

GENERAL FUND 2014/15 - OVERALL SUMMARY

JUNE 2014	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Children's Services	38,894	40,557	1,662 A
Communities	1,929	2,118	189 A
Environment & Transport	26,036	26,732	696 A
Health & Adult Social Care	64,158	66,280	2,122 A
Housing & Sustainability	1,716	1,923	207 A
Leader's Portfolio	4,816	4,710	106 F
Resources & Leisure	47,777	47,406	371 F
Baseline for Portfolios	185,326	189,724	4,399 A
Net Draw From Risk Fund	2,142	0	2,142 F
Sub-total (Net Controllable Spend) for Portfolios	187,467	189,724	2,257 A
Non-Controllable Portfolio Costs	22,002	22,002	0
Portfolio Total	209,469	211,726	2,257 A
Levies & Contributions			
Southern Seas Fisheries Levy	31	31	0
Flood Defence Levy	40	40	0
Coroners Service	560	560	0
	631	631	0
Capital Asset Management			
Capital Financing Charges	12,588	11,988	600 F
Capital Asset Management Account	(24,526)	(24,526)	0
	(11,937)	(12,537)	600 F
Other Expenditure & Income			
Direct Revenue Financing of Capital	100	100	0
Net Housing Benefit Payments	(758)	(758)	0
Non-Specific Government Grants	(70,587)	(71,572)	985 F
Business Rates	(40,456)	(40,456)	0
Collection Fund Deficit	(1,782)	(1,782)	0
Open Space and HRA	436	436	0
Risk Fund	976	976	0
Contingencies	250	250	0
Surplus/Deficit on Trading Areas	0	0	0
	(111,822)	(112,807)	985 F
NET GF SPENDING	86,341	87,013	673 A
Draw from Balances:			
To fund the Capital Programme	(100)	(100)	0
Waste Bid	357	357	0
Marlands IT	(60)	(60)	0
SALT Funding	(57)	(57)	0
Health & Social Care Transfer Funding	(4,587)	(4,587)	0
IER Funding	(22)	(22)	0
Draw from Strategic Reserve (Pensions & Redundancies)	(26)	(26)	0
Draw from Balances (General)	(8,379)	(9,052)	673 A
	(12,874)	(13,546)	673 A
COUNCIL TAX REQUIREMENT	73,467	73,467	0

CHILDREN'S SERVICES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£882,400** 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	1,662.4 A	4.3
Risk Fund Items	780.0 F	
Portfolio Forecast	882.4 A	2.3

The CORPORATE issues for the Portfolio are:

CS 1 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £1,149,100)

This budget funds the cost of children that have to be taken into care. Although the number of children in care is similar to the budgeted position, there is an increase in the forecast number of fostering and residential placements with external providers, and a reduction in fostering placements with SCC foster carers.

Forecast Range £2.0M adverse to £500,000 adverse

The increasing number of children requiring specialist support packages has led to a forecast overspend of £437,300 on residential placements. These placements can cost up to £785 per day, and, therefore, a small increase in the number of children requiring such intensive support can have a significant impact on the financial position. Placements are only used, therefore, as a last resort measure, and, as such are difficult to predict with any certainty.

The forecast overspend of £873,400 on fostering has arisen as a result of using more placements from Independent Fostering Agencies (IFA's), and less from SCC foster carers than originally anticipated. In particular, there has been an increased need for parent and baby placements than originally anticipated within the budget, (from 3 estimated places to 9 placements in June), which are more expensive than standard IFA placements. IFA placements tend to cost approximately 2.5 times as much as an SCC foster placement.

An increase in the number and average cost of staying put placements for young people over 18 has led to an overspend of £171,900 on leaving care services. This overspend is after an assumed level of grant income has been applied. The detailed arrangements in respect of the grant have yet to be confirmed.

There are several new and existing placements across Tier 4 that may attract additional funding from Education or Health. The detailed work to quantify this has not been completed. However, based on observed trends a favourable adjustment of £300,000 has been included at this stage.

