GENERAL FUND 2012/13 - OVERALL SUMMARY

December 2012	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Adult Services	67,523	68,276	(754)
Children's Services	36,788	41,220	(4,432)
Communities	5,538	5,290	248
Environment & Transport	22,198	22,246	(48)
Housing & Leisure Services	13,156	13,656	(500)
Leader's Portfolio	4,274	3,940	334
Resources	43,829	42,238	1,590
Baseline for Portfolios	**193,304**	**196,866**	**(3,562)**
Net Draw From Risk Fund	2,825	0	2,825
Sub-total (Net Controllable Spend) for Portfolios	**196,129**	**196,866**	**(737)**
Non-Controllable Portfolio Costs	23,434	23,434	0
Portfolio Total	**219,563**	**220,300**	**(737)**
Approved Carry Forwards	0	308	(308)
Levies & Contributions			
Southern Seas Fisheries Levy	46	31	15
Flood Defence Levy	43	42	1
Coroners Service	560	575	(15)
	649	**649**	**0**
Capital Asset Management			
Capital Financing Charges	14,265	12,265	2,000
Capital Asset Management Account	(25,565)	(25,565)	0
	(11,301)	**(13,301)**	**2,000**
Other Expenditure & Income			
Direct Revenue Financing of Capital	313	313	0
Net Housing Benefit Payments	(882)	(882)	0
Non-Specific Govt. Grants	(120,941)	(121,291)	350
Contribution to Pay Reserve	127	127	0
Collection Fund Surplus	(373)	(373)	0
Council Tax Freeze Grant	(2,071)	(2,071)	0
Open Space and HRA	436	436	0
Risk Fund	1,086	536	550
Contingencies	344	344	0
Surplus/Deficit on Trading Areas	(168)	(168)	0
	(122,129)	**(123,029)**	**900**
NET GF SPENDING	**86,783**	**84,927**	**1,855**
(Draw from) / Addition to Balances:			
To fund the Capital Programme	(313)	(313)	0
Draw from Balances (General)	(2,782)	(927)	1,855
Draw from Strategic Reserve (Pensions & Redundancies)	(482)	(482)	0
	(3,577)	**(1,722)**	**1,855**
COUNCIL TAX REQUIREMENT	**83,206**	**83,206**	**0**

APPENDIX 2

ADULT SERVICES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£53,700** at year-end, which represents a percentage over spend against budget of **0.1%**. This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	753.7 A	1.1
Risk Fund Items	700.0 F	
Portfolio Forecast	**53.7 A**	**0.1**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

AS 1 – Adult Disability Care Services (forecast favourable variance £168,800)

There is a projected over spend of £748,300 on Nursing and £225,500 on Direct Payments, offset by £500,000 of secured Health funding for care packages that support people to stay a home and £700,000 of savings from the moratorium on non essential spend across the Portfolio.

Forecast Range not applicable.

There is a forecast over spend on Nursing of £748,300 which is predominantly due to an increase in numbers of clients and changes to existing packages but also reflects the difficulties being experienced in procuring services at a price historically charged to meet these client needs. In addition this reflects the increased activity noted at outturn 2011/12. This increase can be supported by evidence of a rise in the number of referrals to the Hospital Discharge Team (an increase of 22.8 % in 2011/12 compared to 2010/11). The forecast reflects that specific budgeted income of £80,000 will not be achieved due to the contract having ended. In addition the forecast reflects that the maximum reimbursement achievable from a nursing block contract is £67,000 less than previously anticipated.

Direct Payments are forecast to over spend by £225,500 which is predominantly due an increase in the number of clients receiving a direct payment and in relation to clients who were previously funded as continuing health care clients.

Health funding received in 2012/13 of £500,000, has been used to fund the increase in demand on care packages required to support people staying at home which has reduced the headline overspend position for this service activity correspondingly.

In addition, a full review of all expenditure budgets across the Adult Services Portfolio has been carried out in line with the moratorium on non-essential spend. The resultant £700,000 reduction in the Portfolio forecast is being reported within Adult Disability Care Services to offset the over spend in this area. The following table demonstrates the effect of these forecast changes on the equivalent number of units:

	Net Budget £000's	Unit Prices	Budgeted Units	Forecast £000's	Forecast Units	Difference (Units)	Variance to Budget £000's
Day Care	86.6	£58.43	1,482	56.5	967	(515)	(30.1)
Direct Payments	2,538.3	£11.39	222,853	2,763.8	242,651	19,798	225.5
Domiciliary	4,958.5	£13.69	362,199	5,035.7	367,838	5,639	77.2
Nursing	2,341.2	£66.12	35,408	3,089.5	46,726	11,317	748.3
Residential	4,632.5	£50.13	92,410	4,642.8	92,615	205	10.3
Health Monies	N/A	N/A	N/A	(500.0)	N/A	N/A	(500.0)
Moratorium	N/A	N/A	N/A	(700.0)	N/A	N/A	(700.0)
Total	**14,557.1**			**14,388.3**			**(168.8)**

<u>AS 2 – Learning Disability (forecast adverse variance £1,392,200)</u>

There has been an increase in new clients/changes in client costs.

Forecast Range £1.6M adverse to £1.4M adverse.

A budget pressure arising from the impact of an aging population and new transitional clients was identified as part of setting the 2012/13 budgets. A sum of £700,000 was allowed for within the Risk Fund to meet this pressure which can now be evidenced by an increase in residential activity of £934,300 and an increase in the forecast spend for Supported Living clients of £435,300. It has been assumed that there will be a draw on the Risk Fund for the full £700,000.

It should be noted that this position previously assumed that an additional local savings target of £538,000 would be fully achieved. To date £421,000 has been achieved. The residual £117,000 will not be achieved in 2012/13 and the forecast has been updated to reflect this.

The OTHER KEY issues for the Portfolio are:

<u>AS 3 – Provider Services City Care (forecast favourable variance £271,400)</u>

There are staff savings within City Care First Support (£414,700) offset by additional costs within the internal units (£143,300).

Forecast Range £270,000 favourable to £300,000 favourable.

Some staff resources within the City Care First Support Team (CCFS) are currently providing support to the Care Closer to Home project. The forecast has been amended to reflect the anticipated reduced cost to CCFS.

This is offset by a forecast overspend of £143,300 predominantly on homes staffing arising from higher expected levels of agency usage.

