APPENDIX 1

GENERAL FUND 2011/12 - OVERALL SUMMARY

June 2011	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Adult Social Care & Health	66,062	66,944	882 A
Childrens Services & Learning	39,112	39,603	491 A
Environment & Transport	25,286	25,706	421 A
Housing	9,534	9,472	63 F
Leader's Portfolio	7,470	7,470	0
Leisure & Culture	6,989	7,210	221 A
Resources	43,189	43,189	0
Baseline for Portfolios	**197,642**	**199,594**	**1,952 A**
Net Draw From Risk Fund	512	0	512 F
Sub-total (Net Controllable Spend) for Portfolios	**198,154**	**199,594**	**1,440 A**
Non-Controllable Portfolio Costs	23,031	23,031	0
Portfolio Total	**221,185**	**222,625**	**1,440 A**
Approved Carry Forwards	0	0	0
Levies & Contributions			
Southern Seas Fisheries Levy	49	46	3 F
Flood Defence Levy	45	43	1 F
Coroners Service	500	504	4 A
	593	**593**	**0**
Capital Asset Management			
Capital Financing Charges	12,827	12,177	650 F
Capital Asset Management Account	(24,041)	(24,041)	0
	(11,215)	**(11,865)**	**650 F**
Other Expenditure & Income			
Direct Revenue Financing of Capital	145	145	0
Net Housing Benefit Payments	(882)	(882)	0
Revenue Development Fund	1,448	1,448	0
Non-Specific Govt. Grants	(19,056)	(19,056)	0
Corporate Savings	(1,833)	(490)	1,343 A
Exceptional Items	0	(2,802)	2,802 F
Contribution to Capital DRF Funding	0	1,045	1,045 A
Council Tax Freeze Grant	(2,066)	(2,066)	0
Open Space and HRA	536	536	0
Risk Fund	1,825	1,825	0
Contingencies	101	101	0
Surplus/Deficit on Trading Areas	(125)	(125)	0
	(19,907)	**(20,321)**	**414 F**
NET GF SPENDING	**190,656**	**191,032**	**376 A**
Draw from Balances:			
To fund the Capital Programme	(145)	(145)	0
Draw from Balances (General)	978	602	376 A
Draw from Strategic Reserve (Pensions/Reds)	(804)	(804)	0
	29	**(347)**	**376 A**
BUDGET REQUIREMENT	**190,685**	**190,685**	**0**

APPENDIX 2

ADULT SOCIAL CARE AND HEALTH PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£555,200** at year-end, which represents a percentage over 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	882.2 A	1.3
Remedial Portfolio Action	0.0	
Risk Fund Items	327.0 F	
Portfolio Forecast	**555.2 A**	**0.8**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

ASCH 1 – Adult Disability Care Services (forecast adverse variance £721,800)

There is a projected over spend of £504,100 on Domiciliary Care; £133,000 on Residential Care and £123,200 on Nursing.

Forecast Range not applicable.

Domiciliary Care is forecast to over spend by £504,100. This represents a reduction in the level of activity carried forward from 2010/11 outturn which showed an over spend of £779,100. In addition, a further £114,000 was removed from the budget as the final year of a council approved savings proposal in respect of reablement services provided by City Care First Support. Due to a high number of staff vacancies in the City Care First Support Team it is unlikely that this saving will be achieved.

Residential Care is forecast to over spend by £133,000. However, this has been a reduction of 30 clients compared to the level of activity at outturn 2010/11, 22 of which have already been achieved with a further reduction of eight assumed. A further reduction of six clients will be needed to bring the forecast level of client costs within the available budget. All client packages are being reviewed and the forecast position will be updated as further information is available.

Nursing is forecast to over spend by £123,200. As a result of a safeguarding issue at the Bupa Care Home, Oak Lodge, it has been necessary to place nine clients in alternative placements that would have used beds paid for under the block contract with BUPA. The contract dictates that the beds, even if void, must be paid for. As yet no resolution has been reached regarding resolving the safeguarding issue and there is a clear indication from BUPA that no financial compensation will be paid by them.

Negotiations are still being held and the forecast assumes that the beds will be utilised again from October 2011. It may be necessary to revise this position if an agreement cannot be reached.

The forecast over spends in Domiciliary, Nursing and Residential Care have been offset by a small net forecast under spend on Day Care and Direct Payments.