A draw of £430,000 is forecast to be made from the Risk Fund reducing the over spend on Tier 4 Safeguarding Specialist Services to £719,100. The table outlines the changes in activity levels for 2014/15:

Service	Daily Rate Range	Children Numbers					
		Budget	Budget Plus Risk Fund Provision	Apr	May	June	Year End
Fostering up to 18	£22 -£90	321	321	292	297	292	293
Independent Fostering Agencies (IFA)	£85 - £275	88	98	101	106	108	105
IFA Parent and Baby Placements	£176 - £324	3	3	9	8	9	6
Inter Agency Fostering Placements	£58 - £126	3	3	1	1	1	1
Supported Placements or Rent	£9 - £54	1	1	5	5	6	6
Residential – Independent Sector	£257 - £785	9	9	11	12	12	11
Civil Secure Accommodation	£720 - £820	1	1	1	1	1	1
Sub-total: Children in Care		426	436	420	430	429	423
Residential (Not Looked After)	£108 - £333	3	3	3	2	2	2
Supported Placements or Rent (Not Looked After)	£9 - £54	5	5	2	2	2	2
Over 18's	£11 - £236	21	21	26	27	29	28
Adoption Allowances	£3 - £38	102	102	93	92	92	100
Special Guardianship Allowances	£2 - £44	115	115	95	96	96	120
Residence Order Allowances	£7 - £22	13	13	17	17	17	17
Total		685	695	656	666	667	692

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

CS 2 – Safeguarding Management and Legal Services (forecast adverse variance £123,400)

The overspend on this budget is due to the cost of interim and agency workers currently required to support the Safeguarding function.

Forecast Range £300,000 adverse to £0

This adverse variance is due to additional costs of agency and interim workers that are currently being required to support the Safeguarding function. The over spend is being partially offset by a forecast under spend on legal of £83,200 which has arisen from a reduction in court fees. It is assumed that this saving will not be offset by a compensating reduction in grant income. A draw of £200,000 is forecast to be made from the Risk Fund removing the over spend on Safeguarding Management and Legal Services.

CS 3 – Disability Services (forecast adverse variance £108,800)

New packages of care for children with disabilities have commenced during the year, leading to a forecast overspend.

Forecast Range £350,000 adverse to £200,000 adverse.

The requirement for packages of care for children with disabilities is difficult to predict with any certainty due to the volatility in the cost of care and the individual needs of each child with a disability. In particular, one new residential placement commenced after the budget had been set.

CS 4 - Operations and Services – Transport (forecast adverse variance £218,000)

Higher than estimated home to school transport costs.

Forecast Range £250,000 adverse to £200,000 adverse.

Home to school transport for children attending a special school overspent in 2013/14 by £313,000. In setting the 2014/15 estimates, additional budget was allocated to assist meeting this pressure of £105,300. However there is still a residual pressure on this budget. A review has been undertaken to establish the level of pressure although this will not be known with any certainty until all the contracts are set for the academic year in September 2014. This is currently forecast to be £150,000 overspent against budget. An allocation of £200,000 has been included within the Council's risk fund for this purpose.

In addition, it should be noted that there is likely to be an additional pressure resulting from proposals to increase places at Great Oaks and Springwell special schools. This has resulted in a forecast pressure of £68,000.

OTHER KEY issues for the Portfolio.

There are no other key issues for the Portfolio.

Summary of Risk Fund Items

Service Activity	£000's
Tier 4 Services	430.0
Safeguarding Management and Legal Services	200.0
Infrastructure – Transport	150.0
Risk Fund Items	780.0

COMMUNITIES PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to under spend by **£27,000** at year-end, which represents a percentage under spend against budget of **1.4%**. 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	188.5 A	9.8
Risk Fund Items	215.5 F	
Portfolio Forecast	27.0 F	1.4

The CORPORATE issues for the Portfolio are:

COMM 1 – Prevention & Inclusion Service (forecast adverse variance £215,500)**Responsibility for young offenders in remand**

Forecast Range £350,000 adverse to £200,000 adverse

Due to the volatile nature of the need for remand and the range of costs at specific facilities (ranging from £158 to £555 per night), provision for this has been made in the Risk Fund.

