

GENERAL FUND 2011/12 - OVERALL SUMMARY

| September 2011 | Working Budget £000's | Forecast Outturn £000's | Forecast Variance £000's |
|--|-----------------------------|-------------------------------|--------------------------------|
| Portfolios (Net Controllable Spend) | | | |
| Adult Social Care & Health | 66,430 | 67,593 | 1,162 A |
| Childrens Services & Learning | 39,493 | 39,831 | 338 A |
| Environment & Transport | 24,250 | 24,283 | 33 A |
| Housing | 9,521 | 9,377 | 144 F |
| Leader's Portfolio | 7,592 | 7,343 | 249 F |
| Leisure & Culture | 7,050 | 7,451 | 402 A |
| Resources | 44,277 | 44,217 | 60 F |
| Baseline for Portfolios | 198,612 | 200,095 | 1,482 A |
| Net Draw From Risk Fund | 560 | 0 | 560 F |
| Sub-total (Net Controllable Spend) for Portfolios | 199,172 | 200,095 | 922 A |
| Non-Controllable Portfolio Costs | 23,031 | 23,031 | 0 |
| Portfolio Total | 222,203 | 223,125 | 922 A |
| Levies & Contributions | | | |
| Southern Seas Fisheries Levy | 49 | 46 | 3 F |
| Flood Defence Levy | 45 | 43 | 1 F |
| Coroners Service | 500 | 504 | 4 A |
| | 593 | 593 | 0 |
| Capital Asset Management | | | |
| Capital Financing Charges | 13,327 | 12,577 | 750 F |
| Capital Asset Management Account | (24,541) | (24,541) | 0 |
| | (11,215) | (11,965) | 750 F |
| Other Expenditure & Income | | | |
| Direct Revenue Financing of Capital | 2,280 | 2,280 | 0 |
| Net Housing Benefit Payments | (882) | (882) | 0 |
| Revenue Development Fund | 1,190 | 1,190 | 0 |
| Non-Specific Govt. Grants | (19,056) | (19,056) | 0 |
| Corporate Savings | (1,786) | 0 | 1,786 A |
| Exceptional Items | 0 | (2,802) | 2,802 F |
| Contribution to Capital DRF Funding | 0 | 1,045 | 1,045 A |
| Council Tax Freeze Grant | (2,066) | (2,066) | 0 |
| Open Space and HRA | 536 | 536 | 0 |
| Risk Fund | 1,392 | 1,392 | 0 |
| Contingencies | 0 | 0 | 0 |
| Surplus/Deficit on Trading Areas | (125) | (346) | 221 F |
| | (18,517) | (18,709) | 192 F |
| NET GF SPENDING | 193,065 | 193,045 | 20 F |
| Draw from Balances: | | | |
| To fund the Capital Programme | (2,280) | (2,280) | 0 |
| Draw from Balances (General) | 1,711 | 1,731 | 20 F |
| Draw from Strategic Reserve (OD Reserve)) | (1,811) | (1,811) | 0 |
| | (2,380) | (2,360) | 20 F |
| BUDGET REQUIREMENT | 190,685 | 190,685 | 0 |

ADULT SOCIAL CARE AND HEALTH PORTFOLIO**KEY ISSUES – MONTH 6**

The Portfolio is currently forecast to over spend by **£602,300** at year-end, which represents a percentage over spend against budget of **0.9%**. 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 | 1,162.3 A | 1.7 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 560.0 F | |
| Portfolio Forecast | 602.3 A | 0.9 |
| Potential Carry Forward Requests | 0.00 | |

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

ASCH 1 – Adult Disability Care Services (forecast adverse variance £787,100)

There is a projected over spend of £725,100 on Domiciliary Care; Nursing Care of £52,700 and Residential Care of £55,900.

Forecast Range not applicable.

Domiciliary Care is forecast to over spend by £725,100. This represents a reduction in the over spend reported in 2010/11 of £695,000. It should be noted that due to a high number of staff vacancies in the City Care First Support team, as a result of recruitment issues, it is unlikely that the reablement service will reduce long term domiciliary care needs by the saving target of £114,000.

It should be noted that one of the domiciliary framework providers is currently experiencing difficulties in providing the care allocated to them due to safeguarding concerns. At the present time the potential pressure for 2011/12 is £80,000. Further discussions are being held and once finalised the forecast will be updated.

Nursing Care is forecast to over spend by £52,700. However, there is a safeguarding issue at a home which has resulted in a need to place clients in alternative placements rather than the beds paid for under a block contract. The forecast position reflects that any contractual costs incurred by the Council will be reimbursed by the provider. Health & Social Care Officers are currently engaging with senior management within the provider to resolve this safeguarding issue and the financial implications. Any further developments will be reported in future forecast updates.

Residential Care is forecast to over spend by £55,900. This includes a reduction of 17 clients compared to the level of activity at outturn 2010/11. All client packages are being reviewed and the forecast position will be updated as further information is available.

The forecasts above include the assumption that action plan savings of £270,000 can be achieved within Residential and Nursing. Achievement against these assumptions will be monitored and the forecasts updated as necessary.

Significant Health funding has been received in 2011/12 to promote Social Care Services which aim to prolong the period before acute care needs develop. A number of the initiatives to be met from this funding will have an additional impact on Domiciliary Care. However this should demonstrate corresponding reductions in both Residential and Nursing Care. This is expected to be significantly under spent at year end. At present discussions are being held with colleagues at the PCT with a view to using this to offset over spends within the Portfolio.

For Month 6 it has been assumed that there will be a draw on the Risk Fund of £400,000 in relation to an increasing elderly population. Previously it had been anticipated that this pressure could be managed within the Portfolio.

