

GENERAL FUND 2011/12 - OVERALL SUMMARY

December 2011	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Adult Social Care & Health	66,409	67,444	1,035 A
Childrens Services & Learning	39,502	40,392	890 A
Environment & Transport	24,286	24,499	213 A
Housing	9,521	9,359	163 F
Leader's Portfolio	7,592	7,464	128 F
Leisure & Culture	7,066	7,435	368 A
Resources	44,566	44,436	130 F
Baseline for Portfolios	198,943	201,029	2,086 A
Net Draw From Risk Fund	780	0	780 F
Sub-total (Net Controllable Spend) for Portfolios	199,723	201,029	1,306 A
Non-Controllable Portfolio Costs	23,031	23,031	0
Portfolio Total	222,753	224,060	1,306 A
Levies & Contributions			
Southern Seas Fisheries Levy	49	46	3 F
Flood Defence Levy	45	43	1 F
Coroners Service	500	565	65 A
	593	654	61 A
Capital Asset Management			
Capital Financing Charges	13,327	11,766	1,561 F
Capital Asset Management Account	(24,541)	(24,541)	0
	(11,215)	(12,776)	1,561 F
Other Expenditure & Income			
Direct Revenue Financing of Capital	1,553	1,553	0
Net Housing Benefit Payments	(882)	(1,000)	118 F
Revenue Development Fund	1,190	1,090	100 F
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
Contribution to Interest Equalisation Reserve	0	563	563 A
Council Tax Freeze Grant	(2,066)	(2,066)	0
Open Space and HRA	536	536	0
Risk Fund	1,135	931	204 F
Contingencies	0	0	0
Surplus/Deficit on Trading Areas	(125)	(242)	117 F
	(19,500)	(19,447)	53 A
NET GF SPENDING	192,631	192,490	141 F
Draw from Balances:			
To fund the Capital Programme	(1,553)	(1,553)	0
Draw from Balances (General)	1,711	1,852	141 F
Draw from Strategic Reserve (OD Reserve))	(2,104)	(2,104)	0
	(1,946)	(1,805)	141 F
BUDGET REQUIREMENT	190,685	190,685	0

ADULT SOCIAL CARE AND HEALTH PORTFOLIO**KEY ISSUES – MONTH 9**

The Portfolio is currently forecast to over spend by **£255,200** at year-end, which represents a percentage over spend against budget of **0.4%**. 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	1,035.2 A	1.6
Remedial Portfolio Action	0.0	
Risk Fund Items	780.0 F	
Portfolio Forecast	255.2 A	0.4
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

ASCH 1 – Adult Disability Care Services (forecast adverse variance £600,700)

There is a projected over spend of £425,300 on Domiciliary Care and on Residential Care of £275,900

Forecast Range not applicable.

Domiciliary Care is forecast to over spend by £425,300. However, the additional cost of client packages is actually £925,300 which represents a reduction in the over spend reported in 2010/11 of £494,800. The position has been offset by Health funding of £500,000 which has been received in 2011/12 to promote Social Care Services which aim to prolong the period before acute care needs develop.

It should be noted that due to a high number of staff vacancies in the City Care First Support team until December 2011, 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 in the current financial year. Subject to recruitment being completed in year the savings should be delivered in 2012/13.

There is a forecast under spend on Nursing of £60,400. 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 the providers' senior management team to resolve this safeguarding issue and the financial implications. It is anticipated that a draft proposal will be made by the provider in January 2012. Any further developments will be reported in future forecast updates.

Residential Care is forecast to over spend by £275,900. This includes a reduction of six 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 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)	Variance to Budget £000's
Day Care	87.2	£57 Per Day	1,530	79.8	1,400	(130)	(7.4)
Direct Payments	2,518.7	£9.47 Per Hour	265,966	2,486.0	262,513	(3,453)	(32.7)
Domiciliary	4,110.5	£12.85 Per Hour	319,883	4,535.8	352,981	33,098	425.3
Nursing	2,081.7	£64.82 Per Day	32,115	2,021.3	31,183	(932)	(60.4)
Residential	5,318.7	£49.15 Per Day	108,214	5,594.6	113,827	5,613	275.9
Total	14,116.8			14,717.5			600.7

A provision of £320,000 has been made within the Risk Fund to meet the costs of 18 Dementia clients under review who are receiving services which are currently health funded. The full impact of this can be evidenced and therefore it is assumed that the full amount will be required in 2011/12. It has also been assumed that there will be a draw on the Risk Fund for £400,000 in relation to an increasing elderly population.