Summary of Risk Fund Items

Service Activity	£000's
Learning Disability	700.0
Risk Fund Items	**700.0**

APPENDIX 3

CHILDREN'S SERVICES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£3,222,200** at year-end, which represents a percentage over spend against budget of **8.8%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	4,432.2 A	12.1
Risk Fund Items	1,210.0 F	
Portfolio Forecast	**3,222.2 A**	**8.8**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

CS 1 – Commissioning, Education and Inclusion (forecast favourable variance £435,000)

Moratorium on all non essential spend to offset over spends in the portfolio

Forecast Range £400,000 favourable to £500,000 favourable.

A full review of all expenditure budgets within the Commissioning, Education and Inclusion Division has been carried out with forecasts being adjusted in line with the moratorium on non-essential expenditure this has highlighted changes in the following areas:

- Commissioning, Performance and Contracts (£56,800 favourable) – There have been general savings on contracts of £141,000 and additional income of £90,000 for teenage pregnancy and the schools Data Team which have been offset by an overspend on two year old childcare provision of £210,000, accounted for in the Risk Fund.
- Operations and Services – Transport (£92,900 adverse) – There has been an increased cost to pupil transport as a result of the relocation of the Pupil Referral Unit; a shortage of primary school places in some areas and an increase of young people post 16 qualifying for transport support. All expenditure is in line with the existing policy. A review has been instigated to bring budget back in line for 2013/14.
- Operations and Services (£236,300 favourable) – An under spend is forecast as a result of the equivalent of 10 FTE posts being held vacant within Business Support.
- Workforce Development (£212,700 favourable) – In line with the savings proposals for 2013/14 the council has reduced the level of financial investment into Early Years Practitioner qualification, based on reducing demand. In addition a reduction

in general workforce development has been secured through integrating all workforce development activity into one place.

However, this has been partly offset by £210,000 for the provision of additional two year old Nursery places for which a draw on the Risk Fund is being requested

<u>CS 2 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £2,772,500)</u>

The number of children currently in care is 1% of the city's child population. This budget funds the cost of children that have to be taken into care. The number of children in care has increased by 82, (23.9%) over the budgeted position, and by 58, (15.8%) over the position accounted for within the Risk Fund.

Forecast Range £3M adverse to £2M adverse

The increasing number of children having to be taken into care has led to a forecast over spend on fostering placements of £1,758,900, and on residential placements of £694,600. In addition there are other various over spends, such as special guardianship allowances and care leavers and unaccompanied asylum seekers, totalling £319,000. The Director has initiated a Member / Officer review of all placements and the costs for children entering the care system to ensure that they remain appropriate. This review group has also been tasked with ensuring that permanency arrangements are appropriate for children, and that they are not remaining in care longer than is necessary.

The over spend on fostering of £1,758,900 includes a forecast over spend of £1,235,900 on Independent Fostering Agency (IFA) placements, (50 budgeted versus 80 actual), £249,300 on placements with local authority foster carers, (270 budget versus 318 actual), and £115,000 on supportive lodgings placements (9 budget versus 14 actual).

There is also an over spend of £150,700 on special guardianship allowances (26 budgeted versus 59 actual). The increasing numbers of lower cost special guardianship allowances has resulted from the conversion of higher cost foster care. This results in a corresponding cost saving of between £3,000 and £13,000 per placement per annum. Despite this action, the overall number of children requiring a foster placement has continued to rise.

A draw of £1M has been made from the Risk Fund reducing the over spend on Tier 4 Safeguarding Specialist Services to £1,772,500.

The table outlines the changes in activity levels for 2012/13:

Service	Daily Rate Range	Client Numbers				
		Budget	Budget Plus Risk Fund Provision	November 2012	December 2012	Latest Forecast
Fostering up to 18	£20 - £95	270	280	317	318	319
IFA Placements	£96 - £212	50	60	83	80	84*
Supported Placements or Rent	£16 - £43	9	9	15	14	14
Residential - Our House		5	5	2	2	1
Residential - Independent Sector	£100 - £570	8	12	10	10	10*
Civil Secure Accommodation	£717 - £806	1	1	1	1	1*
Sub-total: Children in Care		**343**	**367**	**428**	**425**	**429**
Over 18's	£18 - £78	14	14	15	15	14
Adoption Allowances	£1 - £32	95	95	92	91	92
Special Guardianship Allowances	£4 - £44	26	26	49	59	59
Residence Order Allowances	£6 - £16	18	18	18	18	18
Total		**496**	**520**	**602**	**608**	**612**

* These numbers are based on the anticipated position at the end of March 2013

CS 3 – Safeguarding Management and Legal Services (forecast adverse variance £263,700)

Additional legal costs (£415,400 directly attributable to the increasing number of children in care).

Forecast Range £500,000 adverse to £250,000 adverse

This adverse variance is due to unavoidable SCC and external legal costs associated with children having to be taken into care. The costs relate to court fees, legal expenses and external counsel.

CS 4 – Child Protection Tier 3 Social Work Teams (forecast adverse variance £1,907,400)

The adverse variance reflects the additional child protection agency social work staff above establishment and the additional cost of agency social work staff in respect of vacancy and absence cover. It also incorporates a forecast over spend arising from the additional costs of court ordered supervised parental contact with their children who have been taken into care.

Forecast Range £2.2M adverse to £1.5M adverse

There is a forecast over spend of £1,679,400 on child protection 'Tier 3' social work teams. Current market conditions, combined with changes to terms and conditions have meant that the supply of social workers remains insufficient and inexperienced to meet rising demand. This means a continuing need for temporary staff, acquired from independent agencies at, on average, twice the cost of a permanently employed member of staff. A recruitment and retention strategy was agreed in December 2012 and is currently being implemented. This provides a retention bonus for experienced social workers and remuneration incentives for newly qualified workers. The introduction of this strategy is likely to impact on agency social work numbers from 2013/14.

The forecast over spend on the Contact Scheme of £306,600 is a direct consequence of younger children having to be taken into care earlier, leading to an increase in court-ordered supervised parental contact.

The over spend on staffing is being offset by an under spend of £78,600 on expenditure incurred to prevent children entering care including specialist childminding placements.