It should be noted that the overall forecast over spend of £721,800 is a significant reduction in the level of activity at outturn 2010/11 (£1.7M). Along with assumed reductions in levels of activity the forecasts above include the assumption that action plan savings can be achieved, Residential £150,000 and Nursing £120,000. Achievement against these assumptions will be monitored and the forecasts updated as necessary.

Significant Health funding has been received in 2011/12 to promote Social Care Services which aim to prolong the period before acute care needs develop. A number of the initiatives to be met from this funding will have an additional impact on Domiciliary Care. However, this should demonstrate corresponding reductions in both Residential and Nursing Care.

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	107.6	1,888	358	20.4
Direct Payments	2,518.7	£9.47 Per Hour	265,966	2,459.8	259,747	(6,219)	(58.9)
Domiciliary	4,007.5	£12.85 Per Hour	311,868	4,511.6	351,097	39,229	504.1
Nursing	2,099.1	£64.82 Per Day	32,384	2,222.3	34,284	1,900	123.2
Residential	5,211.6	£49.15 Per Day	106,035	5,344.6	108,741	2,706	133.0
Total	**13,924.1**			**14,645.9**			**721.8**

It should be noted that provision has been made within the Risk Fund to meet the costs of 18 Dementia clients under review which are receiving services which are currently health funded. The provision is phased over three years with £320,000 available in 2011/12. To date three clients have transferred to SCC funding at an estimated annual cost of £67,000. The costs to SCC of the remaining 15 clients have not yet been quantified as they have not yet transferred to SCC. It is anticipated that the full Risk Fund provision of £320,000 will be required in 2011/12.

ASCH 2 – Learning Disability (forecast adverse variance £501,800)

Additional forecast spend on Transition Clients (£245,700); Loss of Independent Living funding (£60,000) and new clients/changes in client costs (£196,100).

Forecast Range £600,000 adverse to £500,000 adverse.

There is additional forecast spend of £245,700 to meet the costs of transition clients. This is due to additional clients and changes in the cost of other packages. Provision to meet the impact of this has been included within the Risk Fund of £200,000.

In addition, the Independent Living Fund (ILF) closed for new applications in 2010/11 and a provision of £140,000 to meet the impact of this has been included within the Risk Fund. To date the impact for clients that would have made a potentially successful claim is £60,000. Based on activity to date, it is assumed within this report that a claim will be made against the provision in the Risk Fund to meet both the transition and ILF costs (£260,000). Should additional activity be identified a further claim may be made against the remaining provision of £80,000.

There is an increase in activity of three clients over and above that assumed when setting the 2011/12 budgets and the cost of this increased activity is £95,000. There has also been an increase in cost for two client cases where there has been a need to move the clients (£101,100).

It should be noted that £500,000 of action plan savings have been assumed in setting the current forecast position which are fully anticipated to be achievable and £298,000 of savings have been identified to date.

ASCH 3 – Provider Services – City Care (forecast favourable variance £214,700)

There are significant staff savings forecast within City Care First Support (£271,400) offset by reduced unit income (£70,000).

Forecast Range £300,000 favourable to £400,000 favourable.

There are currently a number of staff vacancies within the City Care First Support staffing teams. There have been significant difficulties in recruiting carers and extensive recruitment drives are now being undertaken. There are currently 22 FTE vacancies which are expected to be recruited to throughout the remainder of the financial year.

Due to a reduction in the number of self funding clients since the last monitored position in May, there has been a reduction in unit income of £70,000. However, the forecast position is still £69,000 move than the budgeted figure of £786,000.

The OTHER KEY issues for the Portfolio are:

ASCH 4 – Adult Disability Commissioning (forecast adverse variance £65,100)

There is a partial non achievement of Corporate Savings Proposal for SCA Day Care Contract (£73,600) offset by small savings on other contracts (£8,500).

Forecast Range £70,000 adverse to £50,000 adverse.

The SCA Day Care contract is expected to achieve a saving of £400,000 in 2011/12. Due to the required notice period on staff contracts the new reduced contract only came into effect on 1 June 2011 and therefore two months of the saving cannot be achieved which equates to £73,600.

These pressures have been offset in part by small net savings on other voluntary contracts £8,500.

ASCH 5 – Mental Health (forecast adverse variance £78,900)

New clients with no recourse to public funds (£42,600) and changes to client package costs (£36,300).

