GENERAL FUND 2013/14 - OVERALL SUMMARY

DECEMBER 2013	Working Budget £000's	Forecast Outturn £000's	Forecast Variance £000's
Portfolios (Net Controllable Spend)			
Change & Communities	3,819	3,750	69 F
Children's Services	35,277	39,604	4,327 A
Economic Development & Leisure	6,039	6,308	269 A
Environment & Transport	27,143	27,573	430 A
Health & Adult Social Care	68,133	68,940	808 A
Housing & Sustainability	1,764	1,925	161 A
Leader's Portfolio	3,564	3,312	253 F
Resources	42,876	40,951	1,925 F
Baseline for Portfolios	**188,615**	**192,363**	**3,748 A**
Net Draw From Risk Fund	3,908	0	3,908 F
Sub-total (Net Controllable Spend) for Portfolios	**192,523**	**192,363**	**160 F**
Non-Controllable Portfolio Costs	22,275	22,275	0
Portfolio Total	**214,798**	**214,638**	**160 F**
Approved Carry Forwards	0	200	200 A
Levies & Contributions			
Southern Seas Fisheries Levy	31	31	0
Flood Defence Levy	32	32	0
Coroners Service	560	600	40 A
	623	**663**	**40 A**
Capital Asset Management			
Capital Financing Charges	13,357	13,569	212 A
Capital Asset Management Account	(24,585)	(25,997)	1,412 F
	(11,229)	**(12,429)**	**1,200 F**
Other Expenditure & Income			
Direct Revenue Financing of Capital	401	401	0
Net Housing Benefit Payments	(882)	(882)	0
Non-Specific Government Grants	(134,450)	(135,988)	1,538 F
Contribution to Pay Reserve	1,400	1,400	0
Contribution to Transformation Fund	1,000	1,000	0
Collection Fund Surplus	(1,042)	(1,042)	0
Open Space and HRA	436	436	0
Risk Fund	752	451	302 F
Contingencies	411	411	0
Surplus/Deficit on Trading Areas	36	36	0
	(131,938)	**(133,778)**	**1,840 F**
NET GF SPENDING	**72,255**	**69,295**	**2,960 F**
Draw from Balances:			
To fund the Capital Programme	(401)	(401)	0
Draw from Balances (General)	(980)	1,980	2,960 F
Draw from Strategic Reserve	(825)	(825)	0
	(2,206)	**754**	**2,960 F**
COUNCIL TAX REQUIREMENT	**70,049**	**70,049**	**0**

APPENDIX 2

CHANGE & COMMUNITIES PORTFOLIOS

KEY ISSUES – MONTH 9

The Portfolios are currently forecast to under spend by **£319,500** at year-end, which represents a percentage under spend against budget of **8.4%.** 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	68.5 F	1.8
Risk Fund Items	251.0 F	
Portfolio Forecast	**319.5 F**	**8.4**
Potential Carry Forward Requests	232.0	

The CORPORATE issues for the Portfolios are:

COMM 1 – Prevention & Inclusion Service (forecast adverse variance £291,800)

Transfer of costs of placing Young Offenders in remand from Youth Justice Board

Forecast Range £350,000 adverse to £275,000 adverse

The Youth Justice Board has transferred responsibility to fund the costs of remand to Local Authorities from 1 April 2013. Due to the volatile nature of the need for remand and the range of costs at specific facilities (ranging from £177 to £607 per night) provision for this has been retained in the Risk Fund and the anticipated draw based on current demand is £251,000.

The OTHER KEY issues for the Portfolios are:

COMM 2 – Communities, Change & Partnership General (forecast favourable variance £107,700)

Salaries and supplies and services spend reduced

Forecast range not applicable

The favourable variance has arisen primarily due to salary under spends from vacancies together with anticipated under spends within supplies and services as a result of the moratorium on spend. Vacancies have been reviewed and where possible form part of future savings proposals.

COMM 3 – Communities, Change & Partnership Social Fund (forecast favourable variance £232,000)

Revised implementation of planned transition of Social Fund to Local Welfare Provision

Forecast range not applicable

A Government Grant of £654,000 was received for 2013/14 as funding for the transition of Social Fund to Local Welfare Provision. At this stage a forecast under spend of £103,200 is anticipated, the majority of which relates to the £100,000 set aside for contingency, the provision for which was agreed by Cabinet to enable a response to unpredicted gaps in provision.

Further to this a sum of £128,800 was allocated by Cabinet from the General Fund revenue budget contingency in response to the Overview and Scrutiny Management Welfare Reforms Inquiry. Detailed work is underway to develop and implement the recommendations made and this work is being overseen by the Welfare Reforms Monitoring Group. A forecast under spend of £128,800 is anticipated as implementation is now expected to commence during 2014/15 with the work to run over a two year transition period.