There are no OTHER KEY issues for the Portfolio at this stage:

Summary of Risk Fund Items

Service Activity	**£000's**
Tier 4 Services	1,000.0
2 Year Old Funding	210.0
Risk Fund Items	**1,210.0**

APPENDIX 4

COMMUNITIES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£247,700** at year-end, which represents a percentage under spend against budget of **4.5%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	247.7F	4.5
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**247.7F**	**4.5**
Potential Carry Forward Requests	35.0	

There are no CORPORATE issues for the Portfolio at this stage.

The OTHER KEY issues for the Portfolio are:

COMM 1 – Portfolio General (forecast favourable variance £206,300)

Under spends on salaries and general supplies & services budgets

Forecast Range not applicable

A detailed review of all budgets has been undertaken across the Portfolio resulting in the identification of salary under spends from vacant posts together with general under spends on supplies and services. The favourable forecast under spend also reflects the recent moratorium on spend for the remainder of the year across these budgets.

The under spend within Customer and Business Improvement (£237,600 favourable) has been partly offset by vacancy management targets not being met within Emergency Planning and Safer Communities (£31,300 adverse).

COMM 2 – Skills, Economy and Housing Renewal (forecast favourable variance £41,400)

Under spend on 16-19 Student Bus Ticket Scheme

Forecast Range not applicable

There is currently a favourable forecast variance of £41,400 within the Division which relates primarily to the 16-19 Student Bus Ticket Scheme which was launched in September 2012 to subsidise termly tickets for two academic years. A request will therefore be submitted to carry forward £35,000 so that funds are available for the scheme for the 2013/14 academic year.

APPENDIX 5

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£607,100** at year-end, which represents a percentage under spend against budget of **2.7%.** The forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	47.9 A	0.2
Remedial Portfolio Action	0.0	
Risk Fund Items	655.0 F	
Portfolio Forecast	**607.1 F**	**2.7**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £391,400)

Parking pressures have been identified relating to reduced income of £320,000 and increased rates costs of £71,400.

Forecast Range £450,000 adverse to £350,000 adverse

There is an adverse forecast variance for off street car parking, due to a number of factors. The most significant factor being that income is forecast to fall short of the level anticipated during the budget setting process by £265,000. This variance, which may be attributed to the continuing economic downturn and the impact on commuters of a rise in fuel prices, is a forecast draw on the Risk Fund. A savings proposal for enhanced income of £70,000 for the use of West Park car park was delayed due to extended consultation. It is now anticipated that a saving of £15,000 will be made this financial year (£55,000 adverse). However, there is a further variation due to the rates demands for off street car parks having increased significantly and being £71,400 adverse compared to the estimate.

E&T 2 – Itchen Bridge (forecast adverse variance £190,800)

There is a forecast lower level of income from tolls, mainly due to a decrease in traffic flows as a consequence of the downturn in the economy.

Forecast Range £250,000 adverse to £150,000 adverse

The downturn in the economy has led to a decrease in traffic flows in the City and a forecast decrease in toll income of around £100,000 and this will result in an anticipated draw on the Risk Fund. Proposals to save £95,000 from the automation of toll collection arrangements will not be met in this financial year due to implementation delays and a period of dual running of toll payment methods.

<u>E&T 3 – Waste Collection (forecast adverse variance £317,300)</u>

There are forecast additional operational refuse collection costs.

Forecast Range £350,000 adverse to £250,000 adverse

There are forecast additional costs for sickness cover for frontline staff of £269,000. A new taskforce team to tackle poor attendance issues has been established and will be effective from the 2 January 2013. In addition, there are forecast additional costs on fuel for vehicles of £87,000, which will be met through a draw on the Risk Fund. There is forecast additional recycling income of £100,000 and current year savings of £44,000 on the Project Integra budget.

The Service was due to have 18 refuse freighters replaced this year, but this has been delayed and the budgeted cost of approximately £203,000 is now forecast not to be incurred by Fleet Transport resulting in a forecast saving for the Waste Collection service. However, there are unbudgeted vehicle damage and repairs costs of £71,000 and the Commercial Waste Service is forecast to be £267,000 adverse, due to adverse trading conditions.

<u>E&T 4 – Highways Contract Management (forecast favourable variance £301,200)</u>

There are forecast savings on the street lighting PFI contract and there is a large receipt in respect of third party income from the highways partnership.

Forecast Range £250,000 favourable to £350,000 favourable

A level of savings on the PFI Street Lighting contract sum was planned and factored in corporately. There are forecast to be significant savings over and above the originally planned profile and whilst these are not certain at present they are forecast to be £211,000.

The final position on the highways partnership third party income in respect of the period October 2010 to March 2012 (i.e. the first 18 months of the contract) is now settled. The settlement is a receipt to the Council of £154,400, which will be treated as revenue income for the Portfolio in 2012/13.

There is a £16,600 adverse variance on the contract sum with the highways partner, as the appropriate index for amending the sum was slightly higher than originally estimated. In addition, there are some unbudgeted non-PFI street lighting costs totalling £60,000.

The OTHER KEY issues for the Portfolio are:

<u>E&T 5 - Bereavement Services (forecast adverse variance £93,600)</u>

There is a potential income shortfall on adult and non adult cremation fees of £39,000 and other adverse variances.

Forecast Range £150,000 adverse to £50,000 adverse

The 2012/13 cremations income estimate is based on achieving a total of 2,465 cremations, including discounted adult cremations, by the end of the year. However, a reduction in numbers is reported by all neighbouring crematorium facilities and is part of a national downturn in the death rate. The current year forecast is to achieve 2,392 adult cremations in total, a forecast adverse variance of £25,000 based on the proportions of full price and reduced price cremations. Also, the fees from non-adult cremations are forecast to be £25,000 adverse compared to the original estimate. There is, therefore, a forecast draw of £50,000 on the Risk Fund.

Employee costs are forecast to be £28,000 favourable, building works are £11,000 favourable and the Cemeteries' burial fees and other income is £30,000 favourable.

The unit price for the high pressure gas supplied to the crematorium by British Gas has increased by over 50% and there is a forecast adverse variance of £36,000, which is a forecast draw on the Risk Fund.

The service development to raise additional income from increasing the sale of memorials is slow and it is expected that the saving will only be partially achieved by the year end and there is a forecast adverse variance of £51,000. In addition, there has been an increase in the business rates payable of £24,000 over and above the amount budgeted for.

