

GENERAL FUND 2013/14 - OVERALL SUMMARY

JUNE 2013

	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Change & Communities	3,809	3,941	132 A
Children's Services	35,121	39,730	4,609 A
Economic Development & Leisure	5,989	6,120	131 A
Environment & Transport	26,579	26,979	400 A
Health & Adult Services	67,089	69,200	2,111 A
Housing & Sustainability	1,765	1,956	191 A
Leader's Portfolio	4,065	4,020	45 F
Resources	41,993	41,546	447 F
Baseline for Portfolios	186,410	193,492	7,083 A
Net Draw From Risk Fund	4,896	0	4,896 F
Sub-total (Net Controllable Spend) for Portfolios	191,305	193,492	2,187 A
Non-Controllable Portfolio Costs	22,275	22,275	0
Portfolio Total	213,580	215,767	2,187 A
Levies & Contributions			
Southern Seas Fisheries Levy	31	31	0
Flood Defence Levy	32	32	0
Coroners Service	560	560	0
	623	623	0
Capital Asset Management			
Capital Financing Charges	13,357	12,557	800 F
Capital Asset Management Account	(24,585)	(24,585)	0
	(11,229)	(12,029)	800 F
Other Expenditure & Income			
Direct Revenue Financing of Capital	210	210	0
Net Housing Benefit Payments	(882)	(882)	0
Non-Specific Government Grants	(134,450)	(135,988)	1,538 F
Contribution to Transformation Fund	1,000	1,000	0
Collection Fund Surplus	(1,042)	(1,042)	0
Open Space and HRA	436	436	0
Risk Fund	810	810	0
Contingencies	111	111	0
Surplus/Deficit on Trading Areas	36	36	0
	(133,771)	(135,309)	1,538 F
NET GF SPENDING	69,204	69,053	151 F
Draw from Balances:			
To fund the Capital Programme	(210)	(210)	0
Draw from Balances (General)	1,677	1,828	151 F
Draw from Strategic Reserve (Pensions & Redundacies)	(621)	(621)	0
	845	997	151 F
COUNCIL TAX REQUIREMENT	70,049	70,049	0

CHANGE & COMMUNITIES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£38,700** at year-end, which represents a percentage variance against budget of **1.0%**. 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	132.3 A	3.6
Risk Fund Items	171.0 F	
Portfolio Forecast	38.7 F	1.0

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

The OTHER KEY issues for the Portfolio are:

COMM 1 – Youth Offending Team (forecast adverse variance £171,000)

Transfer of costs of placing Young Offenders in remand from Youth Justice Board

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

The Youth Justice Board has transferred responsibility to fund the costs of remand to Local Authorities from 1 April 2013. Due to the volatile nature of the need for remand, provision for this has been retained in the Risk Fund and the anticipated draw is expected to be £171,000.

Summary of Risk Fund Items

Service Activity	£000's
Youth Remand	171.0
Risk Fund Items	171.0

CHILDREN'S SERVICES PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to over spend by **£1,808,700** at year-end, which represents a percentage over spend against budget of **5.1%**. 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	4,608.7 A	13.1
Risk Fund Items	2,800.0 F	
Portfolio Forecast	1,808.7 A	5.1

The **CORPORATE** issues for the Portfolio are:

CS 1 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £2,830,800)

This budget funds the cost of children that have to be taken into care. The number of children in care is **25, (6%)** over the budgeted position. A further increase of **43** placements (or **10.2%** based on the current placement numbers) is anticipated by year end.

Forecast Range £3.5M adverse to £1.5M adverse

The increasing number of children having to be taken into care has led to a forecast over spend on fostering of £2,168,400, and on residential placements of £417,300. The over spend on fostering of £2,168,400 includes a forecast over spend of £1,867,100 on Independent Fostering Agency (IFA) placements, and £262,100 on placements with local authority foster carers.

In addition there are various other over spends, such as special guardianship allowances, staying put placements and adoption allowances totalling £245,100.

There has been an over spend of £179,100 on special guardianship and adoption allowances. The increasing numbers of lower cost special guardianship and adoption allowances has primarily 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 £2.2M has been made from the Risk Fund reducing the over spend on Tier 4 Safeguarding Specialist Services to £630,800.

The table outlines the changes in activity levels for 2013/14:

Service	Daily Rate Range	Children Numbers					
		Budget	Budget Plus Risk Fund Provision	April 2013	May 2013	June 2013	Latest Forecast
Fostering up to 18	£20 - £100	311	325	311	305	306	339
IFAs	£86 - £270	62	91	92	98	102	113
Inter Agency Fostering Placements	£56 - £136	0	0	4	3	3	3
Supported Placements or Rent	£16 - £111	13	13	1	1	1	1
Residential - Independent Sector	£257 - £660	10	15	12	10	10	8
Civil Secure Accommodation	£707 - £806	1	1	0	0	0	1
Subtotal Children in Care		397	445	420	417	422	465
Residential (Not Looked After)	£108 - £333	0	0	3	3	3	3
Supported Placements or Rent (Not Looked After)	£16 - £111	0	0	5	5	5	5
Over 18's	£8 - £153	17	17	17	17	21	20
Adoption Allowances	£4 - £38	91	91	96	96	96	96
Special Guardianship Allowances	£2 - £44	49	49	71	73	74	73
Residence Order Allowances	£7 - £18	18	18	17	17	17	17
Total		572	620	629	628	638	679