A carry forward request will therefore be submitted for these two items totalling £232,000 to enable full implementation to take place, although the final figure will be subject to the latest position at year-end.

Summary of Risk Fund Items

Service Activity	**£000's**
Youth Remand	251.0
Risk Fund Items	**251.0**

APPENDIX 3

CHILDREN'S SERVICES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£1,526,900** at year-end, which represents a percentage over spend against budget of **4.3%.** 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	4,326.9 A	12.3
Risk Fund Items	2,800.0 F	
Portfolio Forecast	**1,526.9 A**	**4.3**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

CS 1 – Tier 4 Safeguarding Specialist Services (forecast adverse variance £2,520,600)

This budget funds the cost of children that have to be taken into care. The number of children in care is 20, (5.0%) over the budgeted position. A further increase of 15 placements (or 3.6% based on the current placement numbers) is anticipated by year end.

Forecast Range £3.0M adverse to £2.2M adverse

The increasing number of children having to be taken into care has led to a forecast over spend on fostering of £1,927,100, and on residential placements of £389,600. In addition there are other various over spends, such as special guardianship allowances, staying put placements and adoption allowances totalling £203,900. The over spend on fostering of £1,927,100 includes a forecast over spend of £1,730,500 on Independent Fostering Agency (IFA) placements, and £84,400 on placements with local authority foster carers.

There has been an over spend of £168,700 on special guardianship and adoption allowances. The increasing numbers of lower cost special guardianship and adoption allowances has primarily resulted from the conversion of higher cost foster care. This results in a corresponding cost avoidance of between £3,000 and £13,000 per placement per annum.

A draw of £2.2M has been made from the Risk Fund reducing the over spend on Tier 4 Safeguarding Specialist Services to £320,600. The numbers of children in care have remained at a similar level as that at the start of the year, which has helped control the level of fluctuation in the over spend as experienced in previous years.

The table below outlines the changes in activity levels for 2013/14:

Service	Daily Rate Range	Children Numbers					
		Budget	Budget Plus Risk Fund Provision	Oct	Nov	Dec	Year End Forecast
Fostering up to 18	£20 - £100	311	325	306	300	299	311
Independent Fostering Agencies	£86 - £270	62	91	105	103	105	108
Inter Agency Fostering Placements	£56 - £136	0	0	3	2	2	2
Supported Placements or Rent	£16 - £111	13	13	1	1	1	1
Residential - Independent Sector	£257 - £660	10	15	11	11	10	10
Civil Secure Accommodation	£707 - £806	1	1	0	0	0	0
Sub-total: Children in Care		**397**	**445**	**426**	**417**	**417**	**432**
Residential (Not Looked After)	£108 - £333	0	0	3	3	3	3
Supported Placements or Rent (Not Looked After)	£16 - £111	0	0	5	5	5	5
Over 18's	£8 - £153	17	17	16	16	15	14
Adoption Allowances	£4 - £38	91	91	85	83	88	88
Special Guardianship Allowances	£2 - £44	49	49	76	82	85	94
Residence Order Allowances	£7 - £18	18	18	17	17	17	17
Total		**572**	**620**	**628**	**623**	**630**	**653**

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 £388,300)

Additional legal costs of £352,700 are directly attributable to the increasing number of children in care. Safeguarding management and support services have increased by £35,600 over the budgeted position, mainly due to one off costs for staffing and systems audits and reviews.

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

This adverse variance is due to unavoidable SCC and external legal costs associated with children having to be taken into care. The costs relate to court fees, legal expenses and external counsel. A draw of £200,000 has been made from the Risk Fund reducing the over spend on Safeguarding Management and Legal Services to £188,300.

CS 3 – Child Protection Tier 3 Social Work Teams (forecast adverse variance £949,000)

Additional cost of agency social work staff in respect of vacancy and absence cover and forecast additional costs of court ordered supervised parental contact with children who have been taken into care.

Forecast Range £1.2M adverse to £750,000 adverse

There is a forecast over spend of £827,100 on child protection ‘Tier 3’ social work teams. Current market conditions have meant that the supply of social workers was insufficient and inexperienced to meet rising demand. This meant a continuing need for temporary staff, acquired from independent agencies at, on average, twice the cost of a permanently employed member of staff. The number of agency social workers has reduced considerably over the year, due to a successful recruitment campaign. However, there has been a continued need for agency senior practitioners and team managers during the year.

