APPENDIX 1

GENERAL FUND 2012/13 - OVERALL SUMMARY

June 2012	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Adult Services	67,488	68,650	(1,162)
Children's Services	35,961	39,140	(3,179)
Communities	5,334	5,283	51
Environment & Transport	21,959	22,719	(760)
Housing & Leisure	13,062	13,471	(410)
Leader's Portfolio	4,302	4,268	34
Resources	44,060	43,554	506
Baseline for Portfolios	**192,165**	**197,085**	**(4,920)**
Net Draw From Risk Fund	2,446	0	2,446
Sub-total (Net Controllable Spend) for Portfolios	**194,612**	**197,085**	**(2,473)**
Non-Controllable Portfolio Costs	23,434	23,434	0
Portfolio Total	**218,046**	**220,519**	**(2,473)**
Levies & Contributions			
Southern Seas Fisheries Levy	46	46	0
Flood Defence Levy	43	43	0
Coroners Service	560	560	0
	649	**649**	**0**
Capital Asset Management			
Capital Financing Charges	14,265	13,265	1,000
Capital Asset Management Account	(25,565)	(25,565)	0
	(11,301)	**(12,301)**	**1,000**
Other Expenditure & Income			
Direct Revenue Financing of Capital	53	53	0
Net Housing Benefit Payments	(882)	(882)	0
Non-Specific Govt. Grants	(120,941)	(120,941)	0
Contribution to Pay Reserve	600	600	0
Collection Fund Surplus	(373)	(373)	0
Council Tax Freeze Grant	(2,071)	(2,071)	0
Open Space and HRA	436	436	0
Risk Fund	1,554	1,554	0
Contingencies	344	344	0
Surplus/Deficit on Trading Areas	(170)	(170)	0
	(121,450)	**(121,450)**	**0**
NET GF SPENDING	**85,944**	**87,417**	**(1,473)**
Draw from Balances:			
To fund the Capital Programme	(53)	(53)	0
Draw from Balances (General)	(2,609)	(4,083)	(1,473)
Draw from Strategic Reserve (Pensions & Redundancies)	(77)	(77)	0
	(2,738)	**(4,212)**	**(1,473)**
BUDGET REQUIREMENT	**83,206**	**83,206**	**0**

APPENDIX 2

ADULT SERVICES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£461,700** at year-end, which represents a percentage over spend against budget of **0.7%**. This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	1,161.7 A	1.7
Remedial Portfolio Action	0.0	
Risk Fund Items	700.0 F	
Portfolio Forecast	**461.7 A**	**0.7**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

AS 1 – Adult Disability Care Services (forecast adverse variance £957,500)

There is a projected over spend of £579,800 on Nursing, £211,400 on Residential Care and £179,300 on Direct Payments.

Forecast Range not applicable.

There is a forecast over spend on Nursing of £579,800 which is predominantly due to the to an increase in numbers of clients and changes to existing packages but also reflects the difficulties being experienced in procuring services at a price historically charged to meet these client needs. In addition this reflects the increased activity noted at outturn 2011/12. This increase can be supported by evidence of a rise in the number of referrals to the Hospital Discharge Team (an increase of 22.8 % in 2011/12 compared to 2010/11). The forecast has also been adjusted to remove an income budget assumption of £80,000 (as the contract agreement has ended) and a reduced assumption re the maximum reimbursement achievable from a nursing block contract of £67,000.

Residential Care is forecast to over spend by £211,400. This reflects the increase in activity reported for outturn 2011/12. The forecast also includes an increase in the costs for short stay care of £100,000 compared to that budgeted for 2012/13.

Direct Payments are forecast to over spend by £179,300 which is predominantly due to clients who were previously funded as continuing health care clients.

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

	Net Budget £000's	Unit Prices	Budgeted Units	Forecast £000's	Forecast Units	Difference (units)	Variance to Budget £000's
Day Care	86.6	£58.43	1,482	57.6	986	(496)	(29.0)
Direct Payments	2,538.3	£11.39	222,853	2,717.6	238,595	15,742	179.3
Domiciliary	4,898.5	£13.69	357,816	4,914.5	358,985	1,169	16.0
Nursing	2,341.2	£66.12	35,408	2,921.0	44,177	8,769	579.8
Residential	4,629.7	£50.13	92,354	4,841.1	96,571	4,217	211.4
Total	**14,494.3**			**15,451.8**			**957.5**

AS 2 – Learning Disability (forecast adverse variance £745,000)

There has been an increase in new clients/changes in client costs (£745,000).