The children's numbers exclude disability placements, UASC's and children placed at nil cost (e.g. with parents)

CS 2 – Safeguarding Management and Legal Services (forecast adverse variance £485,100)

Additional legal costs of £273,200 are directly attributable to the increasing number of children in care. Safeguarding management and support services have increased by £211,900 over the budgeted position, mainly due to one off costs for staffing and systems audits and reviews.

Forecast Range £600,000 adverse to £200,000 adverse

This adverse variance is due to unavoidable internal and external legal costs associated with children having to be taken into care. The costs relate to court fees, legal expenses and external counsel. A draw of £200,000 has been made from the Risk Fund reducing the over spend on Safeguarding Management and Legal Services to £285,100.

CS 3 – Child Protection Tier 3 Social Work Teams (forecast adverse variance £913,100)

The adverse variance reflects 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 £1.5M adverse to £500,000 adverse

There is a forecast over spend of £793,200 on child protection 'Tier 3' social work teams. Current market 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 impact of this strategy may impact on agency social work numbers towards the remaining half of 2013/14.

The forecast over spend on the Contact Scheme of £129,900 is a direct consequence of younger children having to be taken into care earlier, leading to an increase in court-ordered supervised parental contact. External contracts have had to be negotiated to cope with the increased demand.

A draw of £400,000 has been made from the Risk Fund reducing the over spend on Child Protection Social Work Teams to £513,100.

CS 4 – Commissioning, Policy and Performance (forecast adverse variance £274,400)

Overspends on school transport, admin supplies and translation services

Forecast Range £290,000 adverse to £200,000 adverse.

A Personal Travel Budget pilot has been trialled since January 2013 at two special schools in the city. The pilot, which allocates parents 45p per mile to transport their children to school, has been less well received by parents than anticipated. An over spend of £90,000 is therefore forecast.

In addition, there has been higher than budgeted demand for translation services in the first three months of the year which has led to a forecast over spend of £36,000 and Directorate expenditure on storage, photocopying and postage is forecast to over spend by £42,000.

The costs of operating the sports hall at the old Millbrook school site are forecast to overspend by £35,000. The council will continue to work with the operator to drive these costs down over the course of the year.

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

Summary of Risk Fund Items

Service Activity	£000's
Tier 4 Services	2,200.0
Safeguarding Management and Legal Services	200.0
Child Protection Tier 3 Social Work Teams	400.0
Risk Fund Items	2,800.0

ECONOMIC DEVELOPMENT & LEISURE PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£15,900** at year-end, which represents a percentage over spend against budget of **0.3%**. 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	130.9 A	2.2
Risk Fund Items	115.0 F	
Portfolio Forecast	15.9 A	0.3

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

The OTHER KEY issues for the Portfolio are:

EDL 1 – Leisure Client Team (forecast adverse variance £115,000)

Contractual utility inflation on the Active Nation contract

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

Under the contract with Active Nation to run the Council's sports provision, the Council bears the risk of cost inflation on utilities over and above the Consumer Price Index. This is currently anticipated to be £115,000 and provision has been made within the Risk Fund.

Summary of Risk Fund Items

Service Activity	£000's
Sport & Rec. Contract - Energy	115.0
Risk Fund Items	115.0

ENVIRONMENT & TRANSPORT PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to over spend by **£357,400** at year-end, which represents a percentage over spend against budget of **1.3%**. 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	400.4 A	1.5
Risk Fund Items	43.0 F	
Portfolio Forecast	357.4 A	1.3

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £674,000)

Parking pressures have been identified relating to reduced income of £715,000.

Forecast Range £750,000 adverse to £450,000 adverse

There is an adverse forecast variance of £715,000 for off street car parking, due to a number of factors, the most significant being that income is forecast to fall short of the level anticipated during the budget setting process by £485,000. This variance may be attributed to an underlying reduction in parking across the whole of the city, including both Council and privately owned car parks. Management are considering whether any remedial action might help to address this position.

In addition, the proposed introduction of evening charges, with a target income of £300,000 in 2013/14, is now forecast to generate, after set-up costs, a net income of only £70,000 and the shortfall of £230,000 in parking income is reflected in the overall forecast.

Following the closure of the Lime Street car park in early June, there is an estimated decrease in net income of £91,000. The budget has been adjusted accordingly by an actual draw from the Risk Fund.

The OTHER KEY issues for the Portfolio are:

E&T 2 – Waste Collection (forecast adverse variance £190,000)

There is a forecast adverse variance on the Commercial Waste Service income.