Summary of Risk Fund Items

Service Activity	£000's
Youth Remand	215.5
Risk Fund Items	215.5

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

The Portfolio is currently forecast to over spend by **£606,100** at year-end, which represents a percentage over spend against budget of **2.3%**. The forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	696.1 A	2.7
Risk Fund Items	90.0 F	
Portfolio Forecast	606.1 A	2.3

The CORPORATE issue for the Portfolio is:

E&T 1 – Waste Disposal (forecast adverse variance £528,200)

There are various forecast changes with an adverse overall variance.

Forecast Range £700,000 adverse to £400,000 adverse

The Waste Disposal Contract has increased rates from January 2014, which are anticipated to increase overall costs by £90,000 in this financial year. This is a forecast draw on the Risk Fund.

In addition, there are forecast additional disposal costs of £190,000 for the Civic Amenity Waste Centres and £110,000 for general collected household waste, due to increased volumes of waste collected. Both of these variances are in line with neighbouring authorities within the County.

There is a forecast shortfall of £80,000 in recycling income and the savings proposal to charge for school waste disposal cannot be implemented, due to legislative reasons, at a cost of £100,000.

However, there are reduced recycling centre contract incentives of £20,000 and a Marchwood site rent saving of £17,000, both of which offset this position.

The OTHER KEY issue for the Portfolio is:

E&T 2 – Development Control (forecast adverse variance £182,300)

There are forecast lower levels of income for this service.

The Council is able to use up to 5% of the Community Infrastructure Levy (CIL) receipts to cover the costs of monitoring, administering and updating the Levy. As these processes are being carried out from within existing resources, a savings proposal was approved by Council in February 2012 based on the anticipated additional income from infrastructure

charge administration fees. The Council report noted that the yield from CIL is uncertain, as it will depend on market recovery, and that the income will therefore need to be closely monitored following implementation of the process.

An income target of £130,000 is now included in Environment and Transport Portfolio's base revenue budget for CIL administration. However, there have been changes by Central Government to the CIL regulations which mean that schemes that previously would have been liable to pay the Levy no longer will be. The current forecast for CIL administration income is £10,000, an adverse variance of £120,000.

Development Control is also forecast to under achieve against the target for planning application income by £50,000, due to a fall in the volume of applications. For a similar reason, pre-application income is forecast to be £10,300 adverse.

Summary of Risk Fund Items

Service Activity	£000's
Waste Disposal Contract	90.0
Risk Fund Items	90.0

HEALTH & ADULT SOCIAL CARE PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£1,477,000** 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	2,122.0 A	3.3
Risk Fund Items	645.0 F	
Portfolio Forecast	1,477.0 A	2.3

The CORPORATE issues for the Portfolio are:

H&ASC 1 – Long Term (forecast adverse variance £2,037,100)

The volume of care provision that caused an over spend in 2013/14 for this service activity has continued into 2014/15. In addition there is uncertainty that savings agreed in February 2014 for reductions in volume of care will be achieved.

Forecast Range £2.0M adverse to £2.5M adverse

There are projected over spends of £1,931,900 on Domiciliary and £349,100 on Nursing, partially offset by an under spend on Residential of £281,300 and Direct Payments of £83,900.

The volume of activity included in the forecast outturn position is comparable to the actual levels for 2013/14, this has led to a continuation of the underlying pressure from 2013/14 being carried over into 2014/15.

In addition a number of savings initiatives were agreed for 2014/15 to reduce the volume of care provided, subsequently the budget was reduced. However at this early point in the year, it is been difficult to ascertain sufficient evidence that these initiatives will deliver the required savings, therefore causing the adverse forecast position. It should be noted that the Reablement Service is currently achieving a rate of 67% of clients leaving care with no further long term care requirements. Should this level be maintained it is anticipated that the underlying pressure will reduce. This will be monitored carefully in future months. Aside from this a possible increase in the volumes of clients was highlighted when the budget was set in February 2014 so a provision has been made within the Risk Fund of £645,000, it is assumed that this will be utilised in full.

A voluntary suspension has now been removed from a block provider of Nursing care, however there will still be a delay placing clients there. As a result there are plans to seek recompense for 23 vacant beds for a period of 10 weeks which would equate to £150,000.

