reserve	Corporate Fin	-9,552	4,713	0	0	4,713	-4,839
New Homes Bonus Reserve	Corporate Fin	-206	206	0	0	206	0
<b>Total Non-Schools Reserve</b>		<b>-59,439</b>	<b>19,630</b>	<b>-22,128</b>	<b>12</b>	<b>-2,486</b>	<b>-61,925</b>
<b>Schools' Balances</b>							
Schools' Revenue Balance	CAS	-20,890	5,663	-4,191	0	1,472	-19,418
DSG Reserve	CAS	-4,210	0	-413	0	-413	-4,623
<b>Total Schools and DSG Reserve</b>		<b>-25,100</b>	<b>5,663</b>	<b>-4,604</b>	<b>0</b>	<b>1,059</b>	<b>-24,041</b>
<b>Cash Limit Reserves</b>							
Assistant Chief Executive		-1,133	456	-488	0	-32	-1,165
Children and Adults Services		-8,092	2,320	-3,960	0	-1,640	-9,732
Neighbourhood Services		-2,205	166	-419	147	-106	-2,311
Regeneration and Economic Dev		-2,960	100	-556	0	-456	-3,416
Resources		-1,496	0	-1,625	-159	-1,784	-3,280
<b>Total Cash Limit Reserves</b>		<b>-15,886</b>	<b>3,042</b>	<b>-7,048</b>	<b>-12</b>	<b>-4,018</b>	<b>-19,904</b>
<b>Total Earmarked Reserves</b>		<b>-100,425</b>	<b>28,335</b>	<b>-33,780</b>	<b>0</b>	<b>-5,445</b>	<b>-105,870</b>

## Appendix 5: 2012/13 Housing Revenue Account Outturn Position

	Annual Budget	Outturn	Variance	
	£000	£000	£000	
<b>Income</b>				
Dwelling Rents	-60,115	-60,173	-58	a)
Non Dwelling Rents	-995	-1,005	-10	
Charges for Services and Facilities	-105	-127	-22	b)
Contributions towards Expenditure	-250	-413	-163	c)
<b>Total Income</b>	<b>-61,465</b>	<b>-61,718</b>	<b>-253</b>	
<b>Expenditure</b>				
ALMO Management Fee and Outsourced Contract	17,266	17,266	0	
Repairs and Maintenance	4,187	4,723	536	d)
Supervision and Management - General	4,550	4,514	-36	e)
Supervision and Management - Special	549	555	6	
Rents, Rates, Taxes and other Charges	100	111	11	
Negative HRA Subsidy		-94	-94	f)
Depreciation and Impairment of fixed assets [Net MRA Adj]	15,510	7,851	-7,659	g)
Increase/Decrease in bad debt provision	916	402	-514	h)
Debt Management Costs	186	186	0	
<b>Total Expenditure</b>	<b>43,264</b>	<b>35,514</b>	<b>-7,750</b>	
<b>Net cost of HRA services per Authority I&amp;E Account</b>	<b>-18,201</b>	<b>-26,204</b>	<b>-8,003</b>	
HRA services share of Corporate and Democratic Core	1,085	1,085	0	
HRA share of other amounts included in the whole authority				
Net Cost of services but not allocated to specific services	402	387	-15	
<b>Net cost of HRA Services</b>	<b>-16,714</b>	<b>-24,732</b>	<b>-8,018</b>	
Interest Payable and Similar Charges	12,234	11,303	-931	i)
Direct Revenue Financing [Balancing Item on HRA]	4,570	13,671	9,101	j)
Interest and Investment Income	-114	-266	-152	k)
<b>[Surplus] / Deficit for the year on HRA services</b>	<b>-24</b>	<b>-24</b>	<b>0</b>	