Forecast Range £1,200,000 adverse to £745,000 adverse.

A budget pressure arising from the impact of an aging population and new transitional clients was identified as part of setting the 2012/13 budgets. A sum of £700,000 was allowed for within the risk fund to meet this pressure which can now be evidenced by an increase in residential activity of £560,000 and an increase in the forecast spend for Supported Living clients of £185,000. It has been assumed that there will be a draw on the Risk Fund for the full £700,000.

It should be noted that this position assumes that an additional local savings target of £538,000 will be fully achieved. To date £188,000 has been achieved with a further £350,000 to be actioned.

The OTHER KEY issues for the Portfolio are:

AS 3 – Directors Office (forecast favourable variance £292,900)

A number of one off and recurring savings have been identified within the Portfolio (£306,800) and is being held as a central provision within the Directors Office. This saving will be taken as part of the 2012/13 mini budget update.

Forecast Range not applicable.

A detailed review of supplies and services budgets has been undertaken. This has identified an ongoing saving and forms part of current budget proposals for 2013/14 and is also being considered as part of in-year savings for 2012/13 which can be advanced subject to consultation.

AS 4 – Provider Services – City Care (forecast favourable variance £133,200)

There are staff savings within City Care First Support (CCFS).

Forecast Range £130,000 favourable to £200,000 favourable.

Some staff resources within the CCFS Team are currently providing support to the Care Closer to Home project whilst staff are recruited to support this project. The forecast has been amended to reflect the anticipated reduced cost to CCFS.

AS 5 – Complex Care (forecast favourable variance £130,700)

There are staff savings within the Care Management teams.

Forecast Range £130,000 favourable to £150,000 favourable.

The Care Management teams currently have a number of vacancies which are actively being recruited to but have generated a forecast saving of £130,700.

Summary of Risk Fund Items

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

APPENDIX 3

CHILDREN'S SERVICES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£2,179,100** at year-end, which represents a percentage over spend against budget of **6.1%.** 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	3,179.1 A	8.8
Remedial Portfolio Action	0.0	
Risk Fund Items	1,000.0 F	
Portfolio Forecast	**2,179.1 A**	**6.1**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

CS 1 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £1,768,400)

The number of children in care, for whom there is a financial cost, has increased by 44 over the budgeted position, and by 20 over the position accounted for within the Risk Fund.

Forecast Range £3M adverse to £1M adverse

The increasing numbers of children in care has led to an over spend on fostering services of £873,100, and on residential placements of £732,300.

This position incorporates a forecast over spend of £683,800 on Independent Fostering Agencies (IFAs) placements (50 budgeted versus 69 actual) together with a forecast over spend of £114,000 on special guardianship allowances (26 budgeted versus 46 actual). The increasing numbers of special guardianship allowances has resulted from the conversion of foster care placements to special guardianship (with a corresponding cost saving of between £3,000 and £13,000 per placement per annum). However, despite this action, the numbers of children with fostering placements has continued to increase due to the additional numbers of children entering the care system. The need for external residential placements has produced a cost pressure of £714,800. The social care element of one residential placement can cost over £200,000 per annum, and, therefore, any increase in the numbers of placements can have a significant impact on the monitoring position.

The table overleaf outlines the changes in activity levels for 2012/13. It should be noted that activity levels have increased since the estimates were produced:

Service	Daily Rate Range	Client Numbers				
		Budget	Budget Plus Risk Fund Provision	May 2012	June 2012	Latest Forecast
Fostering up to 18	£20 - £95	270	280	289	285	286
Independent Fostering Agencies	£96 - £212	50	60	63	69	59
Supported Placements or Rent	£16 - £43	9	9	10	12	13
Residential - Our House		5	5	4	4	4
Residential - Independent Sector	£100 - £570	7.5	11.5	12	15	14
Civil Secure Accommodation	£717 - £806	1	1	1	2	1
Sub-total: Children in Care		**343**	**367**	**379**	**387**	**377**
Over 18's	£18 - £78	14	14	12	10	13
Adoption Allowances	£1 - £32	95	95	90	91	91
Special Guardianship Allowances	£4 - £44	26	26	44	46	45
Residence Order Allowances	£6 - £16	18	18	19	19	19
Total		**496**	**520**	**544**	**553**	**545**

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

A draw of £1M has been anticipated from the Risk Fund reducing the over spend on Tier 4 Safeguarding Specialist Services to £768,400.