The following table demonstrates the effect of these forecast changes on the equivalent number of units:

| | 2011/12 Net Budget £000's | 2011/12 Unit Prices | 2011/12 Budgeted Units | 2011/12 Forecast £000's | 2011/12 Forecast Units | Difference (units) | Var B £ |
|-------|------------------------------|---------------------|------------------------|----------------------------|------------------------|--------------------|------------|
| | 87.2 | £57 Per Day | 1,530 | 88.0 | 1,544 | 14 | |
| ments | 2,518.7 | £9.47 Per Hour | 265,966 | 2,471.3 | 260,961 | (5,005) | |
| y | 4,110.5 | £12.85 Per Hour | 319,883 | 4,835.6 | 376,311 | 56,428 | 72 |
| | 2,099.1 | £64.82 Per Day | 32,384 | 2,151.8 | 33,197 | 813 | 5 |
| I | 5,261.0 | £49.15 Per Day | 107,040 | 5,316.9 | 108,177 | 1,137 | 5 |
| | 14,076.5 | | | 14,863.6 | | | 78 |

It should be noted that a provision of £320,000 has been made within the Risk Fund to meet the costs of 18 Dementia clients under review which are receiving services which are currently health funded. Currently only £100,000 of additional costs have been incurred and therefore this has been assumed to be a draw on the Risk Fund. It is anticipated that there will be further costs and the full Risk Fund provision of £320,000 will be required in 2011/12.

ASCH 2 – Learning Disability (forecast adverse variance £702,800)

Loss of Independent Living funding (£60,000) and new clients/changes in client costs (£642,800).

Forecast Range £750,000 adverse to £550,000 adverse.

There is an increase in residential activity of clients over and above that assumed when setting the 2011/12 budgets and the cost of this increased activity is £782,400. This has been partially offset by savings on Adult Placement and Day Care of £106,300.

It should be noted that £82,000 of action plan savings have been assumed in setting the current forecast position.

The Independent Living Fund (ILF) closed for new applications in 2010/11. The impact to date is £60,000 which is an assumed draw on the Risk Fund. Should additional activity be identified a further claim may be made against the remaining provision of £80,000 held in the Risk Fund for this purpose.

The OTHER KEY issues for the Portfolio are:

ASCH 3 – Provider Services – City Care (forecast favourable variance £98,300)

There are significant staff savings forecast within City Care First Support (£293,400) and unit income (£15,600) and offset by additional staffing costs in the units (£195,000).

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

There are currently a number of staff vacancies within the City Care First Support staffing teams giving forecast savings of £293,400. There have been significant difficulties in recruiting carers and extensive recruitment drives have been undertaken with the forecast now assuming an increase in staff numbers throughout the remainder of the financial year.

This favourable position is further added to by a surplus in the income forecast for unit income of £15,600, which is then offset by a forecast over spend of £195,000 on staffing in the residential units and by £23,000 of non pay over spends.

ASCH 4 – Complex Care (forecast favourable variance £137,800)

The Care Management teams are expected to significantly exceed their vacancy management targets through holding posts vacant during a period of restructure for the Portfolio. This has allowed the management team greater flexibility in shaping the future structure of the service. The forecast includes a vacancy management adjustment of £80,000.

Forecast Range £100,000 favourable to £150,000 favourable.

Summary of Risk Fund Items

| Service Activity | £000's |
|---|---------------|
| Adult Disability Care Services – Provision for Dementia Clients | 100.0 |
| Adult Disability Care Services – Provision for increase in elderly population | 400.0 |
| Learning Disability – Provision for removal of new ILF funding | 60.0 |
| Risk Fund Items | 560.0 |

CHILDREN'S SERVICES & LEARNING PORTFOLIO

KEY ISSUES – MONTH 6

The Portfolio is currently forecast to over spend by **£338,100** at year-end, which represents a percentage over spend against budget of **0.9%**. This forecast takes into account the wider Portfolio and corporate view, adjusting the baseline forecast constructed from the bottom up through discussions with individual budget holders, as shown below:

| | £000's | % |
|----------------------------------|----------------|------------|
| Baseline Portfolio Forecast | 338.1 A | 0.9 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 338.1 A | 0.9 |
| Potential Carry Forward Requests | 0.0 | |

Throughout the financial year managers have been taking remedial action which is already reflected in the above forecast to minimise the adverse variance. This includes a recruitment freeze and a freeze on all non essential expenditure.

The CORPORATE issues for the Portfolio are:

CSL 1 – Commissioning & Workforce Development (forecast favourable variance £953,500)

This favourable variance reflects the early achievement of 2011/12 salary savings.

Forecast Range £900,000 favourable to £1.0M favourable

An overall favourable variance has resulted due to early implementation of 2011/12 staff savings planned of £300,000, an additional £200,000 identified from reallocation of grants, both amounts being held in order to help offset predicted overspends in Safeguarding. In addition, £102,300 favourable variance due to the Head of Standards post becoming vacant in quarter 1, a vacant operations manager post and temporary employee savings of (£64,000) within the contracts team. Savings have also been identified within Workforce Development and Graduate Leader funding of £40,000.

This is offset by an adverse forecast of £177,600 within school transport as a result of increasing demand for children requiring transport as part of their statutory requirement. There has been an increase in the number of children in need along with the added costs of transporting children across the city to take up school places.

The fuller impact of the moratorium has been recognised at Month 6. Savings to the value of £500,000 have been identified within supplies and services budgets.

CSL 2 – Prevention & Inclusion Teams (forecast favourable variance £465,500)

There are vacancies within the locality teams and a directive to hold non essential expenditure has resulted in a favourable forecast variance.