Forecast Range £300,000 adverse to £100,000 adverse

The Commercial Waste Service is forecast to be £190,000 below the level budgeted for, due to continuing adverse trading conditions and this position is regularly reviewed by City Services management team. Improvements to billing and debt recovery have been introduced and other remedial action is being investigated to improve the situation.

E&T 3 – Waste Disposal (forecast adverse variance £52,700)

Forecast Range £100,000 adverse to nil

There are various forecast changes with an adverse overall variance.

The Waste Disposal Contract has increased rates from January 2014, which are anticipated to increase overall costs by £43,000 in this financial year and this will be met through a draw on the Risk Fund.

The savings proposal to charge for school waste disposal cannot be implemented at a cost of £100,000. However, there is anticipated to be an additional £100,000 income from the profit share at the Energy Recovery Facility (Marchwood incinerator) for 2012 that will offset this shortfall.

There is a forecast additional cost of £60,000 at the Civic Amenity Waste Centre, due to increased volumes, and a forecast adverse variance on HWRC income of £40,000. However, there is additional disposal income of £30,000 from Housing and savings of £63,000 on lower general collected household waste.

E&T 4 – E&T Contracts Management (forecast favourable variance £162,900)

There are forecast savings on the street lighting PFI contract.

Forecast Range £100,000 favourable to £200,000 favourable

A level of savings on the PFI Street Lighting contract sum were anticipated and these were planned for and factored in corporately as part of the budget setting process but there are forecast to be savings over and above the originally planned profile. These are not certain but are at present forecast to be £169,000.

E&T 5 – Development Control (forecast favourable variance £158,100)

There is a forecast of additional planning application fee income and a forecast saving on staffing.

Forecast Range £100,000 favourable to £200,000 favourable

Development Control is forecast to over achieve against the target for planning application income by £116,000. The number of applications in the first quarter has been higher than usual, due to the introduction of the Community Infrastructure Levy in August, which will mean an increased charge for some applicants. The new forecast is also comparable with the actual planning fee income received in 2012/13, which was also favourable, and would indicate a general growth in the number of planning applications being submitted.

In addition, there is a favourable variance of £38,700, due to a saving from the recent restructure within the Planning department.

Summary of Risk Fund Items

Service Activity	£000's
Waste Disposal Contract	43.0
Risk Fund Items	43.0

HEALTH & ADULT SERVICES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£481400** at year-end, which represents a percentage over spend against budget of **0.7%**. 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	2,111.4 A	3.1
Risk Fund Items	1,630.0 F	
Portfolio Forecast	481.4 A	0.7

The CORPORATE issues for the Portfolio are:

HAS 1 – Learning Disability (forecast adverse variance £1,256,700)

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

Forecast Range £1.45M adverse to £1.25M adverse.

A budget pressure arising from the impact of an aging population and new transitional clients was identified as part of setting the 2013/14 budgets. A sum of £1.0M was allowed for within the Risk Fund to meet this pressure, which can now be evidenced by an increase in residential activity of £1,362,100, offset by a decrease in the forecast spend for Supported Living/Day Care clients of £94,100. It has been assumed that there will be a draw on the Risk Fund for the full £1.0M.

It should be noted that this forecast position is based on an assumption that a further local savings target of £259,000, from a combination of Operational and Commissioning savings, will be fully achieved.

HAS 2 – Complex Care (forecast adverse variance £268,100)

Additional cost of covering permanent posts with agency staff.

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

A review of the current complex care service is being undertaken and whilst this review is underway no permanent recruitment to posts is being undertaken within the complex care teams. Although fixed term contract posts are being advertised, the service is having trouble in filling the posts on this basis, and therefore to meet service requirements managers are having to use agency staff at an additional premium.

HAS 3 – Adult Disability Care Services (forecast adverse variance £630,000)

Additional costs due to Older Persons Mental Health clients transferring from Continuing Health Care Funding and greater demand for care from an increase in the elderly population

Forecast Range not applicable.

The forecast spend on Adult Disability Care Services has been updated for two known pressures compared to the position on which the budget was based. Outturn and last known activity levels recorded in the service area indicate that there will be a required draw on the risk fund of £630,000. This is made up of £430,000 for Older Persons Mental Health clients transferring from Continuing Health Care Funding and a further £200,000 to recognise the greater demand for care from an increase in the elderly population.

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

Summary of Risk Fund Items

Service Activity	£000's
Adult Disability Care Services	630.0
Learning Disability	1,000.0
Risk Fund Items	1,630.0

HOUSING & SUSTAINABILITY PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£54,700** at year end, which represents a percentage variance against budget of **3.1%**. 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	191.2 A	10.8
Risk Fund Items	136.5 F	
Portfolio Forecast	54.7 A	3.1

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

The OTHER KEY issues for the Portfolio are:

HOUS 1 – Sustainability (forecast adverse variance £164,700)

There is a variance due to the cost of purchasing Carbon Reduction Certificates (CRCs).