Forecast Range £80,000 adverse to £60,000 adverse.

There have been three new clients that have no recourse to public funds (£42,600) with further changes to cost of packages (£36,300).

Provision of £450,000 has been made within the Risk Fund to meet the costs of 48 clients under review who are receiving aftercare services which are currently health funded. The client care needs have now all been reviewed and at the current time eighteen clients are likely to transfer to Social Care. The cost to SCC has not yet been quantified as the clients have not yet transferred to SCC but it is anticipated that the costs will exceed the current Risk Fund provision.

It should also be noted that action plan savings of £187,000 have been included in arriving at the forecast position and detailed actions to achieve these savings are currently been developed.

Summary of Risk Fund Items

Service Activity	**£000's**
Adult Disability Care Services – Provision for Dementia Clients	67.0
Learning Disability – Provision for Transition Clients and for removal of new ILF funding	260.0
Risk Fund Items	**327.0**

APPENDIX 3

CHILDREN'S SERVICES & LEARNING PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£490,900** at year-end. This represents a percentage over spend against budget of **1.3%**. 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	490.9 A	1.3
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**490.9 A**	**1.3**
Potential Carry Forward Requests	0.0	

A range of remedial action has been implemented which is already reflected in the above forecast to partly offset over spends due to rising numbers of children in care. A recruitment freeze is in place across the Directorate and in addition managers have been asked to cease all non essential expenditure.

A report was presented to the Cabinet Member for Children's Services & Learning on 6 June 2011 outlining the pressures in the Safeguarding Division. This highlighted anticipated pressures of £1.4M for 2011/12, partially offset by cost reductions and additional funding proposals of £0.8M, leaving a net pressure of £0.6M for 2011/12. The monitoring position is still in line with this position despite additional legal and staffing pressures.

The CORPORATE issues for the Portfolio are:

CSL 1 – Commissioning & Workforce Development (forecast favourable variance £415,900)

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

Forecast range £400,000 favourable to £550,000 favourable.

A favourable variance of £400,000 has resulted due to early implementation of 2011/12 staff savings planned in order to help offset predicted overspends in Safeguarding. In addition the Head of Standards post is now vacant and a forecast saving of four months (£38,300) has been reflected, along with a vacant operations manager post and temporary employee savings of (£64,000) within the contracts team.

This is offset by an adverse forecast of £100,000 within school transport as a result of an increasing of demand for children requiring transport as part of their statutory requirement.

CSL 2 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £695,000)

The numbers of children in care has increased by seven during this financial year. The placement cost of a looked after child under 16 ranges from an internal placement costing an average of £16,000 per year to an external independent placement costing up to £300,000.

Forecast range £1.5M adverse to £300,000 adverse.

The detailed breakdown of costs is shown below:

Service Area	Forecast Variance as at Month 2	Forecast Variance as at Month 3	Increase / (Decrease)
Civil Secure Accommodation	134.7 F	134.7 F	0.0
Foster Care Services	99.0 A	59.5 A	(39.5)
Independent Fostering Agencies	677.2 A	716.6 A	39.4
Independent Sector Residential Social Care Placements	260.1 F	114.2 F	145.9
Contact Scheme	221.0 A	206.1 A	(14.9)
Our House Residential Unit	23.2 A	28.5 F	(51.7)
Adoption Services	27.5 F	25.8 F	1.7
Other Tier 4 Services	6.1 F	16.0 A	22.1
Total	**592.0 A**	**695.0 A**	**103.0**

Civil Secure Accommodation (forecast favourable variance £134,700)

To date, there are proposals for one short term placement, with no further placements identified. Therefore, a forecast saving is anticipated.

Foster Care Services (forecast adverse variance £59,500)

Despite an increase of ten children in our internal foster care, costs are only forecast to increase by £59,500 instead of the original figure of £155,100. This is primarily due to a reduction in the average cost of a new placement, (arising for example, from a decrease in the average age of a child in foster care, together with an increase in the numbers of children looked after per carer). Each placement costs an average of £16,000. It is current council policy to invest in and use local foster care as far as possible when it is the most appropriate placement for the child.