<u>E&T 6 – Travel & Transport (forecast adverse variance £135,000)</u>

Forecast Range £150,000 adverse to £100,000 adverse

There is a shortfall in income on the new bus shelter advertisement contract and an adverse forecast for previous year concessionary bus fare marginal capacity cost claims.

A concessionary bus fare marginal capacity cost claim from 2011/12 is being forecast to cost £139,100, resulting in an overall adverse forecast position of £80,000 for Concessionary Fares. This is partially offset by savings from vacant School Crossing Patrol posts and from the Safer Road Partnership.

Advertising on the City's bus shelters generates an annual income to the Council, which this year is forecast to be £283,000. This is £69,000 less than budgeted but is provided for in the Risk Fund.

<u>E&T 7 – Planning & Sustainability (forecast favourable variance £69,100)</u>

Forecast Range £50,000 favourable to £100,000 favourable

There are higher than expected planning application fees

Development Control is forecast to over achieve by £100,000 on planning application income partially offset by shortfalls in Community Infrastructure Levy fees and pre-application income. In addition, it is estimated that the cost of purchasing Carbon Reduction Certificates (CRC) for 2012/13 is £102,500, which has been partially offset by an under spend from last year worth £55,000. The net position of £47,500 is covered by provision in the Risk Fund in 2012/13.

<u>E&T 8 – Other Variances (forecast favourable variance £709,900)</u>

There are a number of forecast favourable variances, which improve the baseline portfolio forecast.

- Directorate & Portfolio Management – There are forecast savings in the cost of senior management of around £121,000 and further savings on directorate business support expenditure of £61,000.
- Highways Management – There are forecast savings of £89,000 in the cost of employees due to staff turnover, and further savings of £100,000 in the cost of revenue funded highways works.
- ROMANSE – There are forecast savings of £79,000 in relation to the set-up and transfer costs associated with the commencement of the new contracted out service.
- Regulatory Services (Commercial) – Forecast additional income and reduced costs, totalling £130,000.
- Waste Disposal – There is a likelihood that two years of incinerator profit share will be accounted for in the current financial year. This may generate a favourable variance of around £150,000, which has been included in the forecast.

Summary of Risk Fund Items

Service Activity	**£000's**
Crematorium Fee Income	50.0
Waste Collection Fuel Inflation	87.0
Crematorium Fuel Inflation	36.0
Car Parking Income	265.0
Itchen Bridge Toll Income	100.0
Carbon Reduction Certificates (CRC)	48.0
Bus Shelter Contract	69.0
Risk Fund Items	**655.0**

HOUSING & LEISURE SERVICES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£240,300** at year end, which represents a percentage over spend against budget of **1.8%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	500.3 A	3.8
Remedial Portfolio Action	0.0	
Risk Fund Items	260.0 F	
Portfolio Forecast	**240.3 A**	**1.8**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

HLS 1 – Arts & Heritage (forecast adverse variance £398,000)

There is an over spend on Geothermal Heating in SeaCity Museum plus shortfalls in income in Tudor House Museum, the Art Gallery and Visitor Information Centre.

Forecast Range £500,000 adverse to £350,000 adverse

There are a number of forecast over spends relating to the Museum Service including:

- Energy –Geothermal Heating is forecast to over spend by £97,100, in addition to £76,100 on electricity and £10,000 on rates in SeaCity Museum. The energy usage is being examined to determine underlying causes of these significant variances.
- Income Shortfall – There has been a significant reduction in visitor numbers at Tudor House resulting in a shortfall of entry income of £84,000, hire income of £11,000, shop profit of £22,600 and cafe profit of £38,100.

This is offset by a forecast under spend of £106,600 on the museums repairs and maintenance fund and payments for monuments repairs.

There are shortfalls in profits in the Art Gallery shop of £89,100 and the Archaeology Unit of £125,900, partially offset by forecast under spends on rent being paid for the collections storage unit at City Industrial Park and a rates rebate for both of the closed venues; Maritime Museum and Gods House Tower. Provision for the shortfalls in income in the Art Gallery has been made in the Risk Fund.

The OTHER KEY issues for the Portfolio are:

HLS 2 – Libraries (forecast adverse variance £56,100)

Shortfalls in income in the Library Service offset by a reduction in the purchase of new books.

Forecast Range not applicable

The Library Service is forecast to have an income shortfall of £93,700 from DVD and CD hire due to reduced use of these services which has also resulted in additional shortfalls of £36,400 in fines income. This has been partially offset by a reduction of £56,400 in the fund for purchasing new books, staff savings due to vacant posts being held and other savings against supplies & services budgets.

Provision for the shortfalls in income in the Libraries has been made in the Risk Fund.

Summary of Risk Fund Items

Service Activity	**£000's**
Leisure & Culture	260.0
Risk Fund Items	**260.0**

APPENDIX 7

LEADER'S PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£334,400** at year-end, which represents a percentage under spend against budget of **7.7%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	334.4 F	7.7
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**334.4 F**	**7.7**
Potential Carry Forward Requests	0.0	

There are no CORPORATE issues for the Portfolio at this stage.

The OTHER KEY issues for the Portfolio at this stage are:

LEAD 1 – Customer and Business Improvement (forecast favourable variance £57,800)

Under spends on salaries and general supplies & services budgets in the Communications team

Forecast Range not applicable

A detailed review of all budgets has been undertaken within the Communications Division resulting in the identification of salary under spends from vacant posts.

LEAD 2 – Skills, Economy & Housing Renewal (forecast favourable variance £103,000)

Under spend on salaries in the Economic Development team and additional income from Markets.

Forecast Range £60,000 favourable to £85,000 favourable

Four posts are currently vacant in the Economic Development team resulting in a forecast saving of £56,700. In addition market income is exceeding targets by £44,700.

<u>LEAD 3 – Legal & Democratic (forecast favourable variance £158,300)</u>

General under spends

Forecast Range not applicable

The favourable forecast variance is due to a combination of factors including under spends from vacant posts, general under spends on supplies and services, an anticipated increase in Land Charges income and reduced spend on Elections. This favourable position has been partly offset by reduced income / increased costs within Licensing which are subject to further review.