Forecast Range £460,000 favourable to £550,000 favourable

The Sure Start and Children's' Centres within the locality teams have vacant posts which are being held, whilst there is some use of agency to backfill there will be savings within the staffing establishment. Managers have also been advised to only action essential expenditure which is having an impact on supplies and services budgets.

CSL 3 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £1,117,000)

The numbers of children in care for whom there is a financial cost has increased by 26 over the current financial year.

Forecast Range £1.5M adverse to £750,000 adverse

The increasing numbers of children in care has led to an over spend on fostering services of £1.3M. This includes a forecast overspend of £1.0M on Independent Fostering Agencies (IFAs) placements, (36 budgeted versus 63 actual). This also includes a forecast over spend of £202,600 on internal fostering placements (237 budgeted versus 270 actual). A standard IFA placement costs approximately £27,000 more than the average SCC foster placement.

However, in the interim, existing IFA providers have reduced placement costs to SCC. Southampton is leading a partnership of 11 local authorities to secure more competitive IFA prices from 2012/13.

The placement costs of children under 16 that are looked after ranges from an internal placement costing an average of £16,500 per annum to an external residential placement costing up to £300,000.

The table below outlines the changes in activity levels for 2011/12:

| Service Activity | Average Actual Daily Rate 2011/12 £ | Placement Numbers | | | |
|------------------------------------|-------------------------------------|-------------------|------------|------------|------------|
| | | Budget | July | Aug | Sept |
| Fostering up to 18 | 45 | 237 | 260 | 265 | 270 |
| Independent Fostering Agencies | 128 | 36 | 55 | 63 | 63 |
| Supported Placements or Rent | 30 | 16 | 8 | 10 | 9 |
| Over 18's | 21 | 11 | 13 | 13 | 14 |
| Residential - Our House | | 5 | 2 | 2 | 3 |
| Residential - Independent Sector | 465 | 6 | 10 | 11 | 11 |
| Secure | 744 | 1 | 1 | 1 | 0 |
| Sub-total: Children in Care | | 312 | 349 | 365 | 370 |
| Adoption Allowances | 12 | 102 | 90 | 92 | 91 |
| Special Guardianship Allowances | 20 | 19 | 25 | 26 | 28 |
| Residence Order Allowances | 11 | 26 | 23 | 19 | 19 |
| Total | | 459 | 487 | 502 | 508 |

CSL 4 – Safeguarding Management and Legal Services (forecast adverse variance £488,600)

The over spend has resulted in an increase in legal costs, arising from the increasing numbers of children in care.

Forecast Range £600,000 adverse to £350,000 adverse

Included within this adverse variance is an over spend of £444,300 for legal fees relating to court fees, all legal expenses and the additional costs of external solicitors for the increased numbers of court proceedings arising from the numbers of children looked after.

CSL 5 – Tier 3 Social Work Teams (forecast adverse variance £357,100)

The adverse variance reflects the additional agency social work staff above establishment and the additional cost of agency social work staff in respect of vacancy and absence cover.

Forecast Range £500,000 adverse to nil variance

There is a forecast over spend of £290,000 on the staffing related costs of the Tier 3 social work teams. Current market conditions are such that the supply of social workers is insufficient to meet demand. This means a continuing need for temporary staff, acquired from independent agencies, with the associated market agency fees. Agency staff are also being used for absence and sickness cover.

In addition, there are agency staff employed over and above the team establishment for a fixed term. This cost is forecast to be £200,000 and is being offset by specific savings reported within Commissioning and Workforce Development.

The over spend on staffing is being partially offset by savings of £132,900 on specialist childminding placements and other expenditure incurred to prevent children entering care. This is a direct result of tight financial management of such discretionary expenditure.

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

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 6

The Portfolio is currently forecast to over spend by **£32,600** at year-end, which represents a percentage over spend against budget of **0.1%**. 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 | 32.6 A | 0.1 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 32.6 A | 0.1 |
| Potential Carry Forward Requests | 0.0 | |

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £214,600)

Parking pressures have been identified relating to reduced income of £211,700 and increased rates costs of £79,600. Negotiated contracts with external bodies are forecast to generate a net surplus of £80,000.

Forecast Range £300,000 adverse to £150,000 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 £211,700. This may be attributed to the continuing economic downturn and the impact on commuters of a rise in fuel prices. In addition, the financial effect of parking officers taking strike action in June, July and August has been monitored and is reflected in the income forecast.

All marketing and commercial opportunities are being explored, as part of a three year strategy to maximise income. A reduced £5 per day parking charge at the Marlands car park was introduced on 1 January 2011 and this is forecast to increase the volume of business. In addition, the service has negotiated contracts with external bodies which are forecast to generate a net surplus of £80,000.

There are employee deductions resulting from the strike action, which are included in the forecast position. However, there is a further variation due to the rates demands for off street car parks having increased significantly and being £79,600 adverse compared to the estimate.

E&T 2 – Waste Disposal (forecast favourable variance £480,200)

A reduction in the amount of waste has reduced disposal costs and, together with other cost savings and increased income, has generated a total favourable variance of over £480,000.

Forecast Range £350,000 favourable to £600,000 favourable

The general collected household and garden waste tonnage is lower than anticipated, resulting in a forecast saving of £340,000 over the course of the year. This variance is subject to adjustment, following a more detailed assessment of the effect of the periodic strike action that has been in progress since late May. There will have been savings in Waste Disposal during this period due to less waste being collected. The strike action has also led to an increased volume of household waste being taken to HWRC sites, resulting in a forecast adverse variance of £70,000.