The forecast over spend on the Contact Scheme of £141,900 is a direct consequence of younger children having to be taken into care earlier, leading to an increase in court-ordered supervised parental contact. External contracts have had to be negotiated to cope with the increased demand.

There is a forecast under spend of £20,000 for payments to people without recourse to public funds, due to a reduction in demand levels against this budget.

A draw of £400,000 has been made from the Risk Fund reducing the over spend on Child Protection Social Work Teams to £549,000.

<u>CS 4 – Disability Services (forecast adverse variance £256,300)</u>

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

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. During the year, four new expensive placements have been included within the forecast, three of which relate to new residential placements and one of which is for an expensive IFA placement.

<u>CS 5 – Infrastructure (forecast adverse variance £232,700)</u>

Additional costs associated with moving staff between council buildings

Forecast Range £330,000 adverse to £230,000 adverse.

Costs of £125,000 have been incurred partly for moves taking place as part of the capital programme to expand Primary schools which were not budgeted for. In addition, relocation of the Compass Centre from Warren Avenue to the site of the old Millbrook School has resulted in a dilapidations charge from the landlord at the Warren Avenue of £60,000. In addition to this it is forecast that the business rates and security costs for vacant premises at Selborne Avenue will be £10,000.

These costs are being partially offset by vacant posts to the value of £22,000 in the ICT Strategy Team.

The OTHER KEY issues for the Portfolio are:

<u>CS 6 – Commissioning, Management & Directorate overheads (forecast adverse variance £128,000)</u>

Additional costs for admin supplies and translation services

Forecast Range £150,000 adverse to £120,000 adverse.

Directorate expenditure on storage, photocopying and postage is forecast exceed the budget originally set by £48,400 as planned savings have not been fully achieved. In addition, the increase in referrals to Safeguarding has led to more fostering and adoption panels with associated costs. The increase in referrals to Safeguarding has also led to more demand for translation services resulting in a forecast over spend of £51,600. Following a tendering exercise, the charge made by Oasis Academy Lord's Hill operating the sports hall at the old Millbrook school site is higher than budgeted by £35,500.

CS 7 – Operations and Services – Transport (forecast adverse variance £105,600)

Additional school transport costs

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

An increase in the numbers of pupils with Special Educational Needs being transported to school and the Personal Travel Budget pilot (which allocates parents 45p per mile to transport their children to school) being less well received by parents than anticipated, has resulted in a forecast over spend of £291,400. This is partially off set by savings in other school transport areas and looked after children transport of £185,800.

Summary of Risk Fund Items

Service Activity	£000's
Tier 4 Services	2,200.0
Safeguarding Management and Legal Services	200.0
Child Protection Tier 3 Social Work Teams	400.0
Risk Fund Items	**2,800.0**

ECONOMIC DEVELOPMENT & LEISURE PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£154,200** at year-end, which represents a percentage over spend against budget of **2.6%.** 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	269.2 A	4.5
Risk Fund Items	115.0 F	
Portfolio Forecast	**154.2 A**	**2.6**
Potential Carry Forward Requests	76.0	

The CORPORATE issues for the Portfolio are:

EDL 1 – Gallery and Museums (forecast adverse variance £374,100)

Shortfall in venue income due to lower visitor numbers than anticipated

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

Visitor numbers to SeaCity and Tudor House are lower than anticipated for the first nine months of the year which is expected to result in a shortfall in income of £394,800 and £29,400 respectively. This includes a reduction in forecast revenue from shop and café sales for both venues. Partially offsetting this is a forecast under spend on staffing of £60,000 which is mainly due to vacant catering assistant posts at both venues which are not expected to be filled due to low visitor numbers and the need to minimise expenditure.

Strategic marketing campaigns continue, for the fee paying venues in particular. A new exhibition (Ship to Shore) opens in January in the Pavilion in SeaCity Museum. The pricing strategy has been amended for this exhibition and there will be 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 OTHER KEY issues for the Portfolio are:

EDL 2 – New Arts Complex (forecast favourable variance £76,000)

Under spend on the match funding for Arts Council England (ACE)

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

The Council has agreed ongoing revenue funding of £160,000 per annum for the arts complex project. In addition to this there is ACE funding of £80,000 in 2012/13 and £107,000 in 2013/14, increasing to £155,000 in 2014/15. The Council and ACE funding will transfer eventually to the operating company of the arts complex and it was the intention that the revenue funding would be novated partway through 2013/14 to the appointed operating company.

The arts complex project has been delayed substantially and the strategy for appointing an operating company was changed in agreement with ACE during this financial year. This has meant that it is expected that the operating company will not be appointed until the end of this financial year. Therefore there is a predicted sum of circa £151,000 which is unspent and could be carried over to 2014/15.