ASCH 2 – Learning Disability (forecast adverse variance £994,700)

Loss of Independent Living funding (£60,000) and new clients/changes in client costs (£934,700).

Forecast Range £1.1M adverse to £950,000 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 just over £1.0M. This has been partially offset by net savings on Adult Placement £96,300.

It should be noted that £74,000 of outstanding 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 £98,600)

There are staff savings within City Care First Support (£301,400) and additional forecast unit income (£59,600) offset by additional costs in the homes (£262,400).

Forecast Range £90,000 favourable to £150,000 favourable.

There have been a significant number of staff vacancies within the City Care First Support staffing teams giving forecast savings of £301,400. Following initial difficulties in recruiting carers and undertaking extensive recruitment drives, most vacancies have been filled although a small number remain. The forecast now assumes an increase in staff numbers throughout the remainder of the financial year.

In addition, unit income is forecast to increase by £59,600. In turn this is offset by a forecast over spend of £262,400, predominantly on homes staffing arising from higher expected levels of agency usage.

ASCH 4 – Complex Care (forecast favourable variance £179,800)

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.

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

It should be noted that no provision has been included in this forecast position in relation to payments for market supplements.

ASCH 5 – Adult Disability Commissioning (forecast favourable variance £159,000)

Savings of £220,000 have been achieved on Supporting People in advance of 2012/13 saving requirement, offset by a net increase in contracts £61,000.

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

Following an extensive review of the current Supporting People spending programme various contracts are being ended or reduced in 2011/12 to achieve greater savings in the longer term. It is anticipated that savings in the current year of £220,000 will be achieved.

This has been offset in part by a net increase in contract costs compared to budget of £61,000, mainly due to the previously reported non achievement of expected savings on the SCA Day Care Contract.

ASCH 6 – Directors Office (forecast favourable variance £246,400)

There is a forecast under spend of £250,000 against a central budget provision as the expenditure this was intended to fund has already been forecast elsewhere within the Portfolio.

Forecast Range £240,000 favourable to £300,000 favourable.

Summary of Risk Fund Items

Service Activity	£000's
Adult Disability Care Services – Provision for Dementia Clients	320.0
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	780.0

CHILDREN'S SERVICES & LEARNING PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£890,500** at year-end, which represents a percentage over spend against budget of **2.3%**. 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	890.5 A	2.3
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	890.5 A	2.3
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 halt on all non essential expenditure as approved by Cabinet in November.

The CORPORATE issues for the Portfolio are:

CSL 1 – Commissioning & Workforce Development (forecast favourable variance £1,011,000)

Remedial action taken to help offset over spends in Safeguarding.

Forecast Range £900,000 favourable to £1.1M favourable

A favourable variance has resulted due to remedial action taken in order to help offset predicted overspends in Safeguarding. This includes:

- £300,000 from the early implementation of 2011/12 staff savings,
- £200,000 identified from reallocation of grants against core activity,
- £680,000 identified within supplies and services budgets.

In addition, £82,000 favourable variance is due to the Head of Standards post becoming vacant in Quarter 1. This is offset by an adverse forecast of £190,900 within school transport as a result of increasing demand for post 16 transport and the added costs of transporting children across the city to take up school places.

CSL 2 – Prevention & Inclusion Teams (forecast favourable variance £417,000)

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

Forecast Range £350,000 favourable to £550,000 favourable

Vacant posts within the Sure Start and Children's Centres are being held unfilled. Managers have also been advised to only undertake essential expenditure from supplies and services budgets.

CSL 3 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £1,312,300)

The number of children in care for whom there is a financial cost, has increased by 37 over the current financial year.

Forecast Range £1.6M adverse to £1.0M adverse

The increasing numbers of children in care has led to an over spend on fostering services of £1.4M. This includes a forecast over spend of £1.1M on Independent Fostering Agencies (IFAs) placements, (36 budgeted versus 66 actual). This also includes a forecast over spend of £249,000 on internal fostering placements, (237 budgeted versus 271 actual). A standard IFA placement costs approximately £26,000 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 who are looked after ranges from an internal placement costing an average of £16,300 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	Daily Rate Range £	Placement Numbers			
		Budget	Sept	Dec	Forecast End of March
Fostering up to 18	20 – 95	237	270	271	271
Independent Fostering Agencies	96 – 212	36	63	66	60
Supported Placements or Rent Residential - Our House	16 – 43	16	9	11	8
Residential - Independent Sector	100 – 660	5	3	2	3
Secure	717 – 806	6	11	13	13
Sub-total: Children in Care		301	356	363	356
Over 18's	8 – 78	11	14	13	14
Adoption Allowances	1 – 32	102	91	87	89
Special Guardianship Allowances	4 – 32	19	28	34	31
Residence Order Allowances	6 – 16	26	19	18	19
Total		459	508	515	509