<u>CS 2 – Safeguarding Management and Legal Services (forecast adverse variance £307,800)</u>

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

Forecast Range £500,000 adverse to £0

This adverse variance is due to unavoidable legal costs relating to court fees, legal expenses and the additional costs of external solicitors for the increased numbers of court proceedings. This is attributable to the increase in the number of children in care.

<u>CS 3 – Tier 3 Social Work Teams (forecast adverse variance £968,300)</u>

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. It also incorporates a forecast over spend arising from the additional costs of court ordered supervised parental contact with their children who have been taken into care.

Forecast Range £1.7M adverse to £600,000 adverse

There is a forecast over spend of £724,500 on 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 at a rate significantly higher than permanently employed staff. Agency staff are also being used for vacancy and sickness cover.

The forecast over spend on the Contact Scheme of £253,800 is a direct consequence of lowering the age of children entering care, leading to an increased need for supervised parental contact. A management review of the Contact Scheme is currently taking place, with a view to making the service operate in the most efficient manner possible.

The OTHER KEY issues for the Portfolio are:

<u>CS 4 – Infrastructure (forecast adverse variance £91,000)</u>

The adverse variance reflects the costs of maintaining vacant school sites.

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

The forecast overspend reflects the revenue costs of rates, security etc. for vacant Children Services properties awaiting disposal including the old Mayfield Academy site.

<u>Summary of Risk Fund Items</u>

Service Activity	**£000's**
Tier 4 Safeguarding Specialist Services	1,000.0
Risk Fund Items	**1,000.0**

APPENDIX 4

COMMUNITIES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£50,800** at year end, which represents a percentage variance against budget of **1.0%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	50.8 F	1.0
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**50.8 F**	**1.0**
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.

APPENDIX 5

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£134,300** at year-end, which represents a percentage over spend against budget of **0.6%.** 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	759.8 A	3.5
Remedial Portfolio Action	0.0	
Risk Fund Items	625.5 F	
Portfolio Forecast	**134.3 A**	**0.6**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £391,900)

Parking pressures have been identified relating to reduced income of £276,000 and increased rates costs of £70,800.

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

There is an adverse forecast variance for off street car parking, due to a number of factors. The most significant factor being that income is forecast to fall short of the level anticipated during the budget setting process by £236,000. This may be attributed to the continuing economic downturn and the impact on commuters of a rise in fuel prices. This is a forecast draw on the Risk Fund. A savings proposal for enhanced income of £70,000 for the use of West Park car park is delayed and only £30,000 will be achieved this financial year.

However, there is a further variation due to the rates demands for off street car parks having increased significantly and being £70,800 adverse compared to the estimate.

E&T 2 – Itchen Bridge (forecast adverse variance £232,900)

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

Forecast Range £300,000 adverse to £150,000 adverse

The downturn in the economy has led to a decrease in traffic flows in the City and a forecast decrease in toll income of around £140,000. This is a forecast draw on the Risk Fund. Proposals to save £95,000 from the automation of toll collection arrangements will not be met in this financial year due to implementation delays and a period of dual running of toll payment methods.

E&T 3 – Waste Collection (forecast adverse variance £228,100)

There are forecast additional operational refuse collection costs

Forecast Range £300,000 adverse to £150,000 adverse

There are forecast additional costs on fuel for vehicles of £55,000 for which provision has been made within the Risk Fund. In addition, there are forecast additional costs for sickness cover for frontline staff of £175,000.

E&T 4 – Highways Contract Management (forecast favourable variance £295,800)

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

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

A level of savings on the PFI Street Lighting contract sum was planned and factored in corporately. There are forecast to be significant savings over and above the originally planned profile and whilst these are not certain they are at present forecast to be £214,000.

The final position on the highways partnership third party income in respect of the period October 2010 to March 2012 (i.e. the first eighteen months of the contract) is now settled. The settlement is a receipt to the Council of £154,400, which will be treated as revenue income for the Portfolio in 2012/13. This income can only be spent on highways related work and will need to be shown as having been reinvested into the network.