Independent Fostering Agency (IFA) Placements (forecast adverse variance £716,600)

Expenditure on IFA placements is forecast to over spend by £716,600 by the end of 2011/12 due to an increase in the numbers of children in care, as demonstrated in the table below. Independent placements cost an average of £43,400 for a standard placement (representing foster care cost plus agency charge), approximately £27,000 more than the average for a SCC foster care placement, and approximately £2,000 less than the average cost reported in 2010/11.

Southampton's CSL Directorate is leading a partnership of Local Authorities (including Oxfordshire, Hampshire, Surrey and Portsmouth) to secure much more competitive IFA pricing. This should come into effect during 2012/13, however, in the interim, discussions have been held with existing IFA providers that have reduced the placement costs.

Details of changes in the demand for IFA placements are identified in the table below:

IFA Social Care Placements Annual Cost Band £	**Below 1,000**	**1,000 to 9,999**	**10,000 to 59,999**	**60,000 to 99,999**	**Over 100,000**
Budgeted Placements – Set Nov 10	0	0	35	1	0
Current Placements	0	0	51	3	0
Year End Placement Number	0	0	43	3	0

<u>Independent Sector Residential Social Care Placements (forecast favourable variance £114,200)</u>

Expenditure on independent sector residential social care placements is forecast to under spend by £114,200 partially due to the impact of opening 'Our House' in July and the corresponding fall in the average cost per placement. Currently, three children have been identified as suitable to transfer from external residential placements to 'Our House'.

The current budget allows for six placements costing over £220,000 per annum. However, there have been 14 placements so far this year, eight of which are anticipated to last for the whole of 2011/12. Two new placements are also proposed to start within the next few weeks. Seven of these placements are forecast to cost over £100,000, with the most expensive placement costing £188,000.

<u>Contact Scheme (forecast adverse variance £206,100)</u>

The adverse variance on the Contact Scheme (supervised parental contact with their children who have been taken into care), is due to additional court ordered contact. This demand 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.

<u>CSL 3 – Safeguarding Management (forecast adverse variance £428,400)</u>

This over spend is predominantly due to an anticipated increase in legal costs, arising from the increasing numbers of children in care.

Forecast Range £600,000 adverse to £50,000 adverse

The over spend of £370,100 for legal fees relates to court fees and the additional costs of external solicitors for the increased numbers of court proceedings being initiated on behalf of children looked after. The forecast assumes that expenditure levels will remain at 2010/11 levels, and allows for a court fine of £100,000. However, further work is required to substantiate the accuracy of this forecast position.

<u>CSL 4 – Tier 3 Social Work Teams (forecast adverse variance £275,800)</u>

This adverse variance reflects the additional cost of agency social work staff, together with the possible impact of changes to staff terms and conditions.

Forecast Range £750,000 adverse to £100,000 adverse.

Current market conditions nationally are such that the supply of social workers is insufficient to meet demand and there is significant competition between authorities to recruit and retain high calibre social work staff. This means a continuing need for temporary staff, acquired from independent agencies, with the associated market agency fees. As a result of this pressure, a discounted rate has been negotiated with a supplier of agency social care staff for 2011/12. The council has acted to try and retain qualified social work staff by proposing a market supplement of £1,400 per annum for a range of social workers within Children's Services & Learning on a temporary six month basis. This will cost an additional £108,000 for 2011/12 and £100,700 will be met from the remaining Contingency with the rest managed within the bottom line of the Portfolio.

The additional costs to meet current needs for temporary staff are shown in the table below:

Temporary staff costs	**Current FTE**	**Forecast Over Spend £000's**
Agency Team Managers	0.00	0.0
Agency Senior Practitioners	3.00	48.4
Agency Social Workers	15.60	157.8
Temporary Social Services Assistants	3.40	28.8
Temporary Information Officers	2.00	22.7
TOTAL	**24.00**	**257.7**

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

APPENDIX 4

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£235,500** 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	420.5 A	1.7
Remedial Portfolio Action	0.0	
Risk Fund Items	185.0 F	
Portfolio Forecast	**235.5 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 £248,500)

Parking pressures have been identified relating to reduced income of £166,500 and increased rates costs of £82,000.

Forecast Range £400,000 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 £166,500. This may be attributed to the continuing economic downturn and the impact on commuters of a rise in fuel prices. In addition, the financial effect of parking officers taking strike action in June and early July 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.