CSL 4 – Safeguarding Management and Legal Services (forecast adverse variance £592,400)

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

Forecast Range £800,000 adverse to £350,000 adverse

Included within this adverse variance is an over spend of £549,500 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 £685,100)

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 £800,000 adverse to £400,000 adverse

There is a forecast over spend of £846,400 on the staffing related costs of the Tier 3 social work teams, including the cost of a market supplement for qualified staff. 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.

This forecast projection includes £275,000 for agency staff employed over and above the team establishment for a fixed term. This is being offset by specific savings reported within Commissioning and Workforce Development.

The over spend on staffing is being partially offset by savings of £161,300 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.

The OTHER KEY issues for the Portfolio are.

CSL 6 – Disability (forecast favourable variance £187,100)

The forecast variance reflects a reduction in the costs of care packages for children with disabilities. This under spend has resulted from effective targeting of services at those children and their families with the most complex needs.

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

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£212,700** at year-end, which represents a percentage over spend against budget of **0.9%**. 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	212.7 A	0.9
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	212.7 A	0.9
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £220,900)

Parking pressures have been identified relating to reduced income of £228,000 and increased rates costs of £79,600. Negotiated contracts with external bodies are forecast to generate a net surplus of £106,000.

Forecast Range £300,000 adverse to £100,000 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 £228,000. 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 earlier in the year 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 £105,000.

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 – Itchen Bridge (forecast adverse variance £252,800)

There is a forecast lower level of income from tolls, following toll collectors taking strike action earlier in the year. 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 £300,000 adverse to £200,000 adverse

Essential repairs to the bridge started in November 2010 and continued into August 2011 and there was further disruption in October due to inspection work. 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 earlier this year has been monitored and reflected in the income forecast. Overall the reduction in toll income is around £204,000. 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 3 – Waste Disposal (forecast favourable variance £455,400)

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 £455,000.

Forecast Range £350,000 favourable to £550,000 favourable

The general collected household and garden waste tonnage is lower than anticipated, resulting in a forecast saving of £377,000 over the course of the year. 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 £82,000. There have been fitting out costs of £40,000 incurred for the new HWRC facility at City Depot which opened on the 7 December 2011.

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 £80,000 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).

The OTHER KEY issues for the Portfolio are:

E&T 4 – Highways Contract Management (forecast favourable variance £168,800)

There are savings of £192,000 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 £192,000 over and above the originally planned profile. The cost of street lighting energy has risen, following an increase in the unit price for electricity of just over 10% with effect from 1 October 2011. There has been a draw of £36,500 from the Risk Fund to cover this additional cost.

E&T 5 - Bereavement Services (forecast adverse variance £213,500)

There is a potential income shortfall on adult cremation fees of £95,000 and other adverse variances.

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

The 2011/12 cremations income estimate is based on achieving the equivalent of 2,300 undiscounted adult cremations by the end of the year. However, a reduction in numbers is reported by all neighbouring crematorium facilities and is part of a national downturn in the death rate.

Although the current year forecast is to achieve 2,260 adult cremations in total, there is an adverse forecast of £95,000 based on the proportions of full price and reduced price cremations. The fees from non-adult cremations are also forecast to be £19,000 adverse compared to the original estimate and the number of burials is lower than estimated with a forecast adverse variance of £17,000. These forecasts will be closely monitored over the coming months and reflected in the monitoring, as appropriate.

The current year's service development to raise additional income from increasing the sale of memorials is slow and it is expected that the saving will only be partially achieved by the year end. There are unbudgeted initial costs of £15,000 and a forecast adverse variance on income of £28,000. In addition, Test Valley Council (where the crematorium is located) has significantly increased the rates by £16,000.

E&T 6 – Waste Collection (forecast adverse variance £95,000)

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

Forecast Range £150,000 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 £770,000. However, there are employee deductions of £270,000 and savings on fuel of £43,000, resulting from the strike action. There are also forecast savings on employees, due to staff turnover, of £339,000.