	Net Budget £000's	Unit Prices	Budgeted Units	Forecast £000's	Forecast Units	Difference (Units)	Variance to Budget £000's
Day Care	61.6	60.78PD	1,013	95.9	1,578	564	34.3
Direct Payments	2879.3	11.85PH	242,930	2,795.4	235,851	(7,079)	(83.9)
Domiciliary	4585.7	14.36PH	319,231	6,517.6	453,719	134,488	1,931.9
Nursing	2260.9	67.44PD	33,525	2,610.0	38,701	5,176	349.1
Residential	5005.7	51.13PD	97,901	4,724.4	92,400	(5,502)	(281.3)
Total	14793.2			16,743.3			1,950.1

There are several posts within the Long Term and Review teams that are being covered by locums either due to vacancy or due to maternity cover, this has led to a forecast over spend of £40,000. In addition there is an issue regard the funding of staff within the team by Health partners, at this time it is forecast this will be an additional adverse variance until this is resolved or alternative funding is sought. Whilst it cannot be accurately quantified there is a risk that the use of Locum's is likely to increase during the year which would create a further adverse variance.

The OTHER KEY issues for the Portfolio are:

H&ASC 2 – Reablement (forecast adverse variance £204,900)

Increase in the use of Locum's to cover maternity and sick leave within the Hospital Discharge team.

Forecast Range £200,000 adverse to £300,000 adverse.

This forecast over spend is due to the use of Locum's covering vacant posts and posts that are subject to requiring maternity cover. The cost of a Locum is currently 30% greater than the cost of a Council Social Worker. Agency levels within Brownhill are forecast to be 21% of staffing budgets compared to a budgeted figure of 18%; this is due to an increase in the number of staff on long term sickness.

HAS 3 – Adult Services Management (forecast favourable £179,400)

Savings resulting from vacant posts.

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

There are currently approx 15 FTE vacant posts within business support, as a result of the business support review these posts will not be filled this year, creating an overall saving of £260,000. This is offset in part with the recruitment of 2 Locum Service Manager's for 6 months at a cost of £80,000.

Summary of Risk Fund items

Service Activity	£000's
Adult Disability	400.0
Continuing Care	245.0
Risk Fund Items	645.0

HOUSING & SUSTAINABILITY PORTFOLIO**KEY ISSUES – MONTH 3**

The Portfolio is currently forecast to under spend by **£9.400** at year end, which represents a percentage variance against budget of **0.5%**. This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	206.7 A	12.0
Risk Fund Items	216.1 F	
Portfolio Forecast	9.4 F	0.5

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

The OTHER KEY issue for the Portfolio is:

HOUS1 – Sustainability (forecast adverse variance £206,700)

Forecast Range £250,000 adverse to £200,000 adverse.

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

It is estimated that the cost of purchasing Carbon Reduction Certificates (CRCs) for the authority in 2014/15 will be £216,100. This is covered by a provision in the Risk Fund. In addition, there are minor favourable variances across Sustainability, totalling £9,400.

Summary of Risk Fund Items

Service Activity	£000's
Sustainability – CRC purchases	216.1
Risk Fund Items	216.1

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

The Portfolio is currently forecast to under spend by **£106,400** 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	106.4 F	2.2
Risk Fund Items	0.0	
Portfolio Forecast	106.4 F*	2.2

* Please note this excludes those items in the current budget proposals that can be advanced as part of in-year savings for 2014/15, but are subject to consultation

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

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

LPOR 1 – Democratic Services (forecast favourable variance £22,000)

Reduction in number of Cabinet members / changes to member pension provision

Forecast Range not applicable

A reduction in the number of cabinet members, together with Government legislation affecting member pension provision, form part of current budget proposals for 2015/16 and can be advanced as part of in-year savings for 2014/15.

LPOR 2 – Land Charges (forecast favourable variance £90,000)

Additional income

Forecast Range not applicable

The value and volume of Land Charges income received is directly affected by conditions in the housing market and wider economy and is therefore difficult to predict. This favourable variance is based on a considered projection of income received to date and will be reviewed on a quarterly basis throughout the year.