Forecast Range £200,000 adverse to £150,000 adverse.

It is estimated that the cost of purchasing CRCs for the authority in 2013/14 will be £136,500 and it is anticipated that this will be covered by a draw on the Risk Fund. In addition, there are minor adverse variances across Sustainability totalling £28,200.

Summary of Risk Fund Items

Service Activity	£000's
Sustainability – CRC purchases	136.5
Risk Fund Items	136.5

LEADER'S PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to under spend by **£45,000** at year-end, which represents a percentage variance against budget of **1.1%**. 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	45.0 F	1.1
Risk Fund Items	0.0	
Portfolio Forecast	45.0 F	1.1

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

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

RESOURCES PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to under spend by **£447,300** at year-end, which represents a percentage variance against budget of **1.1%**. 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	447.3 F	1.1
Risk Fund Items	0.0	
Portfolio Forecast	447.3 F	1.1

The **CORPORATE** issues for the Portfolio are:

RES 1 – Contract Management (forecast favourable variance £300,600)

Overachievement of savings from the Capita contract in 2013/14.

Forecast Range not applicable

The favourable variance reflects savings achieved through the Capita contract over and above the risk adjusted amount approved by Council in February. This represents a net saving in-year after one-off transition costs and an additional saving will be put forward to reflect the higher gross saving delivered for future years.

The **OTHER KEY** issues for the Portfolio are:

RES 2 – Portfolio General (forecast favourable variance £91,300)

Under spends on salaries.

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.

RES 3 – Property Services (forecast favourable variance £58,000)

Reduced costs for business rates due to temporary vacation of Civic Buildings.

Forecast Range not applicable

The Admin Buildings account is showing a favourable forecast variance due to an anticipated under spend on rates 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.

RES 4 – IT Services (forecast favourable variance £22,000)

Saving from rationalisation of IT equipment

Forecast Range not applicable

The favourable forecast variance has arisen from the managed rationalisation of PCs and laptops across the authority.

RES 5 – Grants to Voluntary Organisations (forecast adverse variance £24,600)

Additional costs for transitional relief scheme.

Forecast Range not applicable

The adverse forecast variance reflects the payment of transitional relief to organisations affected by the impact of the grants programme approved by Cabinet in February. As detailed in the Cabinet report, the Council was liable in some cases to provide this relief where the Council has either ceased or reduced funding to organisations that the Council has had a prior funding relationship with. The transitional relief scheme is now closed and the intention is to manage the cost within the overall Portfolio budgets.

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	2013/14				Implemented and Saving Achieved	RISK TO DELIVERY	
	Efficiencies	Income	Service Reductions	Total		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		%	%
Change & Communities	(33)	0	(556)	(589)	100.0%	0.0%	0.0%
Children's Services	(2,265)	(97)	(3,012)	(5,374)	69.9%	28.2%	1.9%
Economic Development & Leisure	0	(50)	(617)	(667)	100.0%	0.0%	0.0%
Environment & Transport	(604)	(875)	(2,588)	(4,067)	74.9%	17.8%	7.4%
Health & Adult Services	(3,295)	(185)	(567)	(4,047)	94.1%	2.6%	3.3%
Housing & Sustainability	(231)	0	0	(231)	78.4%	21.6%	0.0%
Leader's Portfolio	(481)	0	(25)	(506)	94.9%	0.0%	5.1%
Resources	(29)	0	(908)	(937)	25.3%	74.7%	0.0%
Total	(6,938)	(1,207)	(8,273)	(16,418)	77.8%	18.8%	3.4%

Portfolio	2013/14				Implemented and Saving Achieved	FINANCIAL ACHIEVEMENT			Total
	Efficiencies	Income	Service Reductions	Total		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		£	£	£	
Change & Communities	(33)	0	(556)	(589)	(589)	0	0	(589)	
Children's Services	(2,265)	(97)	(3,012)	(5,374)	(3,759)	(1,484)	(10)	(5,253)	
Economic Development & Leisure	0	(50)	(617)	(667)	(667)	0	0	(667)	
Environment & Transport	(604)	(875)	(2,588)	(4,067)	(3,045)	(677)	(70)	(3,792)	
Health & Adult Services	(3,295)	(185)	(567)	(4,047)	(3,807)	(105)	0	(3,912)	
Housing & Sustainability	(231)	0	0	(231)	(181)	(50)	0	(231)	
Leader's Portfolio	(481)	0	(25)	(506)	(480)	0	(26)	(506)	
Resources	(29)	0	(908)	(937)	(237)	(700)	0	(937)	
Total	(6,938)	(1,207)	(8,273)	(16,418)	(12,765)	(3,016)	(106)	(15,887)	
							Shortfall	531	
								3%	

FINANCIAL HEALTH INDICATORS – MONTH 3**Prudential Indicators Relating to Borrowing**