There is no forecast variation for employee deductions resulting from the strike action, as these are managed corporately. However, there is a further variation due to the rates demands for off street car parks having increased significantly and being £82,000 adverse compared to the estimate.

<u>E&T 2 – Travel & Transportation - Bus Shelters (forecast adverse variance £185,000)</u>

There is a forecast variance for this service in relation to a new bus shelters contract, which will need to be met from the Risk Fund.

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

There is an income estimate of £350,000 for increased sponsorship income from a new bus shelters contract. A 20 year contract has now been agreed with an implementation date of 1 May 2011. This passes over the maintenance liability to the contractor and should generate an average income contribution to the Council of around £180,000 per annum in a full year. As this will not be fully effective in the current financial year and the sum is lower than the original estimate, there is a forecast draw on the Risk Fund of £185,000.

<u>E&T 3 – Waste Disposal (forecast favourable variance £336,600)</u>

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 £336,000.

Forecast Range £200,000 favourable to £500,000 favourable

The general collected household and garden waste tonnage is lower than anticipated, resulting in a forecast saving of £100,000 over the course of the year. This variance is subject to adjustment, following a more detailed assessment of the effect of the periodic strike action that has been in progress since late May. In addition, tonnage is still reducing, due to the successful implementation of Trade Waste controls, resulting in a forecast favourable variance of £35,000. There are also 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 currently processing less Civic Amenity, 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 £40,000 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).

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

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

Service Activity	**£000’s**
Bus Shelter Contract	185.0
Risk Fund Items	**185.0**

APPENDIX 5

HOUSING GENERAL FUND PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to under spend by **£62,600** at year end, which represents a percentage variance 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	62.6 F	0.7
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**62.6 F**	**0.7**
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.

APPENDIX 6

LEADER'S PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to **break-even** at year end, which represents a percentage variance against budget of **0.0%.** 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	0.0	0.0
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**0.0**	**0.0**
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.

LEISURE & CULTURE PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to over spend by **£220,900** at year-end, which represents a percentage over spend against budget of **3.2%**. 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	220.9 A	3.2
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**220.9 A**	**3.2**
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 £87,500)

There is an adverse variance on collections of £40,000 due to settlement of a long term dispute, £18,000 on Archaeology due to income pressures and £29,500 due to a shortfall in Art Gallery Shop income.

Forecast Range not applicable.

A long term legal dispute concerning the loss of items that were loaned to Southampton City Council in the 1970's has just been concluded. The result is that the Council has agreed to pay £40,000 in compensation for the lost Egyptian items. There is an £18,000 income pressure due to shortfalls in developer income from the Archaeology unit. There is also an income shortfall of £140,600 in the Art Gallery shop but the effect of this has been mitigated by making savings on expenditure budgets including repairs and maintenance resulting in a net effect on the bottom line of £29,500.

LC 2 – Sport and Recreation (forecast adverse variance £113,300)

There is an adverse variance of £79,200 due to a change to the payment profile on the MyTime Active contract for the management of the Golf Course.

Forecast Range not applicable.

There has been a difference in the interpretation of the payment schedule on the contract with MyTime Active for the management of the Golf Course.

In order to resolve the issue without going to formal arbitration an agreement has been reached which is deemed acceptable to both MyTime Active and Southampton City Council. Under the agreement the Council receives £79,200 less income in 2011/12 but the total value of the contract over the full 12 year period is increased by £73,000. This was assessed as an acceptable settlement for the Council as it still gave a positive cash flow of £10,100 when a 6.5% discount was applied over the 12 year period of the contract. There is an adverse variance of £15,900 at Oakland's swimming pool due to staffing issues and a shortfall of vending machine income.

APPENDIX 8

RESOURCES PORTFOLIO

KEY ISSUES – MONTH 3

The Portfolio is currently forecast to **break-even** at year end, which represents a percentage variance against budget of **0.0%.** 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	0.0	0.0
Remedial Portfolio Action	0.0	
Risk Fund Items	0.0	
Portfolio Forecast	**0.0**	**0.0**
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 9