RESOURCES & LEISURE PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£565,700** at year-end, which represents a percentage variance against budget of **1.2%**. 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	370.8 F	0.8
Risk Fund Items	194.9 F	
Portfolio Forecast	565.7 F*	1.2

* Please note this excludes those items in the current budget proposals that can be advanced as part of in-year savings for 2014/15, but are subject to consultation.

The CORPORATE issues for the Portfolio at this stage are:

RES 1 – Gallery and Museums (forecast adverse variance £101,700)

Shortfall in venue income due to lower visitor numbers than anticipated

Forecast Range £400,000 adverse to £100,000 adverse

Visitor numbers to SeaCity and Tudor House were lower than anticipated for the first three months of the year. This is expected to result in a shortfall in income of £20,300 for Tudor House and £129,000 for SeaCity. A provision for this has been made in the Risk Fund.

Strategic marketing campaigns continue, for the fee paying venues in particular. A new exhibition (Wild Planet) opened in May in the Pavilion in SeaCity Museum. There is one price option to visit the museum and the exhibition, and it is hoped that the perceived added value of including the exhibition in the ticket price will help to drive footfall.

The adverse variance in income is partially offset by a favourable variance on staffing across the two venues of £34,400. This is due to vacant catering posts which are not expected to be filled during the current financial year.

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

RES 2 – Contract Management Division (forecast favourable variance £113,000)

Restructure resulting in salary savings

Forecast Range not applicable

The rationalisation of the contract management team following centralisation is now complete, resulting in an annual saving of £113,000 from 2014/15 and ongoing. This ongoing saving forms part of current budget proposals for 2015/16 and can be advanced as part of in-year savings for 2014/15.

RES 3 – Property Portfolio Management (forecast favourable variance £481,000)

Additional Investment Property income

Forecast Range not applicable

A favourable variance has arisen within the Investment Property account primarily as a result of delayed property disposals pending a review of the wider Property Strategy and future disposal / investment plans.

RES 4 – Leisure Client Team (forecast adverse variance £45,600)

Contractual utility inflation on the Active Nation contract

Forecast Range £60,000 adverse to £40,000 adverse

Under the contract with Active Nation to run the Council's sports provision, the Council bears the risk of cost inflation on utilities over and above the Consumer Price Index. This is currently estimated to be £45,600 and provision has been made in the Risk Fund.

RES 5 – Major Projects (forecast adverse variance £75,900)

Business rates for Oaklands Pool

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

Business rates totalling £51,000 are payable for Oaklands Pool. £34,000 of this relates to 2013/14 and £17,000 is for the current financial year, until September when the building is due to be handed to the community group.

This expenditure was not previously anticipated as the building has been unoccupied. However, as refurbishment work has been carried out on the building over the past year, it is not eligible for S44a relief for business rates.

Summary of Risk Fund Items

Service Activity	£000's
Museum income shortfall	149.3
Sport & Rec Contract - Energy	45.6
Risk Fund Items	194.9