There are savings of £37,000 on HWRC management costs arising from Southampton being charged a lower percentage of the overall County-wide cost. The Council is also currently processing less Dry Recyclable and Household waste through the waste disposal contract than was estimated. This is anticipated to save £25,000 on haulage charges for waste going to landfill over the course of the year. Additionally, there is £60,000 extra income from the sale of ferrous metal, which is volatile in price and hard to predict; £56,000 in unbudgeted LATS income and an additional £30,000 income from the profit share at the Energy Recovery Facility (Marchwood incinerator).

E&T 3 – Itchen Bridge (forecast adverse variance £239,900)

There is a forecast lower level of income from tolls, following toll collectors taking strike action in June and July. There is also a decrease in traffic flows, due to the downturn in the economy and disruption caused by the essential bridge repairs.

Forecast Range £350,000 adverse to £150,000 adverse

Essential repairs to the bridge started in November 2010 and continued into August 2011. The resulting night closures and the use of temporary lights during off-peak hours, have contributed to a loss of toll income. The downturn in the economy has also led to a decrease in traffic flows in the City and an overall forecast decrease in toll income. In addition, the financial effect of toll collectors taking strike action in June and July has been monitored and reflected in the income forecast. Overall the reduction in toll income is around £190,000. The employee deductions resulting from the strike action are also incorporated in the forecast position. Proposals to save £70,000 from the automation of toll collection arrangements will not be met in this financial year.

E&T 4 – Highways & Street Lighting Partnerships (forecast favourable variance £225,300)

There are savings of £240,000 on the PFI Street Lighting contract sum over and above the originally planned profile. Some other contract costs have increased.

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

A level of savings on the PFI Street Lighting contract sum was planned and factored in corporately. It is now anticipated that there will be savings of £240,000 over and above the originally planned profile.

The OTHER KEY issues for the Portfolio are:

E&T 5 – Waste Collection (forecast adverse variance £112,200)

There are forecast additional refuse collection costs resulting from the strike action.

Forecast Range £200,000 adverse to £50,000 adverse

In order to help alleviate the effect on the public of the strike action and work to rule since June, there have been additional external contractor refuse collection costs of £575,000. However, there are employee deductions of £262,000, resulting from the strike action, and forecast savings on employees, due to staff turnover, of £179,000.

HOUSING GENERAL FUND PORTFOLIO**KEY ISSUES – MONTH 6**

The Portfolio is currently forecast to under spend by **£143,600** at year end, which represents a percentage variance against budget of **1.5%**. 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 | 143.6 F | 1.5 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 143.6 F | 1.5 |
| Potential Carry Forward Requests | 0.0 | |

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

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

LEADER'S PORTFOLIO**KEY ISSUES – MONTH 6**

The Portfolio is currently forecast to under spend by **£248,800** at year-end, which represents a percentage under spend against budget of **3.3%**. 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 | 248.8 F | 3.3 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 248.8 F | 3.3 |
| Potential Carry Forward Requests | 0.0 | |

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

The OTHER KEY issues for the Portfolio are:

LEAD 1 – Legal and Democratic (favourable forecast variance £159,500)

Early delivery of 2012/13 savings, an anticipated increase in Land Charges income and reduced spend on Elections

Forecast Range not applicable

The favourable forecast variance is due to a combination of factors including early delivery of 2012/13 savings, an anticipated increase in Land Charges income and reduced spend on Elections resulting from the benefit of combined costs for the local election and referendum in May.

LEAD 2 – Regeneration & Renewal (Favourable forecast variance £58,300 favourable variance)

Vacant Head of Economic Development & Regeneration post

Forecast Range not applicable

The Head of Economic Development & Regeneration post has been vacant all year and is not expected to be recruited to until 1 January 2012.

LEISURE & CULTURE PORTFOLIO**KEY ISSUES – MONTH 6**

The Portfolio is currently forecast to over spend by **£401,600** at year-end, which represents a percentage over spend against budget of **5.7%**. 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 | 401.6 A | 5.7 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 401.6 A | 5.7 |
| Potential Carry Forward Requests | 0.0 | |

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

The OTHER KEY issues for the Portfolio are:

LC 1 – Sport and Recreation (forecast adverse variance £190,500)

There is an adverse variance due to a change to the payment profile on the contract for the management of the Golf Course and additional payments made to Active Nation to cover higher than anticipated pension costs.

Forecast Range £240,000 Adverse to £180,000 Adverse.

The MyTime Active contract payment schedule for the management of the Golf Course has been revised. Under the new agreement the Council receives less income in 2011/12 but receives more over the full 12 year contract period. The cost of the Active Nation leisure venue contract has increased due to an underestimate of pension liabilities.

LC 2 – Libraries (forecast adverse variance £105,200)

Shortfalls on income from DVDs and Music CDs.

Forecast Range £120,000 adverse to £50,000 adverse

Income targets for DVDs and Music CDs are becoming increasingly challenging as customers switch to other audio visual media. The two week strike when no fines were received and hire dates were extended has also had a small effect. Increases to charges from May 2011 have not improved the position.

LC 3 – Arts and Heritage (forecast adverse variance £72,400)

Shortfalls in income and the settlement of a long term dispute.

Forecast Range £130,000 adverse to £60,000 adverse

A long term legal dispute concerning the loss of Egyptian items that were loaned to Southampton City Council in the 1970's has resulted in the Council agreeing to pay £40,000 in compensation.

In addition, is an income shortfall of £140,600 in the Art Gallery shop due to the challenging economic conditions but the effect of this has been mitigated by making savings on expenditure budgets including repairs and maintenance. The net effect is £25,000. There is also a £12,000 forecast overspend due to shortfalls on income from developers in the Archaeology unit.