HOUSING GENERAL FUND PORTFOLIO**KEY ISSUES – MONTH 9**

The Portfolio is currently forecast to under spend by **£162,700** at year end, which represents a percentage variance against budget of **1.7%**. 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	162.7 F	1.7
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	162.7 F	1.7
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 9**

The Portfolio is currently forecast to under spend by **£127,700** at year-end, which represents a percentage under spend against budget of **1.7%**. 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	127.7 F	1.7
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	127.7 F	1.7
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:

LEAD 1 – Legal and Democratic (favourable forecast variance £162,100)

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. This favourable position has been partly offset by a combination of reduced income and increased costs within Licensing which are subject to further review.

LEAD 2 – Regeneration & Renewal (Favourable forecast variance £56,200)

Vacant Head of Economic Development & Regeneration post

Forecast Range not applicable

The Head of Economic Development & Regeneration post will be vacant until February 2012 when it will be deleted in order to fund the Senior Manager for Skills & Economy.

LEAD 3 – Major City Development (Adverse forecast variance £112,800)

Expenditure on feasibility studies which did not result in a capital project

Forecast range not applicable

After an investigation into expenditure charged to the capital programme, a number of feasibility studies, costing a total of £118,500, did not result in a capital project. As these costs cannot be classified as capital expenditure, the costs will need to be met from revenue as part of preparing the financial statements for 2011/12.

LEISURE & CULTURE PORTFOLIO**KEY ISSUES – MONTH 9**

The Portfolio is currently forecast to over spend by **£368,300** at year-end, which represents a percentage over spend against budget of **5.2%**. 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	368.3 A	5.2
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	368.3 A	5.2
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 – Arts and Heritage (forecast adverse variance £205,400)

Shortfalls against income targets in Arts & Heritage and the settlement of a long term dispute.

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

Due to the challenging economic conditions income shortfalls of £249,700 have resulted in the Art Gallery shop, Reprographics and income from developers in the Archaeology unit. However, the effect of this has been mitigated by savings on expenditure budgets including repairs and maintenance and temporary staff.

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.

LC 2 – Sport and Recreation (forecast adverse variance £142,500)

Unbudgeted charges in relation to the MyTime Active and Active Nation contracts.

Forecast Range £200,000 Adverse to £100,000 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.

RESOURCES PORTFOLIO**KEY ISSUES – MONTH 9**

The Portfolio is currently forecast to under spend by **£130,000** at year-end, which represents a percentage variance against budget of **0.3%**. 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	130.0 F	0.3
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	130.0 F	0.3
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

RES 1 – Corporate Management (forecast favourable variance £250,000)**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.

The OTHER KEY issues for the Portfolio are:

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 and this is combined with increased costs, due to the impact of the disposal programme. These elements will have an ongoing impact in future years.

RES 3 – 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.

RES 4 – Property Services (forecast favourable variance £167,000)

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.

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	2011/12				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		%	%
Adult Social Care & Health	(1,879)	(100)	(1,187)	(3,166)	62.8%	30.5%	6.8%
Children's Services & Learning	(380)	(175)	(2,154)	(2,709)	100.0%	0.0%	0.0%
Environment & Transport	(799)	(170)	(682)	(1,651)	67.3%	28.5%	4.2%
Housing	(298)	(45)	(599)	(942)	91.0%	9.0%	0.0%
Leader's Portfolio	(518)	0	(320)	(838)	100.0%	0.0%	0.0%
Leisure & Culture	(624)	(30)	(63)	(717)	52.4%	0.0%	47.6%
Resources	(1,010)	(150)	(578)	(1,738)	89.1%	10.9%	0.0%
Total	(5,508)	(670)	(5,583)	(11,761)	80.1%	14.5%	5.3%

Portfolio	2011/12				Implemented and Saving Achieved	FINANCIAL ACHIEVEMENT		
	Efficiencies	Income	Service Reductions	Total		Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved	Total
	£000's	£000's	£000's	£000's		£	£	£
Adult Social Care & Health	(1,879)	(100)	(1,187)	(3,166)	(1,987)	(778)	0	(2,765)
Children's Services & Learning	(380)	(175)	(2,154)	(2,709)	(2,709)	0	0	(2,709)
Environment & Transport	(799)	(170)	(682)	(1,651)	(1,111)	(347)	0	(1,458)
Housing	(298)	(45)	(599)	(942)	(857)	(69)	0	(926)
Leader's Portfolio	(518)	0	(320)	(838)	(838)	0	0	(838)
Leisure & Culture	(624)	(30)	(63)	(717)	(376)	0	(158)	(534)
Resources	(1,010)	(150)	(578)	(1,738)	(1,548)	(190)	0	(1,738)
Total	(5,508)	(670)	(5,583)	(11,761)	(9,426)	(1,384)	(158)	(10,968)
							Shortfall	793
								-7%