IMPLEMENTATION OF SAVINGS PROPOSALS

	Total Savings 2014/15		Forecast Shortfall 2014/15		Implemented and Saving Achieved		Not Yet Fully Implemented and Achieved But Broadly on Track			Saving Not on Track to be Achieved			
	Budget £000's	Forecast £000's	£000's	%	%	Budget £000's	Forecast £000's	%	Budget £000's	Forecast £000's	%	Budget £000's	Forecast £000's
<u>Portfolio Savings</u>													
Children's Services	(140)	(140)	0	0.0%	100.0%	(140)	(140)	0.0%	0	0	0.0%	0	0
Communities	(166)	(166)	0	0.0%	68.7%	(114)	(114)	31.3%	(52)	(52)	0.0%	0	0
Environment & Transport	(1,978)	(1,828)	150	7.6%	61.0%	(1,207)	(1,207)	39.0%	(771)	(621)	0.0%	0	0
Health & Adult Social Care	(6,811)	(5,692)	1,119	16.4%	57.9%	(3,945)	(3,945)	19.8%	(1,350)	(1,350)	22.3%	(1,516)	(397)
Housing & Sustainability	(52)	(52)	0	0.0%	80.8%	(42)	(42)	19.2%	(10)	(10)	0.0%	0	0
Leader's Portfolio	(310)	(310)	0	0.0%	100.0%	(310)	(310)	0.0%	0	0	0.0%	0	0
Resources & Leisure	(2,574)	(2,574)	0	0.0%	94.7%	(2,437)	(2,437)	5.3%	(137)	(137)	0.0%	0	0
Sub-Total	(12,031)	(10,762)	1,269	10.5%	68.1%	(8,195)	(8,195)	19.3%	(2,320)	(2,170)	12.6%	(1,516)	(397)
<u>Corporate Savings</u>													
Capita "Relaunch Savings"	(1,500)	(1,500)	0	0.0%	100.0%	(1,500)	(1,500)	0.0%	0		0.0%	0	
People Transformation	(920)	(920)	0	0.0%	100.0%	(920)	(920)	0.0%	0		0.0%	0	
Total	(14,451)	(13,182)	1,269	8.8%	73.5%	(10,615)	(10,615)	16.1%	(2,320)	(2,170)	10.5%	(1,516)	(397)

FINANCIAL HEALTH INDICATORS – MONTH 3

Prudential Indicators Relating to Borrowing

	<u>Maximum</u>	<u>Forecast</u>	<u>Status</u>
Maximum Level of External Debt £M	£750M	£399M	Green
As % of Authorised Limit	100%	53.2%	Green
	<u>Target</u>	<u>Actual YTD</u>	<u>Status</u>
Average % Rate New Borrowing	5.00%	0.0%	Green
Average % Rate Existing Long Term Borrowing	5.00%	3.32%	Green
Average Short Term Investment Rate	0.47%	0.69%	Green

Minimum Level of General Fund Balances

		<u>Status</u>
Minimum General Fund Balance	£5.5M	
Forecast Year End General Fund balance	£22.0M	Green

Income Collection

	<u>2013/14</u>	<u>Actual YTD</u>	<u>Status</u>
Outstanding Debt:			
More Than 12 Months Old	32%	29%	Green
Less Than 12 Months But More Than 6 Months Old	8%	8%	Amber
Less Than 6 Months But More Than 60 Days Old	9%	13%	Green
Less Than 60 Days Old	52%	50%	Green

Creditor Payments

		<u>Status</u>
Target Payment Days	30	
Actual Current Average Payment Days	19	Green
Target % of undisputed invoices paid within 30 days	95.00%	
Actual % of undisputed invoices paid within 30 days	93.66%	Amber

Tax Collection rate

	<u>Target Collection Rate</u>	<u>Month 3 Collection Rate</u>		<u>Status</u>
		<u>Last Year</u>	<u>This Year</u>	
Council Tax	96.20% (tba)	26.80%	28.08%	Amber
National Non Domestic Rates	98.70%	32.70%	32.26%	Amber

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 3

1. Borrowing Requirement and Debt Management

As at the 30 June 2014, the council's overall outstanding long term borrowing was £261M, at an average rate of 3.32% and an average maturity of 23.6 years, this has fallen by £3M since the 1 April due to maturing debt which has not yet been replaced. The total long term debt portfolio is made up of loans from the Public Works Loan Board (PWLB) of £252M and market loans of £9M.

Included within the PWLB portfolio is £35M of variable rate loans, which are currently averaging between 0.55% and 0.60% and are helping to keep overall borrowing costs down. Whilst in the current climate of low interest rates this remains a sound strategy, the Council need to review these regularly and if appropriate switching into fixed rate loans.

The Council does not have any temporary borrowing at present having repaid outstanding balances at year end and whilst these have remained affordable and attractive, due to our higher than expected level of cash (and subsequent investments) no need has arisen.

As at the 31 March 2014 the Council used £73M 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 to long term and the Council will need to borrow to cover this amount as balances fall. Following the latest update of the Capital Programme, approved by Council in February 2014, the Council is expected to borrow up to £83M between 2014/15 and 2016/17. Of this £51M relates to new capital spend (£6M GF and £45M HRA) and the remainder to the refinancing of existing debt and externalising internal debt to cover the expected fall in balances and also the need to lock back into longer term debt prior to interest rises.