There is a £25,600 adverse variance on the contract sum with the highways partner, as the appropriate index for amending the sum was slightly higher than originally estimated. In addition, there are some unbudgeted non-PFI street lighting costs totalling £35,000.

The OTHER KEY issues for the Portfolio are:

E&T 5 – Bereavement Services (forecast adverse variance £193,300)

There is a potential income shortfall on adult cremation fees of £87,000 and other adverse variances.

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

The 2012/13 cremations income estimate is based on achieving the equivalent of 2,350 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 2,350 adult cremations in total, there is an adverse forecast of £58,000 based on the proportions of full price and reduced price cremations. The fees from non-adult cremations are also forecast to be £29,000 adverse compared to the original estimate. There is, therefore, a forecast draw of £87,000 on the Risk Fund.

The cost of gas for use at the crematorium has increased by over 50% and there is a forecast adverse variance of £36,000. This is a forecast draw on the Risk Fund.

The service development to raise additional income from increasing the sale of memorials is slow and it is expected that the saving will only be partially achieved by the year end and there is a forecast adverse variance of £41,000. In addition, Test Valley Council (where the crematorium is located) has significantly increased the rates by £24,000.

<u>E&T 6 – Planning, Transport & Sustainability (forecast adverse variance £62,000)</u>

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

There is a shortfall in income on the new bus shelter advertisement contract.

Advertising on the City's bus shelters generates an annual income to the Council, which this year is forecast to be £283,000. This is £71,500 less than budgeted but is provided for in the Risk Fund.

<u>Summary of Risk Fund Items</u>

Service Activity	**£000's**
Crematorium Fee Income	87.0
Waste Collection Fuel Inflation	55.0
Crematorium Fuel Inflation	36.0
Car Parking Income	236.0
Itchen Bridge Toll Income	140.0
Bus Shelter Contract	71.5
Risk Fund Items	**625.5**

APPENDIX 6

HOUSING & LEISURE SERVICES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£288,700** at year end, which represents a percentage variance against budget of **2.2%.** 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	409.5 A	3.1
Remedial Portfolio Action	0.0	
Risk Fund Items	120.8 F	
Portfolio Forecast	**288.7 A**	**2.2**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

HLS 1 – Leisure & Culture (forecast adverse variance £338,400)

There is an over spend on Geothermal Heating in SeaCity Museum plus shortfalls in income in the Library Service, Art Gallery and Oaklands Pool.

Forecast Range £400,000 adverse to £300,000 adverse

Geothermal Heating in SeaCity Museum is forecast to over spend by £97,100. This may be offset if visitor numbers continue to exceed the targets set and will be monitored closely throughout the year.

In addition there are a number of areas across the Portfolio where income is below the level originally budgeted for:

- Forecast £85,200 shortfall in income in the Library Service for DVD and CD hire due to reduced use of these services.
- The proposed closure of the Oaklands Pool will lead to a £46,100 shortfall in income.
- Visitor Information Centre income shortfall of £48,700 due to adverse effect of re-locating into the Central Library, partly offset by a £18,000 saving on shop stock.
- Shortfall in annual rental income of £23,700 at the Fountains café since the current lease holders have left. The closure has also had an adverse impact on the Art Gallery shop income of £57,100, which is partially offset by a £43,000 saving on shop stock. In addition, there is a £21,500 shortfall in income from leases of art works.

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

Currently the Archaeology Unit are forecasting to breakeven although the risk remains that future works, which have not yet been secured, may not come to fruition.

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

<u>Summary of Risk Fund Items</u>

Service Activity	**£000's**
Leisure & Culture	120.8
Risk Fund Items	**120.8**

APPENDIX 7

LEADER'S PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£33,700** at year-end, which represents a percentage under spend against budget of **0.8%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	33.7 F	0.8
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**33.7 F**	**0.8**
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.