	<u>Maximum</u>	<u>Forecast</u>	<u>Status</u>
Maximum Level of External Debt £M	£898M	£444M	Green
As % of Authorised Limit	100%	49.4%	Green
	<u>Target</u>	<u>Actual YTD</u>	<u>Status</u>
Average % Rate New Borrowing	5.00%	0.0%	Green
Average % Rate Existing Long Term Borrowing	5.00%	3.32%	Green
Average Short Term Investment Rate	0.45%	0.82%	Green

Minimum Level of General Fund Balances

		<u>Status</u>
Minimum General Fund Balance	£5.5M	
Forecast Year End General Fund balance	£14.0M	Green

Income Collection

	<u>2012/13</u>	<u>Actual YTD</u>	<u>Status</u>
Outstanding Debt:			
More Than 12 Months Old	38%	32%	Green
Less Than 12 Months But More Than 6 Months Old	5%	8%	Amber
Less Than 6 Months But More Than 60 Days Old	10%	9%	Green
Less Than 60 Days Old	47%	52%	Green

Creditor Payments

		<u>Status</u>
Target Payment Days	30	
Actual Current Average Payment Days	24	Green
Target % of undisputed invoices paid within 30 days	95.0%	
Actual % of undisputed invoices paid within 30 days	86.85%	Amber

Tax Collection rate

	<u>Target Collection Rate</u>	<u>Month 3 Collection Rate</u>		<u>Status</u>
		<u>Last Year</u>	<u>This Year</u>	
Council Tax	96.20%	28.50%	26.80%	Amber
National Non Domestic Rates	98.70%	34.25%	32.70%	Amber

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 3

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2013/14 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 2013/14 to date are summarised below:

- Investment returns during 2013/14 will continue to remain low as a result of low interest rates, with interest received estimated to be £0.61M. However, the average rate achieved to date for fixed term deals (0.82%) exceeds the performance indicator of the average 7 day LIBID rate (0.45%) 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 3.32% 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 maturity loan is currently around 4.5%.

2. Economic Background

- **Growth:** The UK economy showed some improvement, although growth was subdued. Gross Domestic Product (GDP) for the first quarter of 2013 was +0.3%,

but the underlying numbers were disappointing as inventory growth contributed largely to the output figures. Revisions by the Office of National Statistics to GDP back-data showed the UK avoided a double-dip recession in 2012, but that the downturn in 2008/09 was deeper than previously estimated. Growth is now nearly 4% below its peak back in 2007. Some positive signs for household spending emerged, mainly from a slower deterioration in real earnings growth, (i.e. earnings less inflation), which implied a slower erosion of purchasing power. Household savings rates remained high, which is unsurprising given the uncertain economic outlook.

- **Inflation:** Annual CPI was 2.7% in May. Inflation was expected to pick up again temporarily in the near term, peaking around 3% in June and remaining close to this level throughout the autumn. Further out, inflation should fall back towards the 2% target as external price pressures fade and a revival in productivity growth curbs domestic cost pressures. The oil price (Brent Crude) climbed above \$100/barrel on the back of political unrest in Egypt and the unresolved crisis in Syria.
- **Monetary Policy:** There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375 billion respectively. Minutes of the Bank of England's Monetary Policy Committee (MPC) meetings during the quarter showed that whilst the MPC voted unanimously for no change in official interest rates, it remained split (6 to 3 in favour of no change) on whether further Quantitative Easing (QE) was required to stimulate the economy.
- In his testimony to Congress on 22 May, the US Federal Reserve Chairman Ben Bernanke stated that, if the nascent recovery in the US economy became established, the Fed would reduce its \$85 billion monthly asset purchase programme (QE). The apparent movement by the Fed towards tapering its open-ended QE programme prompted extreme asset price volatility in bonds and equities, as investors sought to crystallise gains driven by excessive liquidity. Consequently, government bond yields spiked. UK gilt yields jumped up 0.50% over the six weeks to the end of June.
- The market negativity appeared to be overdone. Whilst the outlook for the global economy appeared to have improved over the first half of the year, significant economic risks remained, particularly in China and the Eurozone. The Chinese banking system is facing tighter liquidity conditions as officials seek to slow down rampant credit growth, and, despite the time gained by the European Central Bank (ECB) to allow individual members and the Eurozone as a whole to reform their economies, the Eurozone debt crisis has not gone away. The region remains in recession and up-coming political events, such as the German general election, could derail any progress towards a more balanced and stable regional economy. The US recovery appears to be in train, but political risks remain regarding the debt ceiling and the federal budget.

3. Outlook for Quarter 2

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at July 2013 is detailed below:

	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Official Bank Rate												
Upside risk			0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75
Arlingclose Centra	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

The UK economic outlook appears to have improved, but the projected path for growth remains subdued. Recent data has been mixed and what previously looked likely to be a strong start to the year is now viewed more doubtful. Looking forward the only likely positive contributor to overall growth is household consumption, which itself remains under pressure given the deterioration in real earnings growth, high unemployment and general low confidence. A variety of other factors will continue to weigh on a domestic recovery, including on-going fiscal consolidation, muted business confidence and subdued foreign demand.