FINANCIAL HEALTH INDICATORS – MONTH 9

Prudential Indicators Relating to Borrowing

	<u>Maximum</u>	<u>Forecast</u>	<u>Status</u>
Maximum Level of External Debt £M	£563M	£393M	Green
As % of Authorised Limit	100%	69.8%	Green
	<u>Target</u>	<u>Actual YTD</u>	<u>Status</u>
Average % Rate New Borrowing	5.0%	3.49%	Green
Average % Rate Existing Long Term Borrowing	5.0%	3.27%	Green
Average Short Term Investment Rate	0.60%	1.38%	Green

Minimum Level of General Fund Balances

		<u>Status</u>
Proposed Minimum General Fund Balance	£5.0M	
Forecast Year End General Fund balance	£14.3M	Green
Forecast Medium Term General Fund Balance	£5.1M	Green

Income Collection

	<u>2010/11</u>	<u>Actual YTD</u>	<u>Status</u>
Outstanding Debt:			
More Than 12 Months Old	30%	33%	Amber
Less Than 12 Months But More Than 6 Months Old	8%	6%	Green
Less Than 6 Months But More Than 60 Days Old	8%	6%	Green
Less Than 60 Days Old	53%	54%	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	85.85%	Amber

Tax Collection rate

	<u>Target Collection Rate</u>	<u>Month 9 Collection Rate Last Year</u>	<u>This Year</u>	<u>Status</u>
Council Tax	96.20%	82.63%	82.70%	Green
National Non Domestic Rates	99.20%	88.35%	89.16%	Green

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 9

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 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 the current year. However, the average rate achieved to date (1.40%) exceeds the performance indicator of the average 7 day LIBID rate (0.66%) mainly due to the rolling programme of yearly deals which was restarted in October 2010 following advice from our Treasury Advisors and was subsequently 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 up until October 2011 when all investments with banks were suspended following the Systematic Review of UK Banking Institutes by Rating Agencies and the subsequent down rating of a number of counterparties. All new investments are now placed in instant access accounts.
- 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 3.12% is lower than that budgeted for but slightly higher than last year which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for an extended period. However, it should be noted that the forecast for longer term debt is a steady

increase in the longer term and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA (reaching 3.48% by 2013/14).

2. Economic Background

The quarter was dominated by the escalation of the sovereign debt crisis in the Eurozone which, despite several summits by heads of state, avoided tough decisions and workable plans desperately required to address their fundamental fiscal, economic and financial problems of overburdened sovereign balance sheets.

- **Growth:** The lack of growth in the major economies was problematic for central bankers, not helped by the Eurozone sovereign debt crisis. Growth in the UK registered just 0.5% for the twelve months to September as domestic demand was depressed by low wage growth, high inflation and the fiscal policy measures taken by the coalition government to address the deficit and high level of debt.
- **Inflation:** Inflation remained stubbornly high. Annual CPI for November was 4.8%; CPI had remained above MPC's 3% upper limit for 23 consecutive months and required the Bank of England's Governor to write his eighth open letter to the Chancellor. In fact the rise in the September CPI to 5.2% was as expected in response to the rise in energy prices pre-signalled by the energy companies. However, with CPI running at broadly double the level of the yield on 10 year gilts it also gives an indication of the outlook for inflation in the medium term, i.e. lower.
- **Employment / Consumer Confidence:** Labour market data continued to disappoint. The ILO unemployment rate remained unchanged in October at 8.3%, but the number unemployed rose to 2.63 million, the highest level since August 1994. Youth unemployment (16-24 year olds) climbed above the psychological 1 million mark. The small chink in an otherwise gloomy outlook was that service sector employment showed growth. There was little sign of wage pressures as average weekly earnings increased just 2%. Real wages, (i.e. after inflation), have been negative for over three years resulting in lower disposable income, further damaging already fragile consumer confidence.
- **Monetary Policy:** Central bankers' policies were once again driven by the feeble growth outlook rather than the upward trend in inflation. The slowdown in the global economy, a deterioration in the economic outlook, the severe strains in the bank funding markets and a continued lack of supply of credit were the reasons given by the Monetary Policy Committee's decision at its meeting in October to increase asset purchases (QE) by £75 billion whilst maintaining the Bank Rate at 0.5%.