APPENDIX 8

RESOURCES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£506,000** at year-end, which represents a percentage variance against budget of **1.1%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	**%**
Baseline Portfolio Forecast	506.0 F	1.1
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**506.0 F**	**1.1**
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 £150,000)

Reduction in Audit Commission Fees

Forecast Range not applicable

The reduction in audit fees for the agreed annual programme of inspection follows the introduction of a revised procurement process and reduced costs for the provision of audit services. This ongoing reduction forms part of current budget proposals for 2013/14 and is also being considered as part of in-year savings for 2012/13 which can be advanced, subject to consultation.

RES 2 – Local Taxation & Benefits (forecast favourable variance £93,000)

Management Restructure resulting in salary savings

Forecast Range not applicable

As part of the recent organisational restructure at management level, savings within the Corporate Services Directorate were approved by Full Council on 15 February 2012. This included the reduction of a further post to deliver savings for 2013/14. This saving has been achieved earlier then anticipated and is being considered as part of in-year savings for 2012/13.

RES 3 – Capita Partnership Costs (forecast favourable variance £100,000)

Reduced interest payments

Forecast Range not applicable

Interest payable as part of the Capita contract structure is lower than estimated due to lower interest rates. This has been identified as an ongoing saving and forms part of current budget proposals for 2013/14 and is also being considered as part of in-year savings for 2012/13 which can be advanced subject to consultation.

RES 4 – Property Services (forecast favourable variance £113,000)

Reduction in Admin Buildings budgets & review of staffing arrangements

Forecast Range not applicable

An approved future reduction in the budgets for maintaining Civic Buildings can now be advanced in full in 2012/13 as a one-off saving.

In addition a review of reception and Town Sergeant duties has resulted in a proposed reduction in staff. This has been identified as an ongoing saving and forms part of current budget proposals for 2013/14 and is also being considered as part of in-year savings for 2012/13 which can be advanced subject to consultation.

RES 5 – Portfolio General (forecast favourable variance £50,000)

Rationalisation and reduction of supplies and services budgets across the Portfolio.

Forecast Range not applicable

A detailed review of supplies and services budgets has been undertaken. This has identified an ongoing saving and forms part of current budget proposals for 2013/14 and is also being considered as part of in-year savings for 2012/13 which can be advanced subject to consultation.

APPENDIX 9

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	2012/13 Efficiencies	Income	Service Reductions	Total	RISK TO DELIVERY Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved
	£000's	£000's	£000's	£000's	%	%	%
Adult Services	(2,030)	(200)	(920)	(3,150)	62.2%	37.8%	0.0%
Childrens Services	(3,115)	0	0	(3,115)	100.0%	0.0%	0.0%
Communities	(305)	(25)	(352)	(682)	83.1%	16.9%	0.0%
Environment & Transport	(1,594)	(295)	(95)	(1,984)	57.9%	40.8%	1.3%
Housing & Leisure Services	(645)	(110)	(652)	(1,407)	64.5%	35.5%	0.0%
Leader's Portfolio	(553)	(30)	(266)	(849)	91.0%	9.0%	0.0%
Resources	(978)	0	(577)	(1,555)	67.8%	32.2%	0.0%
Total	**(9,220)**	**(660)**	**(2,862)**	**(12,742)**	**74.8%**	**25.0%**	**0.2%**

Portfolio	2012/13 Efficiencies	Income	Service Reductions	Total	FINANCIAL ACHIEVEMENT Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved	Total
	£000's	£000's	£000's	£000's	£	£	£	£
Adult Services	(2,030)	(200)	(920)	(3,150)	(1,960)	(1,190)	0	(3,150)
Childrens Services	(3,115)	0	0	(3,115)	(2,796)	0	0	(2,796)
Communities	(305)	(25)	(352)	(682)	(567)	(115)	0	(682)
Environment & Transport	(1,594)	(295)	(95)	(1,984)	(1,149)	(485)	0	(1,634)
Housing & Leisure Services	(645)	(110)	(652)	(1,407)	(908)	(499)	0	(1,407)
Leader's Portfolio	(553)	(30)	(266)	(849)	(774)	(76)	0	(850)
Resources	(978)	0	(577)	(1,555)	(1,055)	(500)	0	(1,555)
Total	**(9,220)**	**(660)**	**(2,862)**	**(12,742)**	**(9,209)**	**(2,865)**	**0**	**(12,074)**
							Shortfall	**668**
								5%