RESOURCES PORTFOLIO**KEY ISSUES – MONTH 6**

The Portfolio is currently forecast to under spend by **£60,000** at year-end, which represents a percentage under 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 | 60.0 F | 0.1 |
| Remedial Portfolio Action | 0.0 | |
| Risk Fund Items | 0.0 | |
| Portfolio Forecast | 60.0 F | 0.1 |
| Potential Carry Forward Requests | 0.0 | |

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

The OTHER KEY issues for the Portfolio are:

RES 1 – Corporate Management (forecast favourable variance £190,000)**Income from Strike Deductions****Forecast Range not applicable**

The favourable forecast variance reflects the total value of strike deductions received to date. These deductions have been captured centrally and will be used to offset costs incurred by those Council services affected by strike action.

RES 2 – Property Portfolio Management (forecast adverse variance £230,000)**Reduction in income on Investment Properties****Forecast Range not applicable**

The Investment Properties account is showing an adverse forecast variance on income, primarily caused by reduced rent from shared income lettings, reflecting current market conditions. In addition rental income levels have reduced, combined with increased costs, due to the impact of the disposal programme; these reductions will have an ongoing impact in future years.

RES 3 – Property Services (forecast favourable variance £157,000)

Rate refunds for 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. 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.

RES 4– Corporate Services Client (forecast adverse variance £57,000)

Reduced saving from delays in implementation of team restructure

Forecast Range not applicable

The adverse forecast variance has arisen as a result of delays in the implementation of the Client team structure, primarily due to changes being made to the Senior Management structure. The delayed savings have been partly offset by vacancies across other areas within the Portfolio. Consultation on the proposed Client team structure commenced at the end of September, with implementation planned for January 2012.

FINANCIAL HEALTH INDICATORS – MONTH 6

Prudential Indicators Relating to Borrowing

| | <u>Maximum</u> | <u>Forecast</u> | <u>Status</u> |
|---|-----------------------|--------------------------|----------------------|
| Maximum Level of External Debt £M | £563M | £373M | Green |
| As % of Authorised Limit | 100% | 66% | Green |
| | <u>Target</u> | <u>Actual YTD</u> | <u>Status</u> |
| Average % Rate New Borrowing | 5.0% | 3.48% | Green |
| Average % Rate Existing Long Term Borrowing | 5.0% | 3.30% | Green |
| Average Short Term Investment Rate | 0.60% | 1.40% | Green |

Minimum Level of General Fund Balances

| | | <u>Status</u> |
|--|--------|----------------------|
| Minimum General Fund Balance | £4.5M | |
| Forecast Year End General Fund balance | £10.0M | Green |

Income Collection

| | <u>2010/11</u> | <u>Actual YTD</u> | <u>Status</u> |
|--|-----------------------|--------------------------|----------------------|
| Outstanding Debt: | | | |
| More Than 12 Months Old | 35% | 31% | Amber |
| Less Than 12 Months But More Than 6 Months Old | 11% | 8% | Green |
| Less Than 6 Months But More Than 60 Days Old | 10% | 9% | Green |
| Less Than 60 Days Old | 44% | 52% | Green |

Creditor Payments

| | | <u>Status</u> |
|---|--------|----------------------|
| Target Payment Days | 30 | |
| Actual Current Average Payment Days | 20 | Green |
| Target % of undisputed invoices paid within 30 days | 95.0% | |
| Actual % of undisputed invoices paid within 30 days | 87.49% | Amber |

Tax Collection rate

| | <u>Target Collection Rate</u> | <u>Month 6 Collection Rate</u> | | <u>Status</u> |
|-----------------------------|--------------------------------------|---------------------------------------|-------------------------|----------------------|
| | | <u>Last Year</u> | <u>This Year</u> | |
| Council Tax | 96.20% | 54.74% | 54.72% | Green |
| National Non Domestic Rates | 99.20% | 61.13% | 61.46% | Green |

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 6

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2011/12 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 2011/12 to date are summarised below:

- Investment returns during 2011/12 will continue to remain low as a result of low interest rates, with interest received estimated to be £1.5M in current year. However, the average rate achieved to date (1.41%) exceeds the performance indicator of the average 7 day LIBID rate (0.60%) mainly due to the rolling programme of yearly deals which was restarted in October 2010 following advice from our Treasury Advisors and was suspended at the beginning August 2011 as a result of tensions and negativity in the markets. We have continued to make investments between one and six months depending on the rating of individual banks.
- 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 3.14% 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 the remainder of the year and probably into the 1st quarter of 2012/13. 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 CRI (reaching 3.76% by 2013/14).

2. Economic Background

- **Growth:** Global growth prospects deteriorated considerably over the six months to September, moving from an expectation of modest expansion to the risk of a double-dip recession. Quarter 1 2011 GDP in the UK was 0.5% but was just 0.2% in Quarter 2. Even economies like Germany's, which were hitherto seemingly strong, began to flounder with growth registering 0.1% in Quarter 2.
- **Inflation:** Inflation remained stubbornly high. Annual CPI for August was 4.5%; CPI had remained above MPC's 3% upper limit for 20 consecutive months and required the Bank of England's Governor to write his seventh open letter to the Chancellor. The Bank believed the elevated rate of inflation reflected the temporary impact of several factors: the increase in the VAT rate to 20%, past increases in global energy prices and import prices.
- **Employment / Consumer Confidence:** Weakness persisted in the labour market. Job creation was unable to absorb the 90,000 quarterly growth in jobseekers, particularly those in the 16 - 20 age bracket. Unemployment on the ILO measure rose to 7.9%. High inflation trumping average earnings growth of only 2.9%, scarce availability of credit and stagnant house prices, all combined to lower disposable income, squeeze household spending power and leave consumer confidence fragile.