The European Central Bank (ECB) also opted for unconventional monetary policy by substantially increasing its refinancing operations. The ECB reintroduced year-long loans for banks and its main refinancing programme would be made available until at least July 2012, both of which are intended to provide much-needed liquidity for its banking sector.

With politics trumping economics and fundamental reform, the impasse in the Eurozone threatened to derail peripheral nations and it was not surprising that the rating agencies' warnings became more strident. Moody's said that it would review the ratings of all European Union sovereigns in the first quarter of 2012 after December's summit failed to produce decisive policy measures. Fitch placed the ratings of several sovereigns including Italy, Spain, Belgium and Ireland on rating watch negative based on its view that a comprehensive solution to the crisis is technically and politically beyond reach.

- **Gilt yields and money market rates:** The very poor outlook for global growth has pushed back expectations for a rise in the UK bank rate to 2014/2015. Gilts once again benefited from their safe haven status and yields, which had already fallen to lows in the previous quarter, fell further. 5-year gilt yields fell to 1.13%, 10-year yields to 2.1% and 20-year yields to 2.85%.

Public Works Loan Board (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 31 December 2011, the differential 0.1% to 0.2% for maturities up to 12 months, although the differential widened with respect to overnight rates.

3. Outlook for Quarter 4

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at December 2011 is detailed below. Given the precarious outlook for global growth and fears of a double-dip recession it is believed the Bank of England would only raise rates after there was firm evidence that the economy had survived the fiscal consolidation. Therefore, the outlook is for official interest rates to remain low for an extended period. 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.

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Official Bank Rate													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													

4. Debt Management

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

	Balance on 01/04/2011	Debt maturing or Repaid	New Borrowing	Balance as at 31/12/2011	Increase/ (Decrease) in Borrowing for Year £000's
	£000's	£000's	£000's	£000's	£000's
Short Term Borrowing	35,324	180,420	(200,240)	15,504	(19,820)
Long Term Borrowing	189,358	(11,868)	55,000	232,490	43,132
Total Borrowing	224,682	168,552	(145,240)	247,994	23,312

Please note that HRA Subsidy Reform will result in an increase in the Council's debt of approximately £75.5m by 31/3/2012. More details are in Section 6 of this report.

Public Works Loan Board (PWLB) Borrowing: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. The large downward move in gilt yields during the quarter has resulted in PWLB rates falling very nearly to the pre-CSR levels of October 2010. However affordability and the "cost of carry" remained an important influence on the Council's borrowing strategy alongside the consideration that for any borrowing undertaken ahead of need, the proceeds would have to be invested into a distressed financial market (credit risk) at rates of interest significantly lower than the cost of borrowing.

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.

As at the 31 March 2011 the Council used £64M 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. The strategy set for 2011/12 expected to borrow £75M (excluding HRA debt buyout) for capital purposes by 2013/14 of which £45M related 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 was due to borrow £85M this year, of which new loans amounting to £55M have been raised to the end of December 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. No further borrowing is expected to be taken during the remainder of the current financial year due to the interest rates staying lower for longer and the risks associated with holding increased investment balances, the externalisation of internal borrowing has been deferred to 2012/13.

The Council has £35M variable rate loans which were borrowed prior to 20 October 2010, (the date of change to the lending arrangements of the PWLB post CSR), and are maintained on their initial terms and are not subject to the additional increased margin, they are currently averaging 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 £30M at variable rates at an estimated 1.9% during 2012 . Whilst in the current climate of low interest rates this remains a sound strategy, at some point when the market starts to move, the Council will need to act quickly to lock into fixed long term rates which may be at similar levels to the debt it restructured. Furthermore, the volatility in the financial markets means that interest costs and investment income will continue to fluctuate for some time.

In order to mitigate these risks the Council approved the creation of an Interest Equalisation Reserve in 2009. At that point a major debt restructuring exercise was undertaken in order to take advantage of market conditions and produce net revenue savings. The Interest Equalisation Reserve was created to help to manage volatility in the future and ensure that there was minimal impact on annual budget decisions or council tax in any single year. The 2012 strategy recommends that the Reserve be maintained at an appropriate level and savings arising from lower than anticipated interest rates be added to the equalisation reserve to further protect the Council from future increase in debt charges where it is prudent to do so.