APPENDIX 10

FINANCIAL HEALTH INDICATORS – MONTH 3

Prudential Indicators Relating to Borrowing

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£911M	£425M	Green
As % of Authorised Limit	100%	47%	Green
	Target	**Actual YTD**	**Status**
Average % Rate New Borrowing	5.0%	0%	Green
Average % Rate Existing Long Term Borrowing	5.0%	3.36%	Green
Average Short Term Investment Rate	0.60%	1.39%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£5.0M	
Forecast Year End General Fund balance	£7.4M	Green

Income Collection

Outstanding Debt:	2011/12	Actual YTD	Status
More Than 12 Months Old	41%	38%	Amber
Less Than 12 Months But More Than 6 Months Old	6%	5%	Green
Less Than 6 Months But More Than 60 Days Old	11%	10%	Green
Less Than 60 Days Old	42%	47%	Green

Creditor Payments

		Status
Target Payment Days	30	
Actual Current Average Payment Days	23	Green
Target % of undisputed invoices paid within 30 days	95.0%	
Actual % of undisputed invoices paid within 30 days	80.57%	Amber

Tax Collection rate

	Target Collection Rate	Month 3 Collection Rate Last Year	This Year	Status
Council Tax	96.20%	28.53%	28.53%	Green
National Non Domestic Rates	99.20%	34.82%	34.25%	Amber

APPENDIX 11

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 3

1. Background

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

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

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

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

- Investment returns during 2012/13 will continue to remain low as a result of low interest rates, with interest received estimated to be £0.7M. However, the average rate achieved to date for fixed term deals (1.39%) exceeds the performance indicator of the average 7 day LIBID rate (0.76%) mainly due to residual deals from the rolling programme of yearly deposits placed last year which is currently suspended due to uncertainty in the market place. New investments are placed in instant access accounts or term deposits up to 100 days depending on advice of our Treasury advisors.
- 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 3.26% 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 3.52% by 2013/14).

2. Economic Background

The UK economy contracted by 0.3% in the first calendar quarter of 2012 and by 0.2% in the twelve months to March 2012. Surveys and employment data had, however, shown a stronger tone than official figures (CIPS surveys were more consistent with positive quarterly GDP growth of around 0.2%), prompting questions about data accuracy. There was an expectation that growth would once again register a fall in the second quarter. Looking forward into the rest of the year, it is difficult to forecast GDP gaining any significant positive traction whilst uncertainty over Europe persists.

Inflation which had remained stubbornly sticky throughout 2011 slowly began to fall. CPI for May fell to 2.8%, the lowest level since November 2009, the first time it had dipped below 3% in two and a half years. The fall added strength to the argument for further Quantitative Easing (QE), particularly as the minutes of the Bank of England's June meeting revealed that additional QE was only narrowly outvoted by five to four; the four dissenting Committee members had voted for an increase in QE of between £25 billion and £50 billion. The close vote indicated that further monetary policy loosening would not be far away.

Banks' funding costs remained high, not least due to the capital requirements imposed by regulators. Tight credit conditions were one of the factors constraining growth. A new "funding for lending" scheme, announced by HM Treasury and the Bank of England, is intended to lower banks' funding costs, but with the economic outlook still so uncertain, its impact is likely to be muted if banks remained reluctant to lend and corporates and households refrained from taking on additional debt. Banks were embroiled in the scandal to manipulate LIBOR rates during the abnormal market conditions at the height of the 2007/08 financial crisis. Barclays was fined a record £290 million, the FSA was also investigating HSBC, RBS, Citicorp and UBS; Lloyds was named in a lawsuit in the US. The big-four UK banks were also being investigated for mis-selling interest rate swaps to small businesses.

The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. In Europe, the formation in Greece, after a second round of parliamentary elections, of an alliance of pro-euro parties prevented an immediate and disorderly exit from the Euro. The region suffered a renewed bout of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. At the European summit in June, some progress was made after it was agreed to create a Europe-wide banking regulator, and change the rules to allow the ESM (the future permanent bailout fund) to inject capital directly into banks. The latter would be effected after a single supervisory mechanism for Eurozone banks had been established, implying it was not a near-term prospect.

3. Outlook for Quarter 2

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at June 2012 is detailed below. Economic growth remains elusive; the economy contracted by 0.3% in the first quarter of 2012, and further downward revisions were made to Quarter 4 2011 GDP. Tight credit conditions, weak earnings growth and an uncertain employment outlook are constraining consumer and corporate spending. 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.