Central bankers' policies were driven by the feeble growth outlook rather than the upward trend in inflation. The Bank of England's August Inflation Report downgraded the growth forecast even as it acknowledged energy price rises could push CPI to 5% before inflation fell back to the 2% target over the medium-term. The UK's strategy of combining loose monetary policy (the Bank Rate had remained at 0.5% for 2½ years and Quantitative Easing at £200 billion), with tight fiscal policy supported the rebalancing of the economy and also commanded support in the markets.

The protracted and unseemly political impasse to resolve the US debt ceiling issue turned a debate into a debacle. A lack of both political governance and measures to address the high debt burden (put off until after the 2012 presidential election), ultimately led Standard & Poor's to downgrade the US Sovereign from AAA to AA+. The country's weak economic and fiscal situation and an unemployment rate of 9.1% left the Federal Reserve little option but to commit to "exceptionally low" interest rates until mid 2013.

The European sovereign debt crisis deepened. The agreement in July to address Greece's fiscal problems and broaden the mandate for the European Financial Stability Facility (EFSF) only bought time for the Eurozone as market pressure increased on Italy and Spain, but did little to address the issue of overburdened sovereign balance sheets.

The European Banking Authority (EBA) released the results of the second of its stress tests in July. Eight banks (two Greek, one Austrian and five small domestic Spanish banks) out of 91 banks failed the tests. All of the UK and non-UK banks tested by the EBA and which are on the Council's lending list met the 'stressed' Core Tier 1 Ratio of 5%; none were adjudged as 'near-failed' (i.e. having ratios between 5% and 6%).

- **Gilt yields and money market rates:** The economic uncertainty resulted in analysts postponing the likelihood of an increase in the UK Bank Rate until mid 2012. Gilts were considered a safe haven and benefited from market turmoil. Gilt yields fell to their lowest levels in five years. 5-year gilt yields fell to 1.25%, 10-year yields to 2.2% and 20-year yields to 3.05%. PwLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

There was very little change to LIBOR and LIBID rates as at 30/09/2011, the differential being between 0.1% to 0.2% for maturities up to 12 months.

3. Outlook for Quarter 3 and 4

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at September 2011 is detailed below. It is expected that given the precarious outlook for growth that the Bank of England are unlikely to raise interest rates in the near future and the outlook is for official interest rates to remain low for an extended period, at least until late 2012. As a result of this revised forecast the Council will reappraise its strategy and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

| | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | | | | 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 | 0.75 | 0.75 | 1.00 | 1.25 | 1.50 | 1.75 | 2.00 | 2.25 |
| Downside risk | | | | | | -0.25 | -0.25 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |

4. Debt Management

Activity within the debt portfolio up to Quarter 2 is summarised below:

| | Balance on 01/04/2011 | Debt maturing or Repaid | New Borrowing | Balance as at 30/9/2011 | Increase/ (Decrease) in Borrowing for Year £000's |
|------------------------|--------------------------|-------------------------------|------------------|----------------------------|---|
| | £000's | £000's | £000's | £000's | £000's |
| Short Term Borrowing | 35,324 | 179,320 | (176,440) | 38,204 | 2,880 |
| Long Term Borrowing | 189,358 | (9,047) | 55,000 | 235,311 | 45,953 |
| Total Borrowing | 224,682 | 170,273 | (121,440) | 273,515 | 48,833 |

Please note that HRA Subsidy Reform will result in an increase in the Council's debt of approximately £70m by 31/3/2012. More details are in Section 6 of this report.

Public Works Loan Board (PWLB) Borrowing: Despite the issue of Circular 147 in October 2010, where new borrowing rates for fixed loans increased by approximately 0.87% across all maturities, the PWLB remains an attractive source of borrowing for the Council as it offers flexibility and control.

Alternative Sources: Whilst there are several claims that a competitive, comparable equivalent to PWLB is readily available, the Council will continue to adopt a cautious and considered approach to funding from the capital markets. The Council's treasury advisor, Arlingclose, is actively consulting with investors, investment banks, lawyers and credit rating agencies to establish the attraction of different sources of borrowing, including bond schemes, loan products and their related risk/reward trade off.

The Council use of internal resources (£64M) in lieu of borrowing 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. The strategy set for 2011/12 expected to borrow £75M for capital purposes by 2013/14 of which £45M relates to 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.

The Council is due to fund £15M of its capital expenditure from borrowing this year and to refinance £70M of existing loans, totalling £85M. New loans amounting to £55M have been raised to the end of September using PWLB 10 year EIP, on the advice of our advisors to take advantage of the 10 year yield curve which is significantly below the 25 – 50 year rate. The Council's variable rate loans 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 0.70% and are helping to keep overall borrowing costs down.

Variable rate borrowing is expected to remain attractive for some time as the Bank of England maintains the base rate at historically low levels and the Council is currently expected to borrow an addition £29M by the end of the year from the PWLB. This strategic exposure to variable interest rates will be regularly reviewed and if appropriate reduced; by switching into fixed rate loans.