APPENDIX 8

RESOURCES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£1,590,100** at year-end, which represents a percentage under spend against budget of **3.6%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	1,590.1F	3.6
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**1,590.1F**	**3.6**
Potential Carry Forward Requests	308.0	

The CORPORATE issues for the Portfolio are:

RES 1 – Central Repairs & Maintenance (forecast favourable variance £800,000)

Forecast Range not applicable

A detailed review of the current planned repair and maintenance programme has recently been undertaken in the light of the recent financial controls introduced with immediate effect; including a moratorium on non essential spend. As a result it has been agreed that a number of schemes within the programme will no longer be undertaken during the current financial year. This list takes into account the potential risks and future impact associated with the deferral of these works and will be kept under close review for the remainder of this financial year. The estimated value of these schemes total £492,000

In addition a small number of planned schemes to the value of £308,000 will need to be deferred to the next financial year due to the seasonal nature of the works. These will form part of a carry forward request at year-end to enable the works to be carried our during the summer months.

There is the potential for a further under spend of £100,000 but this is subject to spend on reactive works during the winter months and has not been included in the forecast at this stage.

The OTHER KEY issues for the Portfolio are:

<u>RES 2 – Portfolio General (forecast favourable variance £463,100)</u>

Under spends on salaries and general supplies & services budgets

Forecast Range not applicable

A detailed review of all budgets has been undertaken across the Portfolio resulting in the identification of salary under spends from vacant posts together with general under spends on supplies and services. The favourable forecast under spend also reflects the recent moratorium on spend for the remainder of the year across these budgets.

<u>RES 3 – IT Services (forecast favourable variance £100,000)</u>

Saving from rationalisation of IT equipment

Forecast Range not applicable

The favourable forecast variance has arisen from the managed rationalisation of Desktop PC's across the authority.

<u>RES 4 – Property Services (forecast favourable variance £227,000)</u>

Rate and Utilities Under spends within Civic Buildings

Forecast Range not applicable

The Admin Buildings account is showing a favourable forecast variance due to the receipt of one-off rate refunds during the current financial year, together with an anticipated under spends on utilities costs. These have arisen as a result of the planned vacation of the Civic Centre to enable essential building works to be undertaken as part of the Accommodation Strategy.

APPENDIX 9

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	2012/13 Efficiencies	Income	Service Reductions	Total	RISK TO DELIVERY: Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved
	£000's	£000's	£000's	£000's	%	%	%
Adult Services	(2,030)	(200)	(920)	(3,150)	100.0%	0.0%	0.0%
Childrens Services	(3,115)	0	0	(3,115)	100.0%	0.0%	0.0%
Communities	(305)	(25)	(352)	(682)	96.3%	3.7%	0.0%
Environment & Transport	(1,594)	(295)	(95)	(1,984)	70.3%	23.4%	6.3%
Housing & Leisure Services	(645)	(110)	(652)	(1,407)	100.0%	0.0%	0.0%
Leader's Portfolio	(553)	(30)	(266)	(849)	100.0%	0.0%	0.0%
Resources	(978)	0	(577)	(1,555)	100.0%	0.0%	0.0%
Total	**(9,220)**	**(660)**	**(2,862)**	**(12,742)**	**95.2%**	**3.8%**	**1.0%**

Portfolio	2012/13 Efficiencies	Income	Service Reductions	Total	FINANCIAL ACHIEVEMENT: Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved	Total
	£000's	£000's	£000's	£000's	£	£	£	£
Adult Services	(2,030)	(200)	(920)	(3,150)	(3,150)	0	0	(3,150)
Childrens Services	(3,115)	0	0	(3,115)	(3,115)	0	0	(3,115)
Communities	(305)	(25)	(352)	(682)	(657)	(25)	0	(682)
Environment & Transport	(1,594)	(295)	(95)	(1,984)	(1,374)	(280)	0	(1,654)
Housing & Leisure Services	(645)	(110)	(652)	(1,407)	(1,407)	0	0	(1,407)
Leader's Portfolio	(553)	(30)	(266)	(849)	(849)	0	0	(849)
Resources	(978)	0	(577)	(1,555)	(1,555)	0	0	(1,555)
Total	**(9,220)**	**(660)**	**(2,862)**	**(12,742)**	**(12,107)**	**(305)**	**0**	**(12,412)**
							Shortfall	**330**
								3%

APPENDIX 10

FINANCIAL HEALTH INDICATORS – MONTH 9

Prudential Indicators Relating to Borrowing

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£911M	£410M	Green
As % of Authorised Limit	100%	45.5%	Green

	Target	Actual YTD	Status
Average % Rate New Borrowing	5.00%	0.32%	Green
Average % Rate Existing Long Term Borrowing	5.00%	3.34%	Green
Average Short Term Investment Rate	0.41%	0.88%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£5.5M	
Forecast Year End General Fund balance	£9.2M	Green

Income Collection

Outstanding Debt:	2011/12	Actual YTD	Status
More Than 12 Months Old	31%	32%	Amber
Less Than 12 Months But More Than 6 Months Old	8%	10%	Amber
Less Than 6 Months But More Than 60 Days Old	9%	12%	Amber
Less Than 60 Days Old	52%	46%	Amber

Creditor Payments

		Status
Target Payment Days	30	
Actual Current Average Payment Days	25	Green
Target % of undisputed invoices paid within 30 days	95.0%	
Actual % of undisputed invoices paid within 30 days	81.22%	Amber

Tax Collection rate

	Target Collection Rate	Month 9 Collection Rate Last Year	Month 9 Collection Rate This Year	Status
Council Tax	96.20%	82.70%	82.91%	Green
National Non Domestic Rates	98.70%	89.16%	88.62%	Amber

APPENDIX 11

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 9

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2012/13 are:

- To make use of short term variable rate debt to take advantage of the continuing current market conditions of low interest rates.
- To constantly review longer term forecasts and to lock in to longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk.
- To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council's priorities being:
  - Security of invested capital
  - Liquidity of invested capital
  - An optimum yield which is commensurate with security and liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.

In essence TM can always be seen in the context of the classic 'risk and reward' scenario and following this strategy will contribute to the Council's wider TM objective which is to minimise net borrowing cost short term without exposing the Council to undue risk either now or in the longer in the term.

The main activities undertaken during 2012/13 to date are summarised below:

- Investment returns during 2012/13 will continue to remain low as a result of low interest rates, with interest received estimated to be £0.8M. However, the average rate achieved to date for fixed term deals (0.88%) exceeds the performance indicator of the average 7 day LIBID rate (0.41%) mainly due to the rolling programme of yearly investments.
- In order to continue to balance the impact of ongoing lower interest rates on investment income we have continued to use short term debt which is currently available at lower rates than long term debt due to the depressed market. As a result the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 3.33% is lower than that budgeted for but slightly higher than last year which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for an extended period. However, it should be noted that the forecast for longer term debt is a steady increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA. A PWLB 25 year fixed rate is currently around 4%).