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	Efficiencies	Income	Service Reductions	Total	Implemented and Saving Achieved	Not Yet Fully Implemented and Achieved But Broadly on Track	Saving Not on Track to be Achieved
	2011/12				ACHIEVEMENT		
	£000's	£000's	£000's	£000's	%	%	%
Adult Social Care & Health	(1,879)	(145)	(1,187)	(3,211)	26.8%	65.1%	8.1%
Children's Services & Learning	(380)	(175)	(2,154)	(2,709)	100.0%	0.0%	0.0%
Environment & Transport	(799)	(170)	(682)	(1,651)	61.8%	38.2%	0.0%
Housing	(298)	(45)	(703)	(1,046)	41.2%	24.2%	34.6%
Leader's Portfolio	(518)	0	(320)	(838)	85.7%	14.3%	0.0%
Leisure & Culture	(624)	(30)	(63)	(717)	13.9%	38.5%	47.6%
Resources	(1,010)	(150)	(578)	(1,738)	89.1%	10.9%	0.0%
Total	**(5,508)**	**(715)**	**(5,687)**	**(11,910)**	**62.0%**	**29.9%**	**8.1%**
Achievement	**(5,140)**	**(670)**	**(5,500)**	**(11,310)**			
Shortfall				**(600)**			
				-5%			

APPENDIX 10

FINANCIAL HEALTH INDICATORS – MONTH 3

Prudential Indicators Relating to Borrowing

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£563M	£373M	Green
As % of Authorised Limit	100%	66%	Green

	Target	Actual YTD	Status
Average % Rate New Borrowing	5.0%	3.48%	Green
Average % Rate Existing Long Term Borrowing	5.0%	3.30%	Green
Average Short Term Investment Rate	0.60%	1.40%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£4.5M	
Forecast Year End General Fund balance	£9.4M	Green

Income Collection

Outstanding Debt:	2010/11	Actual YTD	Status
More Than 12 Months Old	28%	41%	Red
Less Than 12 Months But More Than 6 Months Old	8%	6%	Green
Less Than 6 Months But More Than 60 Days Old	10%	11%	Amber
Less Than 60 Days Old	54%	42%	Amber

Creditor Payments

		Status
Target Payment Days	30	
Actual Current Average Payment Days	19	Green
Target % of undisputed invoices paid within 30 days	95.0%	
Actual % of undisputed invoices paid within 30 days	90.01%	Amber

Tax Collection rate

	Target Collection Rate	Month 3 Collection Rate Last Year	Month 3 Collection Rate This Year	Status
Council Tax	96.20%	28.41%	28.53%	Green
National Non Domestic Rates	99.20%	34.60%	34.82%	Green

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 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 £1.2M in current year. However, the average rate achieved to date (1.40%) exceeds the performance indicator of the average 7 day LIBID rate (0.60%) mainly due to the rolling programme of yearly deals which was restarted in October 2010 following advice from our Treasury Advisors.
- 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 3.18% is lower than that budgeted for but slightly higher than last year (2.99%) which is in line with reported strategy. The predictions based on all of the economic data are that this will continue for the remainder of the year but 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 will be taken out above this rate, leading to an anticipated increase in the CRI (reaching 4.17% by 2013/14).

2. Economic Background

- Inflationary pressures continued to build as oil and other food commodities resumed their surge. Oil returned to record levels as tensions in the Middle East spilt over and OPEC (Organisation of Petroleum Exporting Countries) failed to agree supply levels at its June meeting. Consumer Price Inflation 4.2% in June which was down from 4.5% in May but still above the target of 2.0%. The Bank of England's May Inflation Report downgraded the UK's economic growth forecast whilst raising the potential inflation near term shocks.
- The focus of the Bank of England's Monetary Policy Committee was concentrated on the lacklustre outlook for economic growth. Although the economy grew by 0.5% in Q1 2011, over a six-month period to March, growth was flat. For households and the consumer there was little cheer as increases in wage growth were more than outstripped by inflation, mortgage approvals slumped in April to their lowest level since the data series began in 1993 and house prices remained in the doldrums. The concerns about growth were further triggered by a fall in the Purchasing Managers' Index (PMI) showed that manufacturing activity fell to a 20 month low. Official interest rates were maintained at 0.5%and the International Monetary Fund stated that monetary policy was "appropriate" in latest survey of the UK economy.
- In Europe, rates were also maintained by the European Central Bank (ECB) at 1.25% but ECB President, Jean-Claude Trichet, re-emphasised the ECB's vigilance towards inflationary pressures signalling a further tightening at its July meeting.
- Greece's funding woes became acute and the country's sovereign rating slid further down the non-investment scale. The second tranche of the IMF/EU bailout was conditional on passing, (and delivering), on the badly needed austerity plans and the sale of state assets. Portugal was downgraded to junk status by Moody's and the threat of contagion cast a shadow over the Eurozone and its financial institutions. Moody's also announced a review of over 14 UK institutions in June which the agency expected to take around three months to complete.
- UK Government gilts were the beneficiary of the poor growth outlook and the turmoil in Europe. This was manifested in 5-year gilt yields falling to 1.84% and 10-year yields falling to 3.13% on 24th June, their lowest levels in 2011.