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:

| | Balance on 01/04/2011 | Investments Repaid | New Investments | Balance as at 30/9/2011 | Increase/ (Decrease) in Investment for Year |
|--------------------------|--------------------------|-----------------------|--------------------|----------------------------|--|
| | £000's | £000's | £000's | £000's | £000's |
| Short Term Investments | 29,300 | (38,250) | 86,300 | 77,350 | 48,050 |
| Money Market Funds | 40,575 | (166,530) | 173,352 | 47,397 | 6,822 |
| EIB Bonds | 6,000 | 0 | 0 | 6,000 | 0 |
| Long Term Investments | 36 | 0 | 0 | 36 | 0 |
| Total Investments | 75,911 | (204,780) | 259,652 | 130,783 | 54,872 |

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 2011/12. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Deposits with UK Banks and Building Societies
- 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. A break down of investments as at 30 September 2011 by credit rating at the end of the quarter and maturity profile can be seen in following table, however since the beginning of October the rating agencies have completed and published their review of UK banking institutions, please see details below for effect on our investments: :

| Current Rating | Initial Rating | Less than 1 Month | 1 - 3 Months | 3 - 6 Months | 6 - 9 Months | 9 - 12 Months | Over 12 Months | Total |
|----------------|----------------|-------------------|--------------|--------------|--------------|---------------|----------------|---------|
| | | £000's | £000's | £000's | £000's | £000's | £000's | £000's |
| A2 | A+ | | | 2,000 | | | | 2,000 |
| A- | A- | | | | | | | 0 |
| A+ | A+ | 5,950 | 5,000 | 22,350 | 9,050 | 2,000 | | 44,350 |
| AA- | AA- | 0 | 19,000 | 10,000 | 0 | 1,000 | | 30,000 |
| AA+ | AA+ | | | | | | | 0 |
| AAA | AAA | 47,397 | 0 | 1,000 | 0 | 0 | 6,036 | 54,433 |
| | | | | | | | | |
| | | 53,347 | 24,000 | 35,350 | 9,050 | 3,000 | 6,036 | 130,783 |

Counterparty Update

The lack of real progress in resolving the sovereign debt crisis in Europe began to affect even the stronger Eurozone nations and their banking systems. Market volatility, as measured by the VIX index, spiked sharply in August, banks' share prices fell sharply. Having reviewed all credit indicators the Council, advised by Arlingclose, believed that there were no solvency issues with the banks on the recommended lending list. Nevertheless the share price moves were too sharp to ignore and a prudent response to the tensions and negativity in the markets was required.

Maturity Limits: The Council responded to the growing stress by scaling back maturities for new investments on the advice of the Council's treasury advisors. Limits for UK banks, Nationwide BS and Australian, Canadian and US banks have now been temporarily reduced to six months (Santander UK plc to is restricted to three months). Limits for European banks have been temporarily reduced to one month. French institutions have been suspended for new investments in response to concerns over funding and their sovereign exposure to peripheral European nations.

On 28 September Clydesdale Bank was suspended from the lending list following the bank's downgrade to A2 by Moody's, which falls below the Council's minimum criteria of A+ or equivalent. On advice from Arlingclose, the Council's existing term deposit with the bank will be held until maturity.

Systematic Review of UK Banking Institutes by Rating Agencies: During the first quarter Moody's placed the ratings of a number of UK institutions on review for possible downgrade. The review was completed on the 7 October 2011 and downgraded a number of long-term ratings of a number of counterparties on the Council's lending list. The downgrades do not represent deterioration in the financial strength of the UK government or the banking system. The review means the government is now more likely to allow smaller institutions to fail if they get into financial difficulty. Following this Fitch also down rated a further two institutions on the 13 October and placed another on negative watch, leaving only two counterparties which meet our current criteria.

As a consequence we now have £46M placed with institutions that fall below our current minimum investment criteria. Our advisors do not have any current concerns regarding these investments and do not advise clients to break existing term deposits. The implications of the downgrades could result in a review of the Council's minimum credit criteria, as set out in its Treasury Management Strategy Statement, but will be discussed in more detail with our Advisors and any agreed changes will be reflected in the 2012/13 strategy which goes to Council for approval in February 2012.

Until early September, where cash-flow permitted the Council followed a cautious investment strategy of a rolling programme of six month / one year deposits with named counterparties for a proportion of its investments, but this has now ceased.

Authority Banking Arrangements: Along with many other authorities the Council uses the Co-op as its banker, although it does not meet our minimum investment criteria, it will still be used for short term liquidity requirements (overnight and weekend) 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 Council's investment income for the year is currently estimated to be £1.5M. The UK Bank Rate has been maintained at 0.5% since March 2009 and short-term money market rates have remained at very low levels. New deposits for periods up to one year have been made at a weighted average rate of 1.41%, this is mainly as a result of a rolling programme of yearly deals which we reintroduced last October to support our core balances, to date we have £21M invested at an average rate of 1.75%. Following uncertainty in the markets this programme was suspended at the beginning of August.

6. Reform of the Council Housing Subsidy System

In its publication 'Implementing Self-Financing for Council Housing' issued in February 2011, the Department for Communities and Local Government (CLG), set out the rationale, methodology and financial parameters for the initiative. Subject to the Localism Bill receiving Royal Assent and a commencement order being passed, the proposed transfer date is Wednesday 28 March 2012.

Subsequent updates from CLG and CIPFA are being assessed by the Council, in conjunction with Arlingclose and its Housing Consultants.

The self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the CLG the difference between the two, which is approximately £70M. This will require the Council to fund this amount in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market.

Whilst the CLG has encouraged authorities to consider now the options for financing the settlement, rather than wait for draft/final determinations, the CLG does not consider it prudent to borrow prior to Royal Assent. The 2011/12 Item 8 Determination will also be amended so that the HRA can be charged for interest costs arising from borrowing taken ahead of settlement date but after Royal Assent.

The TM implications of housing reform and an appropriate strategy to manage the process are being actively reviewed with the Council's Treasury Advisor including the issues surrounding any early prefunding of the significant settlement payment (primarily the powers to borrow and the cost of carry).

On 20 September, following an announcement by HM Treasury, the PWLB confirmed that the interest rate offered to local authorities would be temporarily reduced to allow councils to borrow at lower levels for their one-off HRA reform settlement payment. This will enable the Council to borrow at around 13bps above the equivalent gilt yield (current borrowing rates are 1% above the gilt yield) to fund the HRA transaction. These lower rates will be available from the date of Royal Assent to 26 March 2012 only.