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

4. Debt Management

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

	Balance on 01/04/2012 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 30/6/2012 £M	Increase/ (Decrease) in Borrowing for Year £M
Short Term Borrowing	0	0	0	0	0
Long Term Borrowing	300	(3)	0	297	(3)
Total Borrowing	**300**	**(3)**	**0**	**297**	**(3)**

Public Works Loan Board (PWLB) Borrowing: The PWLB remained an attractive source of borrowing for the Council as it offers flexibility and control. The continued low gilt yields during the quarter have resulted in PWLB rates remaining at close to historically low rates. The 5, 20 and 50 year PWLB rates fell by 23 basis points (bp), 43bp and 25bp respectively. 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 2012 the Council used £66.5M 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 2012/13 expected to borrow £62 M for capital purposes by 2014/15 of which £29M 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.

No borrowing is expected to be taken until the second half of the year when the 20 basis points discount on loans from the PWLB (announced in 2012 Budget Report) is expected to be implemented.

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 (currently between 1.46% and 1.48% for new 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 £25M 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. However, it should be noted that the sum set aside in the Interest Equalisation Reserve is a one off sum of money to help manage the initial transitional period during which the council will convert its variable rate loan portfolio to longer term fixed rate debt. The actual ongoing recurring revenue impact of switching to fixed rate long term debt will still need to be factored in to the budget forecasts for future years. Based on the current predictions of lower for longer interest rate forecasts, it is unlikely that this pressure will emerge in the short term, but it is likely to become a reality towards the back end of the Council's current medium term forecast horizon.

Debt rescheduling: The fall in PWLB repayment rates enlarged the premium / diminished the residual discounts on the premature repayment of debt, reducing the attractiveness of debt rescheduling during the quarter. No rescheduling activity was undertaken.

5. Investment Activity

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

	Balance on 01/04/2012 £M	Investments Repaid £M	New Investments £M	Balance as at 30/6/2012 £M	Increase/ (Decrease) in Investment for Year £M
Short Term Investments	10	(11)	11	10	0
Money Market Funds	52	(94)	116	74	22
EIB Bonds	6	0	0	6	0
Long Term Investments	0	0	0	0	0
Total Investments	**68**	**(105)**	**127**	**90**	**22**

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its TM

Strategy Statement for 2012/13. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- 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 30 June 2012 by credit rating at the end of the quarter and maturity profile can be seen in following table.

Current Rating	Initial Rating	Less than 1 Month £000's	1 - 3 Months £000's	3 - 6 Months £000's	6 - 9 Months £000's	9 - 12 Months £000's	Over 12 Months £000's	Total £000's
BBB	A+	0	0					0
A-	A-							0
A	A+	9,000	0					9,000
A	AA-		1,000					1,000
A+	A+	8,000						8,000
AA-	AA-							0
AA+	AA+							0
AAA	AAA	65,926	0			3,000	3,036	71,962
		82,926	**1,000**	**0**	**0**	**3,000**	**3,036**	**89,962**

Counterparty Update

Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland, as well as Royal Bank of Canada, JP Morgan Chase, BNP Paribas, Societe Générale, Credit Agricole/Credit Agricole CIB, Credit Suisse and Deutsche Bank. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A-/A3 credit rating threshold.

Maturities for new investments with the residual banks on the Council's list were restricted as follows:

- Santander UK, Bank of Scotland, Lloyds TSB, NatWest and Royal Bank of Scotland for overnight deposits;
- Barclays Bank and Nationwide Building Society for a maximum period of 100 days;
- HSBC Bank and Standard Chartered for a maximum period of 6 months;

Please note that as a result of the down rating of Lloyds Bank to overnight, we currently have £9M of fixed term deposits which are outside these recommended limits. All of these deposits mature in July and our Advisors do not have any current concerns regarding these investments and do not advise clients to break existing term.

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

Budgeted Income and Outturn: The authority does not expect any losses from non-performance by any of its counterparties in relation to its investments. The Council's investment income for the year is currently estimated to be £0.7M. 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.