4. Debt Management

Activity within the debt portfolio up to Quarter 1 is summarised below:

	Balance on	Debt Maturing	New Borrowing	Balance as	Increase/	Average Life / Average	
	01/04/2013	or Repaid		at	(Decrease) in	Life	Rate %
	£M	£M	£M	30/6/2013	Borrowing for		
				£M	Year		
					£M		
Short Term Borrowing	34	(28)	0	6	(28)	7 Months	0.41
Long Term Borrowing	276	(2)	0	274	(2)	23.3 Years	3.32
Total Borrowing	310	(30)	0	280	(30)		

Public Works Loan Board (PWLB) Certainty Rate: 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 Council over the next three years. PWLB borrowing from 1 November 2012 will be undertaken at a 20bps reduction from the standard. In April the Council submitted its application to the Department for Communities and Local Government (DCLG) along with the 2013/14 Capital Estimates Return to access this reduced rate for a further 12month period from 1 November 2013.

PWLB Borrowing: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. As concerns mounted over the timing of the removal or 'tapering' of QE by the US Federal Reserve, gilts sold off and yields rose in May and June. The sharp rise in gilt yields led to a corresponding rise in PWLB rates with the most pronounced increase for 5 to 20 year loans with increases around 0.6% - 0.8%. 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 in the money markets at rates of interest significantly lower than the cost of borrowing.

As at the 31 March 2013 the Council used £52M 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 latest Capital Programme, approved by Council in February 2013, the Council is expected to borrow an additional £74M between 2013/14 and 2015/16. Of this £21M 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 none is anticipated to be taken until the second half 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 Comprehensive Spending Review), and are maintained on their initial terms. They are not subject to the additional increased margin and are currently averaging between 0.50% and 0.60%, which is helping to keep overall borrowing costs down.

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.

In order to mitigate the future impact of this 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 increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premiums remain relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. Therefore, no rescheduling activity was been undertaken in the first quarter.

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 01/04/2013	Investments Repaid	New Investments	Balance as at 30/6/2013	Increase/ (Decrease) in Investment for Year	Average Life / Average Rate %	
	£M	£M	£M	£M	£M	Life	%
Short Term Investments	26	(16)	11	21	(5)	8 Months	0.86
Money Market Funds & Call Accounts	40	(127)	140	53	13	1 Day	0.59
EIB Bonds	3	0	0	3	0	9.25 Years	5.40
Long Term Investments	0	0	0	0	0		
Total Investments	69	(143)	151	77	8		

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 2013/14. 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 30 June 2013 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-	875						875
A	A	25,750	8,000	6,000	6,000			45,750
A	A+							0
A	AA-							0
A+	A+	50	1,000					1,050
AA-	AA-	19,156						19,156
AA	AA	7,018						7,018
AA+	AA+							0
AAA	AAA						3,036	3,036
		52,849	9,000	6,000	6,000	0	3,036	76,885

Counterparty Update

In April Fitch downgraded the UK's long-term sovereign rating by one notch from AAA to AA+, the second of the rating agencies to do so (Moody's had downgraded the UK's ratings in February to Aa1). Where assigned, local authorities' ratings, which benefit from an uplift due to their close and direct links to central government, were also downgraded.

The proposed sale of 632 Lloyds' branches to the Co-op Bank – referred to as Project Verde – fell through in April. Lloyds now instead plans to sell the branches in an Initial Public Offering (IPO) later this year.

In May Moody's downgraded the long-term rating of Co-op Bank by six notches from A3 to Ba3 which is sub-investment grade. The downgrade reflected the agency's opinion that the bank faced the risk of further substantial losses in its non-core portfolio. In June, the Co-op announced it had a £1.5 billion regulatory capital shortfall requiring a recapitalisation via burden sharing with junior creditors and asset disposals of its parent's insurance businesses. Moody's downgraded the bank's long-term rating a further four notches to Caa1 whilst Fitch downgraded the long-term from BBB- to BB-. The Co-op is the Council's banker and therefore the Council has daylight exposure to the institution. See paragraph below on **Authority Banking Arrangements** regarding measures taken by the Council to mitigate exposure and credit risk.

In the Chancellor's Mansion House speech on 19 June he signalled his intention to sell the government's stake in the Lloyds Banking Group reasonably soon, whilst the situation was more complicated with RBS since its problems were greater and reflected in its share price. It appeared that a 'good bank' and 'bad bank' split for RBS was being favoured by the Chancellor and sat behind the announcement concerning the departure of RBS Chief Executive, Stephen Hester, who disagreed with that route.

Authority Banking Arrangements: It is becoming common for local authorities to bank with financial institutions that do not meet their investment criteria but action can be taken to minimise any risk this may present. It is a costly and complicated process to change bankers and we are under contract with the Co-operative Bank until October 2014. However following the recent down grading of the Co-operative Bank we immediately started discussions with Procurement about options and timescales regarding the tendering process with a view to precipitating this timeline.