2. Economic Background

- ***Growth***: The UK economy showed resilience in the third calendar quarter of 2012 with Gross Domestic Product (GDP) at 1%, but this primarily reflected temporary factors such as the boost from the Olympics and an unwinding of the extra bank holiday in June for the Queen's Jubilee. However, surveys seemed to indicate that economic activity in Quarter 3 was more subdued.
- ***Inflation***: Annual CPI fell to 2.2% in September before ticking back up again to 2.7% by calendar year end (the last reading was for November 2012) due in large part to a bigger-than-expected contribution from university tuition fees. Inflation is expected to remain above the Monetary Policy Committee's (MPC) 2% target for the next year or so, as the planned utility price hikes take effect and as the rise in global food prices earlier this year feed through supermarkets and shops.
- The latest market statistics released by the Office for National Statistics show the UK labour market continuing to grow but the pace of expansion slowing, suggesting recent resilience may be starting to fade. Wage growth remains weak, rising at an annual rate of 1.8%. With inflation still running at 2.7%, real wage growth remains negative.
- ***Monetary Policy***: The Bank of England held the Bank Rate at 0.5% and paused the asset purchase programme (Quantitative Easing - QE) at £375 billion. However, monetary conditions were still being loosened via the transfer of the £35 billion cash from the QE fund to the Treasury, with the MPC treating the transfer as equivalent to more QE of the same amount.
- ***Fiscal Outlook***: In the Autumn Statement the Chancellor stuck to his fiscal plans with the austerity drive now extending into 2018. The Office for Budget Responsibility (OBR) revised its March macroeconomic and growth forecasts. Growth was revised from +0.8% to -0.1% in 2012. Growth in subsequent years was also trimmed with the trend level of UK growth of 2.7% only being achieved by 2016. The OBR views the government to be "on course" (i.e. a greater than 50% chance) to meet its fiscal mandate of balancing the budget over a five year period. The target to have debt falling as a share of GDP has been pushed back one year to 2016/17.
- In Europe, Greece has managed to obtain some respite from its lenders as European Finance Ministers eased the terms on its emergency aid financing. Yields on Spanish, Italian and even Portuguese government debt eased despite the Eurozone sliding back into economic recession.
- In the US, the Federal Reserve opted to increase Quantitative Easing (QE) by purchasing $85 billion (£53 billion) per month of government bonds and mortgage backed securities when its current Operation Twist concludes at the end of this year. (Twist involves the sale of short-dated government debt to fund the purchase of long dated paper thus suppressing yields and encouraging investment and growth). Of greater interest was the decision to signal that US official interest rates would remain low until the unemployment rate fell below 6.5%. Nevertheless, markets remained cautious as the resolution of the 'Fiscal Cliff' remained extremely fluid; it was vital that this was concluded by the end of the year to avoid automatic tax rises and spending cuts likely to send the US economy into recession. As expected, the resolution went down to the wire; however the White House and Senate Republicans forged an agreement solely on the issue of taxes, delaying a tougher decision on spending cuts into 2013.

3. Outlook for Quarter 4

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at January 2013 is detailed below. Economic growth remains elusive with UK growth unlikely to return to above trend for the foreseeable future. Quarter 3 GDP was strong at 1% but this momentum is unlikely to be sustained in Quarter 4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. An uncertain outlook for Europe and a slowdown in the global economy have exacerbated the weakness.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

4. Debt Management

Activity within the debt portfolio up to Quarter 3 is summarised below:

	Balance on 01/04/2012 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/12/2012 £M	Increase/ (Decrease) in Borrowing for Year £M
Short Term Borrowing	0	0	14	14	14
Long Term Borrowing	300	(15)	0	285	(15)
Total Borrowing	**300**	**(15)**	**14**	**299**	**(1)**

Public Works Loan Board (PWLB) Certainty Rate and Project Rate Update: The Council successfully qualified for borrowing at the 'Certainty Rate', following the submission of the Certainty Rate form to Central Government, which included details of the capital expenditure and borrowing plans for the authority over the next three years. PWLB borrowing from 1 November 2012 will be undertaken at a 20bps reduction from the standard rate (certainty rate is approximately gilt plus 80bps). In the Autumn Statement of 5 December 2012, the anticipated 'Scrutiny Rate' for PWLB borrowing was rebadged as the 'Project Rate'. It has been set at 40bps below standard PWLB rates, and therefore 20bps below the Certainty Rate, and will be introduced in November 2013. The amount offered at this discounted rate will be capped at £1.5 billion (outside London) and is linked to single projects identified by Local Enterprise Partnerships (LEPs). At the current time, the announcement referred only to English authorities as being eligible.

PWLB Borrowing: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. The relatively low gilt yields during the quarter have resulted in PWLB rates remaining at low rates but there has been a slight upward movement since the last quarter. 5, 20 and 50 year PWLB standard rates rose by 22bp, 11bp and 7bp respectively. Despite rates remaining attractive, affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that for any borrowing undertaken ahead of need, the proceeds would have to be invested into a distressed financial market (credit risk) at rates of interest significantly lower than the cost of borrowing.

As at the 31 March 2012 the Council used £70M of internal resources in lieu of borrowing which has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council will need to borrow to cover this amount as balances fall. Following the September capital update the Council is expected to borrow an additional £66M for capital purposes by 2014/15 of which £22.5M relates to new capital spend and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also to lock back into longer term debt prior to interest rises. However due to the continued and increased uncertainty in the markets and the expectations of interest rates staying lower for longer it may be appropriate to maintain the council use of internal resources for part or all of this amount; providing that balances can support it.

No long term borrowing has been taken to date and is none is expected to be taken until the end of the year.

The Council has £35M variable rate loans which were borrowed prior to 20 October 2010 (the date of change to the lending arrangements of the PWLB post CSR) and are maintained on their initial terms and are not subject to the additional increased margin, they are currently averaging between 0.50% and 0.60% and are helping to keep overall borrowing costs down.