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 31/12/2011	Increase/ (Decrease) in Investment for Year
	£000's	£000's	£000's	£000's	£000's
Short Term Investments	29,300	(78,200)	106,300	57,400	28,100
Money Market Funds	40,575	(283,570)	275,655	32,660	(7,915)
EIB Bonds	6,000	0	0	6,000	0
Long Term Investments	36	0	0	36	0
Total Investments	75,911	(361,770)	381,955	96,096	20,185

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); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

A break down of investments as at 31 December 2011 by credit rating at the end of the quarter and maturity profile can be seen in following table. Please note that as a result of the down rating of a number of UK banks in October there are £47M of investments which are below our minimum credit rating threshold. Our Advisors do not have any current concerns regarding these investments and do not advise clients to break existing term.

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
BBB	A+	1,000	1,000					2,000
A-	A-							0
A	A+		10,000	0	1,000			11,000
A	AA-		22,350	10,050	2,000			34,400
A+	A+	9,000						9,000
AA-	AA-							0
AA+	AA+							0
AAA	AAA	32,660	1,000				6,036	39,696
		42,660	34,350	10,050	3,000	0	6,036	96,096

Counterparty Update: The ratings of most of the UK banks, Nationwide Building Society and non-UK banks were either downgraded or placed on review for possible downgrade. For the UK banks, the downgrades largely reflected the reassessment by the agencies of the extent of future systemic support that would be forthcoming from the sovereign. For Eurozone banks, the worsening sovereign debt crisis and poor growth outlook led to pressure on sovereign ratings and consequently on bank ratings.

The downgrades resulted in the long-term rating of several UK institutions (Barclays, NatWest/RBS, Bank of Scotland/Lloyds TSB Bank, Clydesdale Bank and Nationwide BS) falling below the Council's minimum criteria of 'A+'. Even though there are no solvency issues with these institutions, they have been temporarily suspended as counterparties for new investments until a revision to the minimum credit criteria has been considered and approved by Full Council.

The 2011 revised CIPFA Code now recommends that Councils have regard to the ratings of all assigned ratings and to make their decisions based on all ratings (rather than on the basis of the lowest rating as was recommended in the 2009 revisions of the Code). This will not substantially affect the credit rating element (which is one of many considerations) of the creditworthiness criteria through which the Council derives its lending list.

The escalating tension in European financial markets led to co-ordinated central bank action on 30 November 2011 to inject markets with liquidity. It was seen by the markets as a fleeting measure to restore confidence but it did not address the systemic sovereign weakness that was driving the Eurozone crisis. As a precaution, Arlingclose advised the suspension of all European Banks for new term deposits and call accounts but not to break any existing term deposits with them.

The ratings of several European sovereigns were placed on rating review for possible downgrade and on the 14 January Standard & Poors (S&P) announced downgrades to several sovereign ratings, most notably France, Italy, Spain and Austria (the downgrade to the last has more to do with the country's exposure to Hungary where a constitutional crisis remains unresolved). The long-term rating of the European Financial Stability Fund was also affected. There was relief, though, that the sovereign downgrades for France and Austria were restricted to one notch and comfort for AAA-bond holders that the European Investment Bank had its triple-A status affirmed by S&P. It is most likely that these down ratings will have an impact on the banking institutions within the affected nations.

Maturities for new investments with the residual banks on the Council's list (HSBC, Standard Chartered, JP Morgan Chase Bank, Canadian and Australian banks) were limited to three months, and Santander UK plc has been limited to overnight deposits and the use of the bank's liquidity account.

The Council is currently in the process of revising credit rating criteria for 2012/13 as part of its TM Strategy which will be presented to Council for approval on 15 February 2012.

Credit Risk: The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms. As a performance measure, our advisors Arlingclose collate quarterly investment information across their client base, (approximately 93 Local Government clients) and present in a graphical format how we compare with regards to counterparty credit quality and maturity of investments. Counterparty credit quality as measured by credit ratings is summarised below. The table shows that the Council has met the criteria of both the credit risk score and credit ratings across value and time weighted averages.

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
CRITERIA	< 5.00	A+	< 5.00	A+
31/03/2011	2.98	AA	1.42	AAA
30/06/2011	3.18	AA	1.28	AAA
30/09/2011	2.53	AA	1.25	AAA
31/12/2011	3.79	AA-	1.75	AA+

Scoring:

- Value weighted average reflects the credit quality of investments according to the size of the deposit
- Time weighted average reflects the credit quality of investments according to the maturity of the deposit
- AAA = highest credit quality = 1
- D = lowest credit quality = 15

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.