3. Outlook for Quarter 2

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at July 2011 is detailed below. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Official Bank Rate													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**1.75**	**2.00**	**2.25**	**2.50**	**2.75**	**3.00**	**3.00**	**3.00**
Downside risk		-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- The higher inflation projection and the weaker outlook for growth increases the dilemma for the Bank of England.

- Given the precarious outlook for growth, rates will rise if there is firm evidence the economy has survived the fiscal consolidation or there is sustained inflationary pressure over the coming months.
- The war of nerves between the ECB, EU ministers, IMF and Greece will create volatility in the near term for the bond markets.
- CPI has remained persistently high, currently at 4.2% and despite the reduction in petrol prices, double digit gas and electricity price hikes could push inflation close to 5% in 2011. CPI is forecast to remain above the Bank of England's 2% inflation target throughout 2012.
- Retail sales are contracting and consumer spending has not shown any growth over the year due to a fall in disposable income, weak house price growth and a lack of consumer confidence. Unemployment is close to 2.5M and will increase as the public sector shrinks but private sector employment grows at only a modest pace.
- S&P has revised its outlook on the long-term rating for the US to negative amidst fears that the government will not agree a medium- and long-term strategy to tackle their fiscal challenges.

4. Debt Management

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

	Balance on 01/04/2011	Debt maturing or Repaid	New Borrowing	Balance on 30/06/2011	Increase/ (Decrease) in borrowing
	£000's	£000's	£000's	£000's	£000's
Short Term Borrowing	35,324	77,020	(61,240)	51,104	15,780
Long Term Borrowing	189,358	(45)	55,000	244,313	54,955
Total Borrowing	**224,682**	**76,975**	**(6,240)**	**295,417**	**70,735**

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

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

The Council use of internal resources (£64M) in lieu of borrowing has been the most cost effective means of funding past capital expenditure to date. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term and the Council expects it will need to borrow £75M for capital purposes by 2013/14.

The Council is due to fund £15M of its capital expenditure from borrowing this year and to refinance £70M of existing loans, totalling £85M. New loans amounting to £55M have been raised to the end of June using PWLB10 year EIP, on the advice of our advisors to take advantage of the 10 year yield curve which is significantly below the 25 – 50 year rate. The Council's variable rate loans were borrowed prior to 20 October 2010 (the date of change to the lending arrangements of the PWLB post CSR) and are maintained on their initial terms and are not subject to the additional increased margin.

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 expected to borrow an addition £29M by the end of the year (assumed rate 1.7%). This strategic exposure to variable interest rates will be regularly reviewed and if appropriate reduced; by switching into fixed rate loans.

5. Investment Activity

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

Capital Expenditure	Balance on 01/04/2011	Investments Repaid	New Investments	Balance on 30/06/2011	Increase/ (Decrease) in investment for Year
	£000's	£000's	£000's	£000's	£000's
Short Term Investments	29,300	(13,300)	44,800	60,800	31,500
Money Market Funds	40,575	(107,030)	151,350	84,895	44,320
EIB Bonds	6,000	0	0	6,000	0
Long Term Investments	36	0	0	36	0
Total Investments	**75,911**	**(120,330)**	**196,150**	**151,731**	**75,820**

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its TM Strategy Statement for 2011/12. This has restricted new investments to the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Deposits with UK Banks and Building Societies
- Debt Management Office.

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings. The council's minimum long-term counterparty rating is A+ (or equivalent) across rating agencies Fitch, S&P and Moody's. A break down of investments as at 30 June 2011 by current credit rating and maturity profile can be seen below:

Credit 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
A-							0
A+	9,800		5,000	9,000	6,000		29,800
AA-	3,000	5,000	12,000	10,000			30,000
AA+							0
AAA	84,895			1,000		6,036	91,931
	97,695	**5,000**	**17,000**	**20,000**	**6,000**	**6,036**	

Counterparty Update

- The Council added Sweden and one Swedish bank, Svenska Handelsbanken, meeting the minimum criteria to the approved counterparty list for 2011/12.