No new borrowing has been taken to date and none is expected to be taken until the second half of the year and will be assessed in conjunction with the development of the capital programme, cash balances and advice from the Council's treasury advisor.

Budgeted Expenditure

The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost in 2014/15 of financing the Authority's loan debt is currently expected to be £10.4M compared with an approved estimate of £11.2M, a total saving of £0.8M of which approximately 50% benefits the General Fund revenue position. This is mainly due to variable interest rates being lower than those estimated, no new long term borrowing being taken in 2013/14 and deferring any new borrowing to later in the year.

2. Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

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 01/04/2014	Investments Repaid	New Investments	Balance as at 30/6/2014	Increase/ (Decrease) in Investment for Year
	£M	£M	£M	£M	£M
Short Term Investments	18	(9)	6	15	(3)
Money Market Funds & Call Accounts	48	(110)	135	73	25
EIB Bonds	3	0	0	3	0
Long Term Investments	0	0	5	5	5
Total Investments	69	(119)	146	96	27

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 2014/15.

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; financial statements, information on potential government support and reports in the quality financial press.

Budgeted Income

The Council does not expect any losses from non-performance in relation to its investments by any of its counterparties. The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise this year. As a consequence short-term money market rates have remained at relatively low levels with new deposits being made at an average rate of 0.53%, investments in Money Market Funds and call accounts generated an average rate of 0.49%. Average cash balances were £107M during the quarter; these are expected to decline towards the end of the financial year as the incidence of government grant income and council tax income is skewed towards the earlier part of the year.

The Authority's budgeted investment income for the year was estimated at £0.3M, the Authority currently anticipates an investment outturn of £0.5M for the year if we continue with the current investment strategy. However following advice from our treasury advisors and our continued high investment balances the Authority has estimated it will have sufficient cash balances over the medium term to consider investing in a number of longer term financial instruments which will generate a better return. On the 1 April the Council invested £5M in property funds which offer the potential for enhanced returns over the longer term, but may be more volatile in the shorter term. These funds, which are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments, we are also looking into the purchase of covered bonds and floating rate notes (FRN's); further details will be reported as part of the Mid Year Treasury report.

Authority Banking Arrangements – Co-operative Bank:

As reported previously the Authority current bankers do not meet the Authority's minimum credit criteria of A- (or equivalent) and Moody's have further downgraded the long-term rating of Co-op Bank from Caa1 to Caa2, reflecting the agency's view that the ongoing deleveraging process at the Co-op will lead to a smaller and less

systemically important institution, with the result there is a much reduced likelihood the UK government would commit taxpayer's money to inject capital into the bank if required. The Authority does not use the Co-op Bank as an investment counterparty and work is now in progress to move its banking arrangements to Lloyds Bank which will be complete by September 2014. Until this time we will continue to mitigate our exposure to credit risk as reported in the review of Prudential Limits and Treasury Management Outturn 2013/14 submitted to council on the 16 July and can be found as item 13 via the following link:

<http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2832&Ver=4>

3. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2014/15, approved by Full Council on 12 February 2014. The table below summarises the Key Prudential Indicators:

Indicator	Limit	Actual at 30 June 2014
Authorised Limit for external debt £M	£760M	
Operational Limit for external debt £M	£750M	
Maximum borrowing year to date		£274.1M
Limit of fixed interest debt %	100%	83.2%
Limit of variable interest debt %	50%	16.8%
Limit for Non-specified investments £M	£38M	£8M

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 3

The Housing Revenue Account (HRA) is currently forecast to over spend by **£86,500** on income and expenditure items at year-end, which represents a percentage variance against budget of **0.1%**.

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

The OTHER KEY issue for the Portfolio is:

HRA1 - Tenant Service Charges (forecast adverse variance £52,200)

The warden review implementation has been delayed.

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

Income associated with the warden review has been budgeted for the whole year. However, due to delays in implementing the changes, income is not expected until July 2014.