The implications of the downgrades could result in a review of the Council's minimum credit criteria, as set out in its TM 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, which at the current time does not meet the minimum credit criteria of A+ (or equivalent) long term. However, there are not many banks actively in the tendering process for local authority banking, which would meet our criteria and it is a costly and complicated process. With this in mind, despite the credit rating being below the Authority's minimum criteria, it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

Budgeted Income and Outturn: The Council 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 1.40%, 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 £14M invested at an average rate of 1.79%. Following uncertainty in the markets this programme was suspended at the beginning of August.

6. Reform of the Council Housing Subsidy System

Since the last report in September 2011, the Localism Bill received Royal Assent, and as a consequence draft self-financing determinations were issued by Department for Communities & Local Government (CLG). The Council housing self-financing reforms involve the removal of the housing subsidy system by transferring a one-off allocation of national housing debt in return for the retention in the future of all rental income that is currently pooled under the subsidy regime. The proposed settlement date is 28 March 2012 and will result in the Council increasing its debt by an estimated £75.5M to fund the settlement figure in return for the cessation of the annual subsidy payment to central government that currently amounts to £6.5M per annum.

The Council has the option of borrowing externally from the PWLB or the market and, in conjunction with treasury advisors, considered a mix of financial instruments to spread Treasury risks. In a departure from current Treasury practice this portfolio will be entirely ring-fenced to the Housing Revenue Account (HRA) and hence eliminate any potential liability on the General Fund through complex statutory recharging methodologies.

On the 20 September 2011, HM Treasury announced the PWLB rates 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 0.13% 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 on 26 March 2012 only. Although various sources of borrowing will be considered, it is likely that due to the temporary reduction, all HRA reform financing will be sourced from the PWLB, utilising fixed rate loans with varying maturities. The current forecast interest rate for this borrowing is 4% and this has been built into the HRA business plan.

7. Compliance with Prudential Indicators

All indicators in Quarter 3 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 2011 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	369	370
Capital expenditure financed from borrowing	59	11	19	11	8
Revenue provision for debt Redemption.	(6)	(8)	(7)	(7)	(7)
Movement in Other Long Term Liabilities	(3)	(2)	(3)	(3)	(3)
Cumulative Maximum External Borrowing	360	361	369	370	368

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	50	33	33

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. During the period to the end of December 2011 borrowing at its peak was £309M with the figure being £248M at 31 December 2011.

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 £M	Balance as at 31/12/2011 £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Borrowing	224,677	247,994	225,978	257,473	254,968
Other Long Term Liabilities	71,722	71,361	71,657	73,886	78,153
Total Borrowing	296,399	319,355	297,635	331,359	333,121

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. Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in longer term investments. Investments to the value of £9M were made for a period longer than 364 days during the first half of the financial year. A total of £14M is currently held in longer term investments, of which £5M 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
	£M	£M	£M	£M	£M
	50	50	50	50	50

7.6. Maturity Structure of Fixed Rate Borrowing

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

	Lower Limit	Upper Limit	Actual Fixed Debt as at 31/12/2011	Average Fixed Rate as at 31/12/2011	Fixed Rate as at 31/12/2011	Compliance with set Limits?
	%	%	£000's	%	%	
Under 12 months	0	45	15,504	1.03	7.69	Yes
12 months and within 24 months	0	45	5,000	4.08	2.48	Yes
24 months and within 5 years	0	50	9,000	2.78	4.47	Yes
5 years and within 10 years	0	75	106,981	3.23	53.10	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	4.96	Yes
30 years and within 40 years	0	75	30,000	4.62	14.89	Yes
40 years and within 50 years	0	75	25,000	3.89	12.41	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			201,484	3.45%	100.00	

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 upper limit for this ratio is currently set at 10% 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 capital programme approved in September.

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	6.22	8.43	9.09
HRA	4.46	5.75	5.58	7.50	8.69
Total	6.01	7.49	7.30	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 31 December 2011. 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.

In October 2011 the rating agencies completed and published their reassessment of banking institutes in the UK and 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 £47M 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 has been recommended that there is a revision to thresholds, counterparties and investment instruments as part of Treasury Management Strategies for 2012/13 as we currently only have two banks on our counter parties list that are actively in the market to take local authority deposits.

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 9

The Housing Revenue Account (HRA) is currently forecast to under spend by **£4,400** 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.