We have also taken the following immediate action to mitigate our risk in the meantime:

- **Pooling Arrangements** – It is common for local authorities to hold a number of accounts at the same bank and to group these together for overdraft limit and interest purposes under a netting-off or pooling arrangement. Under this arrangement, some accounts will have a substantial credit balance while others will have a large overdraft, but the total balance is kept close to zero. Procedures in place were such that staff who manage the TM activity on a daily basis traditionally aimed for the net closing daily balances across all our accounts to be close to our current 'free' overdraft limit of £50,000. However, Arlingclose advised that it is likely in the event of any insolvency/banking resolution procedure that this netting down may not apply and that we would need to repay our overdrawn accounts in full and credit balances could also be at risk (in part or in full). As a consequence procedures have been changed so that at the start of each day any account that has a balance in excess of £5,000 will be cleared back to the general account to minimise credit balances and limit our exposure (i.e. we will "sweep" the accounts and action inter-account transfers).
- **Cleared and Ledger Balances** – Overdraft interest charges are calculated in reference to the "cleared balance" and traditionally staff who manage the TM activity on a daily basis aim for this balance to be close to our current 'free' overdraft limit of £50,000. However, the total sum of money held in the current account is the ledger balance which is normally higher than the cleared balance. Arlingclose have advised that in the event of insolvency or other banking resolution procedure the "ledger balance" at the date of failure represents our exposure. Therefore, we now use the "ledger balance" to calculate our position and inform the action required.
- **Intraday Exposure** – Arlingclose advice is that although any action by resolution authorities is likely to take place outside banking hours to prevent a disorderly impact on the UK banking system, it cannot be ruled out that a bank will halt operations during the business day. Therefore we aim to reduce our daylight exposure by making outgoing payments at the beginning of the day. In addition, where it is known in advance that a large receipt is expected, (for example, the first day of the month when council tax is collected), we now set up payments to leave the Council's bank account at the commencement of business. Furthermore, arrangements have been made to change the automatic sweep on the pay-point account from weekly to daily, although the balance on this account will still be subject to timing differences.

- **Imprest Accounts** – We are undertaking a review of Imprest Accounts (which are held locally to manage small transactions) to ensure that the levels held are minimised.
- **Advice to Schools** – Advice has been sent to schools updating them on action that it is appropriate for them to take in respect of any locally held accounts.

These changes impact on the level of staff resource required to manage TM activity and will result in increased bank charges but this is seen as an acceptable trade off in light of the priority given to security. Staff resource is being redirected to TM activity and priorities have been reassessed in order that this can be managed within existing employee budgets. Additional bank charges are forecast to be in the region of £10,000 per annum and can be met from within the current TM estimates.

This action will minimise any credit risk but cannot eliminate it entirely. A progress report will be submitted to the Governance Committee in September

Safe Custody Arrangements: The Council has Safe Custody Arrangements that gives us the ability to use a number of approved investment instruments as outlined in the 2013/14 Treasury Strategy and diversify the investment portfolio. Investment instruments requiring a custodian facility include Treasury Bills, Certificates of Deposit, Gilts, Corporate Bonds and Supranational Bonds.

By establishing custody arrangements, the Council will be better-placed to consider the use of alternative investment instruments in response to evolving credit conditions.

Budgeted Income and Outturn: The Council 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 2016/17, as a consequence short-term money market rates have remained at very low levels. Investment income for the year is currently estimated to be £0.61M, with fixed term deposits to date having achieved an average return of 0.82%, which exceeds the performance indicator of the average 7-day LIBID rate (0.45%), mainly due to the rolling programme of yearly investments restarted in November 2012 following advice from our Treasury Advisor.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with the approved Prudential Indicators for 2013/14 that were set in February 2013 as part of the Council's Treasury Management Strategy Statement (TMSS). Details of the performance against key indicators are detailed in the following paragraphs:

6.1. Capital Financing Requirement and Gross Debt

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 2013 and the estimated position for the current and next two years based on the capital programme submitted to council:

Capital Financing Requirement	2012/13 Actual £M	2013/14 Approved £M	2013/14 Forecast £M	2014/15 Revised Estimate £M	2015/16 Revised Estimate £M
Balance B/F	445	437	433	436	434
Capital expenditure financed from borrowing	11	14	25	15	5
Temporary Funding (Repayment)	(3)	(6)	(6)	(3)	0
HRA Debt	0	7	0	0	0
HRA Voluntary Repayment of Debt	(10)	0	(7)	(5)	(5)
Revenue provision for debt Redemption.	(8)	(13)	(6)	(7)	(6)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(2)	(2)
Cumulative Maximum External Borrowing Requirement	433	437	436	434	426

The Council reports that it has not borrowed in advance of need and that at the 31 March 2013 it had used internal resources in lieu of borrowing as this has been the most cost effective means of funding past capital expenditure to date.