Variable rate borrowing (currently around 1.26% for new borrowing using the certainty rate) is expected to remain attractive for some time with the Bank of England maintaining the base rate at historically low levels. The Council is currently expected to borrow an additional £20M at variable rates at an estimated 1.5% by the end of the year. Variable rate borrowing from the markets also remains attractive, with borrowing for up to one year available at rates close to the Bank of England Base Rate.

Whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time.

In order to mitigate these risks the Council approved the creation of an Interest Equalisation Reserve in 2009. At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. The Interest Equalisation Reserve was created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period during which the Council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon.

Debt rescheduling: The fall in PWLB repayment rates enlarged the premium / diminished the residual discounts on the premature repayment of debt, reducing the attractiveness of debt rescheduling during the quarter. No rescheduling activity was undertaken or is expected to take place during this financial year.

5. Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The table below summarises activity during the year to date:

	Balance on 01/04/2012 £M	Investments Repaid £M	New Investments £M	Balance as at 31/12/2012 £M	Increase/ (Decrease) in Investment for Year £M
Short Term Investments	10	(90)	104	24	14
Money Market Funds & Call Accounts	52	(329)	317	40	(12)
EIB Bonds	6	0	0	6	0
Long Term Investments	0	0	0	0	0
Total Investments	**68**	**(419)**	**421**	**70**	**2**

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2012/13. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Call Accounts, Certificate of Deposits (CDs) and term deposits with UK Banks and Building Societies systemically important to the UK banking system.
- Debt Management Office.

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings. The Council's minimum long-term counterparty rating is A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

A break down of investments as at 31 December 2012 by credit rating and maturity profile can be seen in following table.

Current Rating	Initial Rating	Less than 1 Month £000's	1 - 3 Months £000's	3 - 6 Months £000's	6 - 9 Months £000's	9 - 12 Months £000's	Over 12 Months £000's	Total £000's
BBB	A+							0
A-	A-							0
A	A	15,903	5,000		3,000			23,903
A	A+	10,000						10,000
A	AA-							0
A+	A+							0
AA-	AA-	6,000			1,000			7,000
AA+	AA+							0
AAA	AAA	25,993					3,036	29,029
		57,896	**5,000**	**0**	**4,000**	**0**	**3,036**	**69,932**

Counterparty Update

It was a busy quarter, with a number of rating actions on global institutions. S&P downgraded the Kingdom of Spain and as a result, a number of Spanish banks were also downgraded, although Santander UK was not. S&P also took rating action on Dutch, French and Canadian banks during Quarter 3, and revised the outlook on a number of Swedish banks.

France's sovereign rating was also downgraded to Aa1 by Moody's, following the agency's view of the country's economic growth and fiscal outlook.

A number of supranational institutions were downgraded in the quarter, including the European Financial Stability Facility (EFSF), European Stability Mechanism (ESM) and the Council of Europe Development Bank (CEB). The outlook for the European Investment Bank (EIB) was also revised to negative. Reasons cited for these ratings actions were largely due to the downgrade of the sovereign rating of Member States (principally France) and the revision of the EU's outlook to negative in September 2012.

Moody's placed four of the Council's approved Canadian banks on review for possible downgrade, although current long-term ratings for these banks are rated either 'Aaa' or in the 'Aa' category.

S&P revised the Lloyds Banking Group outlook to negative in November, as a result of the announcement that Lloyds made a further £1 billion provision in relation to payment protection insurance, bringing the cumulative amount over the past two years to £5.3 billion. S&P also placed the UK on negative outlook in December, reflecting the one-in-three chance that they could lower the ratings of the UK within the next two years. As a result of the UK's outlook changing to negative, S&P also revised the outlook on Standard Chartered and Nationwide Building Society.

Fitch downgraded HSBC from AA to AA-, reflecting the agency's consideration of the risks attached to the group's expansion to higher risk markets, including mainland China, and the intensifying competition in Hong Kong.

None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A-/A3 credit rating threshold in the quarter, so there was no suspension or temporary removal of any financial institution on the Council's lending list. In fact, as a result of considerable stabilisation and in some cases improvement in credit metrics, the Council extended duration limits in October for a number of UK, European and US banks. Six further European institutions were added to the lending list, for periods of up to 100 days.

Maturities for new investments with financial institutions on the Council's list are currently as follows:

UK Institutions

- Santander UK for a maximum period of 100 days;
- Royal Bank of Scotland, National Westminster, Lloyds TSB and Bank of Scotland for a maximum period of 6 months;
- HSBC Bank, Standard Chartered, Nationwide BS and Barclays for a maximum period of 12 months.

Non-UK Institutions

- ING Bank NV, Credit Suisse, BNP Paribas, Credit Agricole CIB, Credit Agricole SA and Societe Generale for a maximum period of 100 days;

- Bank Nederlandse Gemeenten N.V., Deutsche Bank AG, Nordea Bank, Rabobank and Svenska Handelsbanken for a maximum period of 12 months;
- National Australia Bank, Westpac, ANZ, Commonwealth Bank of Australia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank, Bank of Montreal, Bank of Nova Scotia and JP Morgan for a maximum period of 12 months.

Authority Banking Arrangements: Along with many other authorities the Council uses the Co-op as its banker, which at the current time does not meet the minimum credit criteria of A- (or equivalent) long term. However, there are not many banks actively in the tendering process for local authority banking, which would meet our criteria and it is a costly and complicated process. With this in mind, despite the credit rating being below the Authority's minimum criteria, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Budgeted Income and Outturn: The authority does not expect any losses from non-performance by any of its counterparties in relation to its investments. The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2015/16. Short-term money market rates have remained at very low levels. Fixed term deposits to date have achieved an average return of 0.88%. The Council's investment income for the year is currently estimated to be £0.8M.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its approved Prudential Indicators for 2012/13. Details of the performance against key indicators are detailed in the following paragraphs:

6.1. Capital Financing Requirement

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 capital financing requirement for the current and next two financial years. It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow. The following table shows the actual position as at 31 March 2012 and the estimated position for the current and next two years based on the capital programme submitted to council:

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved £M	2012/13 Forecast £M	2013/14 Estimate £M	2014/15 Estimate £M
Balance B/F	**360**	**444**	**445**	**437**	**437**
Capital expenditure financed from borrowing	21	15	13	14	12
Temporary Funding (Repayment)	0	0	(6)	(6)	0
HRA Debt	74	(8)	5	7	3
Revenue provision for debt Redemption.	(7)	(8)	(18)	(13)	(12)
Movement in Other Long Term Liabilities	(2)	(2)	(2)	(2)	(2)
Cumulative Maximum External Borrowing	**445**	**441**	**437**	**437**	**438**