- Following the growing problems facing peripheral Europe, the Council brought down the maturity limit for new investments with non-UK banks from two years to a maximum of one year on 23 May 2011. Similarly, following the growing problems facing Greece and the Eurozone, the Council decided to restrict new investments with approved UK institutions (except for Santander UK plc and Clydesdale) to one year from 23 June 2011.

New deposits with Santander UK plc remain restricted to six months, and new deposits with Clydesdale Bank are now restricted to one week.

Credit Issues

During Quarter 1 Moody's placed the ratings of a number of UK institutions on review for possible downgrade. This is to align their ratings with evolving systemic support post credit crisis. The review is likely to take three months and will assess the extent of available systemic support and the ability of the regulators to deal with a failure. It will also look at the political impact of further taxpayer support for the banking system and the UK government's ability to take on additional liabilities.

This review could lead to downgrades of counterparties on the Council's lending list. The Council will keep the situation under review, and discuss any implications with it's advisors. The outcome of the review could lead to a review of the Council's minimum credit criteria, as set out in its TM Strategy Statement.

The maturity profile of the Council's short term investments, together with the long and short term credit ratings of the institutions with which funds have been deposited is shown below. 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 estimated to be £0.8M against a budget of £0.6M. 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 0.76%. Last October we reintroduced a rolling programme of yearly deals to support our core balances, to date we have £21M invested at an average rate of 1.55%.

6. Reform of the Council Housing Subsidy System

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

CLG and CIPFA are both expected to issue further information on the housing reform transaction in July of Quarter 2. Any new information will be incorporated into the 30 year business plan and the treasury implications addressed in conjunction with the Council's advisors.

The self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the CLG the difference between the two, which is approximately £63M. This will require the Council to fund this amount in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market.

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

7. 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:

7.1. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow. The following table shows the actual position as at 31 March 2010 and the estimated position for the current and next two years based on the capital programme being submitted to council on the 16 February:

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**	**371**
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)	(3)	(3)	(2)	(4)
Cumulative Maximum External Borrowing	**360**	**360**	**369**	**371**	**368**

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 on 30/06/2011 £M	2011/12 Estimate £M	2012/13 Estimate £M	2013/14 Estimate £M
Borrowing	224,677	295,417	277,302	279,863	266,858
Other Long Term Liabilities	71,722	71,722	71,657	73,886	78,153
Total Borrowing	**296,399**	**367,139**	**348,959**	**353,749**	**345,011**

7.2. Balances and Reserves

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

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

7.3. Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £486M for 2011/12.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2011/12 was set at £471M.
- The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and during the period to the end of June 2011 borrowing at its peak was £295M.

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

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

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

7.5. Maturity Structure of Fixed Rate Borrowing

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

	Lower Limit %	Upper Limit %	Actual Fixed Debt as at 30/06/11 £000's	Average Fixed Rate as at 30/06/11 %	% Fixed Rate as at 30/06/11 %	Compliance with set Limits?
Under 12 months	0	45	59,384	1.87	23.55	Yes
12 months and within 24 months	0	45	5,000	4.08	1.98	Yes
24 months and within 5 years	0	50	10,000	2.78	3.97	Yes
5 years and within 10 years	0	50	112,733	3.23	44.71	Yes
10 years and within 20 years	0	50	0	0.00	0.00	Yes
20 years and within 30 years	0	75	10,000	4.68	3.97	Yes
30 years and within 40 years	0	75	30,000	4.62	11.90	Yes
40 years and within 50 years	0	75	25,000	0.04	9.92	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			252,117	**3.45**	**100.00**	

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

This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

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

7.7. Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Financing Costs to Net Revenue Stream	2010/11 Actual %	2011/12 Approved %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
General Fund	4.89	7.09	5.01	8.43	9.09
HRA	4..46	5.75	5.77	7.50	8.69
Total	**6.01**	**7.49**	**6.61**	**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 treasury management activity up to the 30 June 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.

APPENDIX 12

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 3

The Housing Revenue Account (HRA) is currently forecast to under spend by **£34,800** 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.