In the Prudential Code (November 2011), it states '*Where there is a significant difference between the net and gross borrowing position the risks and benefits associated with this strategy should be clearly stated in the annual strategy*'. The Council has had no difficulty in meeting this requirement so far in 2013/14, nor is it envisaged that there will be any difficulties in future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2013 Actual £M	31/03/2014 Approved £M	31/03/2014 Estimate £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M
General Fund CFR	269	261	265	260	252
Housing CFR	164	176	171	174	174
CFR	433	437	436	434	426
Gross Long term Debt	350	394	394	396	391
Difference	83	43	42	38	35
Short Term Debt	34	50	50	50	50
Difference	49	(7)	(8)	(12)	(15)
Borrowing in excess of CFR? (Y/N) *	N	Y	Y	Y	Y
Investments	(69)	(53)	(53)	(53)	(53)

* Please note that borrowing is only in excess of the CFR as it includes assumptions for short-term borrowing for cash flow purposes.

6.2. Balances and Usable Reserves

Estimates of the Council's level of overall Balances and Usable Reserves for 2013/14 to 2015/16 are as follows:

	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balances and Reserves	76	42	36	33

6.3. Authorised Limit and Operational Boundary for External Debt

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 £898M for 2013/14 (£817M for borrowing and £81M 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 2013/14 was set at £857M (£779M for borrowing and £78M 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 £310M.

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 01/04/2013	Balance as at 30/6/2013	2013/14 Forecast	2014/15 Estimate	2015/16 Estimate
	£M	£M	£M	£M	£M
Borrowing	310	280	366	364	362
Other Long Term Liabilities	74	74	78	82	79
Total Borrowing	384	354	444	446	441

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 2013/14
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 15.7%. 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 2013/14 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 £16M invested at an average rate of 0.87%, although it should be noted that rates are falling and new deals are expected to be around 0.65% to 0.70%.

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 30/6/2013	Average Fixed Rate as at 30/6/2013	% of Fixed Rate as at 30/6/2013	Compliance with set Limits?
	%	%	£M	%		
Under 12 months	0	45	7	0.95	3.12	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	90	3.23	38.03	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	5	4.65	2.12	Yes
30 years and within 35 years	0	75	10	4.65	4.24	Yes
35 years and within 40 years	0	75	42	3.99	17.80	Yes
40 years and within 45 years	0	75	51	3.62	21.45	Yes
45 years and within 50 years	0	75	31	3.56	13.24	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			236	3.56	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 that 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 30 June 2013. Please note that although there is no statutory requirement for the HRA to pay down their debt, they have chosen to make a voluntary payment which has resulted in the apparently high ratio of financing costs.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Approved %	2012/13 Forecast %	2014/15 Approved %	2015/16 Approved %
General Fund	6.14	6.78	6.37	6.97	7.24
HRA	24.95	17.51	17.17	16.18	15.57
Total	12.06	10.43	10.05	10.20	10.54

6.8. 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 Council's assessment of counterparty credit risk.

The Council 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 2013/14 TMSS.

6.9. 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 Summary of Borrowing	2012/13 Actual £m	2013/14 Approved £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Brought Forward	174.2	168.8	163.8	170.7	173.8
Maturing Debt	(10.4)	(5.6)	(5.6)	(5.1)	(5.1)
New borrowing	0	12.5	12.5	8.2	4.9
Carried forward	163.8	175.7	170.7	173.8	173.6
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	35.8	23.9	28.9	25.8	26.0

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 30 June 2013. 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. We have also taken a number of precautionary steps in relation to the Authorities bankers following their downgrading as detailed in Section 5.

For further information including a glossary of Treasury Management terms please see the following links:

Treasury Management Strategy Statement for 2013 approved by Council on 13 February 2013, Item 100.

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MIId=2322&Ver=4>

Treasury Management Outturn Report approved by Council on 17 July 2013, Item 13.

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MIId=2466&Ver=4>

HOUSING REVENUE ACCOUNT**KEY ISSUES – MONTH 3**

The Housing Revenue Account (HRA) is currently forecast to over spend by **£289,600** on income and expenditure items at year-end, which represents a percentage variance against budget of **0.4%**.

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

The OTHER KEY issues for the Portfolio are:

HRA 1 – Housing Investment (forecast adverse variance £190,000)

Urgent repairs are required to lifts at Wyndham Court and the dry riser at Millbrook Towers.

After the 2013/14 estimates had been finalised, it was found that the four lifts at Wyndham Court were in need of urgent repair, at a cost of £80,000 each. Two were repaired in 2012/13 and two this year, resulting in an anticipated over-spend of £160,000 on the 2013/14 lifts budget. In addition, it is anticipated that unbudgeted repairs to the dry riser at Millbrook Towers will cost £30,000.

These issues will be addressed by the Housing Property Board.

HRA 2 – Tenant Service Charges (forecast adverse variance £116,300)

The warden review implementation has been delayed.

Income associated with the warden review has been budgeted for the whole year. However, due to delays in implementing staffing and charging, income will be reduced this year and is now calculated on the assumption that everything is in place for the start of October.