7. Compliance with Prudential Indicators

All indicators in Quarter 2 complied with the Prudential Indicators approved. Details of the performance against key indicators are shown below:

7.1. 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 2010 and the estimated position for the current and next two years based on the capital programme submitted to council:

| Capital Financing Requirement | 2010/11 Actual £M | 2011/12 Estimate £M | 2011/12 Forecast £M | 2012/13 Estimate £M | 2013/14 Estimate £M |
|--|------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Balance B/F | 310 | 360 | 360 | 371 | 372 |
| Capital expenditure financed from borrowing | 59 | 11 | 21 | 11 | 8 |
| Revenue provision for debt Redemption. | (6) | (8) | (7) | (8) | (7) |
| Movement in Other Long Term Liabilities | (3) | (3) | (3) | (2) | (3) |
| Cumulative Maximum External Borrowing | 360 | 360 | 371 | 372 | 370 |

7.2. Balances and Reserves

Estimates of the Council's level of overall Balances and Reserves for 2010/11 to 2012/13 are as follows:

| | 2010/11 Actual £M | 2011/12 Estimate £M | 2012/13 Estimate £M | 2013/14 Estimate £M |
|-----------------------|------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Balances and Reserves | 56 | 46 | 36 | 20 |

7.3. 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 Borrowing Limit was set at £486M for 2011/12.
- 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 2011/12 was set at £471M.
- The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of June 2011 borrowing at its peak was £295M.

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 01/04/2011 | Balance as at 30/9/2011 | 2011/12 Estimate | 2012/13 Estimate | 2013/14 Estimate |
|-----------------------------|--------------------------|----------------------------|---------------------|---------------------|---------------------|
| | £M | £M | £M | £M | £M |
| Borrowing | 224,677 | 273,515 | 277,482 | 279,863 | 266,858 |
| Other Long Term Liabilities | 71,722 | 71,361 | 71,657 | 73,886 | 78,153 |
| Total Borrowing | 296,399 | 344,876 | 349,139 | 353,749 | 345,011 |

7.4. 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 2011/12 |
|--|-----------------------|
| Upper Limit for Fixed Rate Exposure | 100% |
| Compliance with Limits: | Yes |
| Upper Limit for Variable Rate Exposure | 50% |
| Compliance with Limits: | Yes |

7.5. 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 30/9/2011 | Average Fixed Rate as at 30/9/2011 | Fixed Rate as at 30/9/2011 | Compliance with set Limits? |
|--------------------------------|----------------|----------------|---|---|----------------------------------|-----------------------------------|
| | % | % | £000's | % | % | |
| Under 12 months | 0 | 45 | 38,204 | 1.87 | 16.83 | Yes |
| 12 months and within 24 months | 0 | 45 | 5,000 | 4.08 | 2.20 | Yes |
| 24 months and within 5 years | 0 | 50 | 9,000 | 2.78 | 3.97 | Yes |
| 5 years and within 10 years | 0 | 75 | 109,731 | 3.23 | 48.35 | Yes |
| 10 years and within 20 years | 0 | 75 | 0 | 0.00 | 0.00 | Yes |
| 20 years and within 30 years | 0 | 75 | 10,000 | 4.68 | 4.41 | Yes |
| 30 years and within 40 years | 0 | 75 | 30,000 | 4.62 | 13.22 | Yes |
| 40 years and within 50 years | 0 | 75 | 25,000 | 3.89 | 11.02 | Yes |
| 50 years and above | 0 | 100 | 0 | 0.00 | 0.00 | Yes |
| | | | 226,934 | 3.45% | 100.00 | |

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

This indicator allows the Council to manage the risk inherent in longer term investments. £9M of investments were made for a period longer than 364 days during the Quarters 1 and 2. A total £21M is currently held in longer term investments, £12M is due back by the end of the financial year. Due to the current uncertainty in the market no more investments will be made unless the markets settle down and our advisors recommend it.

| Upper Limit for total principal sums invested over 364 days | 2010/11 Actual | 2011/12 Approved | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|---|----------------|------------------|------------------|------------------|------------------|
| | £M | £M | £M | £M | £M |
| | 50 | 50 | 50 | 50 | 50 |

7.7. 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.

| Ratio of Financing Costs to Net Revenue Stream | 2010/11 Actual | 2011/12 Approved | 2011/12 Estimate | 2012/13 Approved | 2013/14 Approved |
|--|----------------|------------------|------------------|------------------|------------------|
| | % | % | % | % | % |
| General Fund | 4.89 | 7.09 | 5.38 | 8.43 | 9.09 |
| HRA | 4.46 | 5.75 | 5.60 | 7.50 | 8.69 |
| Total | 6.01 | 7.49 | 6.66 | 8.25 | 8.47 |

8. 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 September 2011. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Since the end of the quarter Moody's and Fitch have completed and published their reassessment of banking institutes in the UK and have down rated a number of the counterparties on the council's lending list. The downgrades do not represent deterioration in the financial strength of the UK government or the banking system and both Moody's & Fitch believe the government is likely to continue to provide support to systemically important institutions. The review means that the government is now more likely to allow smaller institutions to fail if they get into financial difficulty.

As a consequence we now have £46M placed with institutions that fall below our current minimum investment criteria. Our Advisors do not have any current concerns regarding these investments and do not advise clients to break existing term deposits and it is likely that there could be revisions to thresholds, counterparties and investment instruments as part of Treasury Management Strategies for 2012/13.

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 6

The Housing Revenue Account (HRA) is currently forecast to under spend by **£194,100** at year-end.

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

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