6. Compliance with Prudential Indicators

All indicators in Quarter 1 complied with the Prudential Indicators approved. Details of the performance against key indicators are shown below:

6.1. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow. The following table shows the actual position as at 31 March 2012 and the estimated position for the current and next two years based on the capital programme submitted to council:

Capital Financing Requirement	2011/12 Actual £M	2012/13 Approved Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Balance B/F	**360**	**444**	**441**	**444**	**443**
Capital expenditure financed from borrowing	17	15	13	8	8
HRA Debt buyout	74	(8)	0	0	0
Revenue provision for debt Redemption.	(7)	(8)	(7)	(8)	(7)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(1)	(3)
Cumulative Maximum External Borrowing	**441**	**441**	**444**	**443**	**441**

6.2. Balances and Reserves

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

	2010/11 Actual £M	2011/12 Actual £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Balances and Reserves	56	70	33	33	33

6.3. Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Authorised limit for borrowing was set at £832M for 2012/13.
- 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 borrowing 2012/13 was set at £794M.
- 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 2012 borrowing at its peak was £300M.

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

	Balance on 01/04/2012 £M	Balance as at 30/6/2012 £M	2012/13 Estimate £M	2013/14 Estimate £M	2014/15 Estimate £M
Borrowing	300	297	351	348	342
Other Long Term Liabilities	72	72	74	78	83
Total Borrowing	**372**	**369**	**425**	**426**	**425**

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

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

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

Compliance with Limits:	Yes

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

- This indicator allows the Council to manage the risk inherent in longer term investments.
- The limit for 2012/13 was set at £50M
- Due to the current uncertainly in the market no more investments will be made unless the markets settle down and our advisors recommend it.

6.6. Maturity Structure of Fixed Rate Borrowing

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

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 30/6/2012 £M	Average Fixed Rate as at 30/6/2012 %	% of Fixed Rate as at 30/6/2012	Compliance with set Limits?
Under 12 months	0	45	10	2.67	4.10	Yes
12 months and within 24 months	0	45	3	1.97	1.18	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	101	3.23	39.94	Yes
10 years and within 15 years	0	75	0	0.00	0.00	Yes
15 years and within 20 years	0	75	0	0.00	0.00	Yes
20 years and within 25 years	0	75	0	0.00	0.00	Yes
25 years and within 30 years	0	75	10	4.68	3.95	Yes
30 years and within 35 years	0	75	5	4.60	1.97	Yes
35 years and within 40 years	0	75	25	4.62	9.86	Yes
40 years and within 45 years	0	75	53	3.61	20.87	Yes
45 years and within 50 years	0	75	46	0.35	18.13	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			253	**3.47**	**100.00**	

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

6.7. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

The upper limit for this ratio is currently set at 10% for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the capital programme approved in February 2012 adjusted for actual borrowing made to 30 June 2012.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Actual %	2012/13 Approved %	2012/13 Estimate %	2013/14 Approved %	2014/15 Approved %
General Fund	6.30	6.84	6.62	7.42	7.17
HRA	4.65	10.92	9.08	11.05	10.84
Total	**7.12**	**8.84**	**8.27**	**9.36**	**8.93**

7. <u>Summary</u>

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the TM activity up to the 30 June 2012. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

APPENDIX 12

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 3

The Housing Revenue Account (HRA) is currently forecast to under spend by **£324,800** at year-end.

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

The OTHER KEY issues for the HRA are:

HRA 1 – Programme Repairs (forecast favourable variance £200,000)

There is an under spend on Decorating in Programme Repairs.

Forecast Range not applicable

Drew Smith's contract for decorating has not been renewed, and it is envisaged that no replacement contractor will be in place before 2013/14. Until a new contract is in place decorating work will be carried out by the Housing Operations team.

HRA 2 – Dwellings Rent and Service Charge (forecast favourable variance £125,200)

There is an increase in Dwellings Rent income and a reduction in Cleaners charges within Tenants Service Charges.

Forecast Range not applicable

Actual income is higher than the estimate of Local Authority New Build rental income for the year leading to a favourable variance of £70,000.

Every 7 years there is a 53 week rent year. Additional rental from a previous 53 week rent year has now been amortised over the 6 years in which there are 52 rent weeks. This additional income has now been included in the forecast leading to a favourable variance of £143,100.

To allow further consultation the new cleaners charges that form part of the Warden Review have been delayed. As a result expected income for the current year has been reduced by £116,300.