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved £M	2012/13 Forecast £M	2013/14 Estimate £M	2014/15 Estimate £M
General Fund	271	265	268	261	259
HRA	174	176	169	176	179
Total CFR	**445**	**441**	**437**	**437**	**438**

6.2. <u>Balances and Reserves</u>

Estimates of the Council's level of overall Balances and Reserves for 2012/13 to 2014/15 are as follows:

	2011/12 Actual £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Balances and Reserves	70	34	28	24

6.3. <u>Authorised Limit and Operational Boundary for External Debt</u>

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached. The Council's ***Affordable/Authorised Borrowing Limit*** was set at £911M for 2012/13 (£832M for borrowing and £79M for other long term liabilities).

The ***Operational Boundary*** is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit. The Operational Boundary for 2012/13 was set at £869M (£794M for borrowing and £75M for other long term liabilities).

The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the quarter, borrowing at its peak was £300M.

The above limits are set to allow maximum flexibility within TM, for example, a full debt restructure, actual borrowing is significantly below this as detailed below:

	Balance on 01/04/2012 £M	Balance as at 31/12/2012 £M	2012/13 Forecast £M	2013/14 Estimate £M	2014/15 Estimate £M
Borrowing	300	299	336	365	363
Other Long Term Liabilities	72	72	74	79	82
Total Borrowing	**372**	**371**	**410**	**444**	**445**

6.4. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. 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.

	Limits for 2012/13
Upper Limit for Fixed Rate Exposure	100%
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50%
Compliance with Limits:	Yes

The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance, the highest to date is 15%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the PWLB for variable debt. There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, to allow for flexibility in case of any slippage in expected capital receipts.

6.5. Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in longer term investments; the limit for 2012/13 was set at £50M. With the maximum maturity period for a number of banks being extended to 12 months, we reintroduced the rolling programme of yearly investments from November and currently have £4M invested at an average rate of 0.93%, although it should be noted that rates are falling and new deals are expected to be around 0.80%.

6.6. Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 31/12/2012 £M	Average Fixed Rate as at 31/12/2012 %	% of Fixed Rate as at 31/12/2012	Compliance with set Limits?
Under 12 months	0	45	12	1.84	5.03	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	95	3.23	38.70	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	10	4.68	4.05	Yes
30 years and within 35 years	0	75	5	4.60	2.03	Yes
35 years and within 40 years	0	75	25	4.62	10.13	Yes
40 years and within 45 years	0	75	53	3.61	21.44	Yes
45 years and within 50 years	0	75	46	3.54	18.62	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			247	**3.54**	**100.00**	

Please note: the TM Code Guidance Notes (page 15) states: "The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender has the right to increase the interest rate payable without limit, such as in a LOBO loan, this should be treated as a right to require payment".
For this indicator, the next option dates on the Council LOBO loans will therefore determine the maturity date of the loans.

6.7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code. The ratio is based on costs net of investment income. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012.

The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the approved capital programme adjusted for actual borrowing made to 31 December 2012.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Actual %	2012/13 Approved %	2012/13 Forecast %	2013/14 Approved %	2014/15 Approved %
General Fund	6.30	6.84	6.26	7.42	7.17
HRA	4.65	10.92	24.96	11.05	10.84
Total	**7.12**	**8.84**	**12.15**	**9.36**	**8.93**

6.8. Gross and Net Debt

The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need. The Authority reports that it has not borrowed in advance of need and that at the 31 March 2012 it had used £70M of internal resources in lieu of borrowing, as this has been the most cost effective means of funding past capital expenditure to date.

6.9. Gross Debt 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 Authority should ensure that the net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years. This indicator has been amended since the publication of the Quarter 2 report to reflect changes set out in CIPFA Guidance.

The Authority has had no difficulty in meeting this requirement so far in 2012/13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2012 Actual £M	31/03/2013 Approved £M	31/03/2013 Estimate £M	31/03/2014 Estimate £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M
General Fund CFR	271	265	268	261	259	251
Housing CFR	174	176	169	176	179	179
Total CFR	**445**	**441**	**437**	**437**	**438**	**430**
Less: Existing Profile of Long Term Borrowing and Other Long Term Liabilities	357	416	385	394	395	384
Cumulative Maximum External Borrowing Requirement	**88**	**25**	**52**	**43**	**43**	**46**

6.10. Credit Risk

The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk.

The authority also considers 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) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- 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;
- Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2012/13 TMSS.

6.11. HRA Limit on Indebtedness

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government. The following tables show this plus the actual level of debt and expected movement in year.

HRA Limit on Indebtedness	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Revised £m	2013/14 Revised £m	2014/15 Revised £m
HRA Debt Cap (as prescribed by CLG)	199.6	201.3	199.6	199.6	199.6
HRA CFR	174.2	175.5	168.8	175.7	178.8
Difference	**25.4**	**25.8**	**30.8**	**23.9**	**20.8**

HRA Summary of Borrowing	2012/13 Estimate £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m
Brought Forward	174.2	174.2	168.8	175.7
Maturing Debt	(8.6)	(10.4)	(5.6)	(5.1)
New borrowing	4.8	5.0	12.5	8.2
Carried forward	**170.4**	**168.8**	**175.7**	**178.8**
HRA Debt Cap (as prescribed by CLG)	201.3	199.6	199.6	199.6
Headroom	**30.9**	**30.8**	**23.9**	**20.8**

7. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the TM activity up to the 31 December 2012. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

APPENDIX 12

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 9

The Housing Revenue Account (HRA) is currently forecast to under spend by **£180,000** on income and expenditure items at year-end. A potential carry forward request for this amount has been identified.

There are no CORPORATE issues for the HRA at this stage.

The OTHER KEY issues for the HRA are:

HRA 1 – Housing Transformation Project (forecast favourable variance £180,000)

There is slippage on the Mobile Working project.

The implementation of Mobile Working has been delayed to enable the output from the Lean project to inform the decision on the most suitable solution. The devices required for Mobile Working will not be required until 2013/14, so a carry forward request for £180,000 will be made at year end.