The principle of carrying forward the funding for the operating company has been established with ACE when £80,699 was carried forward as a combination of part of the ACE and council funding in 2012/13. There remain considerable revenue challenges for the arts complex and it is proposed that funding be carried forward into future years for the purpose of establishing a sound basis for its business operation, programme and marketing ensuring the best possible preparation for future financial viability. If this funding is not carried forward, it is highly likely that ACE will reduce its revenue funding in line with the Council's reduction for 2013/14.

EDL 3 – Leisure Client Team (forecast adverse variance £83,400)

Contractual utility inflation on the Active Nation contract

Forecast Range £150,000 adverse to £75,000 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 £115,000 and provision has been made in the Risk Fund.

Summary of Risk Fund Items

Service Activity	**£000's**
Sport & Rec Contract - Energy	115.0
Risk Fund Items	**115.0**

ENVIRONMENT & TRANSPORT PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£382,800** at year-end, which represents a percentage over spend against budget of **1.4%.** 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	429.8 A	1.6
Risk Fund Items	47.0 F	
Portfolio Forecast	**382.8 A**	**1.4**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

E&T 1 – Off Street Car Parking (forecast adverse variance £683,500)

Parking pressures have been identified relating to reduced income of £709,000.

Forecast Range £800,000 adverse to £600,000 adverse

There is an adverse forecast variance of £683,500 for off street car parking, due to a number of factors, the most significant being that income is forecast to fall short of the level anticipated during the budget setting process by £429,000. This variance may be attributed to an underlying reduction in parking across the whole of the city, including both Council and privately owned car parks.

In addition, the proposed introduction of evening charges, with a target income of £300,000 in the current year, is now forecast to generate, after set-up costs, a net income of only £20,000 and the shortfall of £280,000 in parking income is also shown in the overall forecasts. This will be partially offset as rates expenditure is forecast to be lower than originally estimate by £39,000.

E&T 2 – Regulatory Services - Commercial (forecast favourable variance £256,000)

There is forecast additional income and reduced employee costs.

Forecast Range £200,000 favourable to £300,000 favourable

There is forecast additional port health income from BIP Port Fees of £80,000 and other specialist income relating to imports from China/ Japan of £95,000. Also, the employee costs are forecast to be £21,000 favourable, due to staff turnover. There are additional external contributions received to fund Trading Standards work of £49,000.

<u>E&T 3 – Travel & Transport (forecast favourable variance £280,900)</u>

There is a forecast saving on the Concessionary Fares scheme and savings in senior management salaries.

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

The total forecast number of Concessionary Fare journeys and the forecast average fare are being monitored closely throughout the year. At Month 9, based upon the current passenger journeys and the calculated average fare, it appears appropriate to forecast a favourable variance on the scheme of £234,600. In addition, there is a favourable forecast employee variance of £62,000 due to savings in senior management.

The OTHER KEY issues for the Portfolio are:

<u>E&T 4 – Waste Collection (forecast adverse variance £192,000)</u>

Commercial Waste Service income below budgeted level.

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

The Commercial Waste Service is forecast to be £285,000 adverse, due to continuing adverse trading conditions and the cessation of the external skip hire service. This position is regularly reviewed by City Services management team and improvements to billing and debt recovery have been introduced.

There are forecast additional costs for employees of £105,000, mainly due to previous year savings proposals not being fully developed and implemented. Also, there are forecast additional costs of fuel for vehicles of £4,000, which may be met through a draw on the Risk Fund.

The Service was due to have 27 refuse freighters replaced at the start of this year. As they will be introduced throughout the year, a budgeted cost of approximately £204,000 will not be incurred by Fleet Transport, resulting in a saving for the Waste Collection service. However, there are forecast unbudgeted vehicle damage and repairs costs of £61,000.

There is forecast additional income from charging for green waste collections of £30,000 and £18,000 from additional sales of glass and there are savings of £22,000 on Bartec annual costs.

<u>E&T 5 – Waste Disposal (forecast adverse variance £127,500)</u>

There are various forecast changes with an overall adverse impact.

Forecast Range £150,000 adverse to £100,000 adverse

There is a forecast additional cost of £158,000 at the Civic Amenity Waste Centres, due to increased volumes. In addition, the savings proposal to charge for school waste disposal cannot be implemented due to legislative reasons, at a cost of £100,000. However, there is anticipated to be an additional £100,000 income from the profit share at the Energy Recovery Facility (Marchwood incinerator) for 2012, additional disposal income of £40,000 from Housing and savings of £16,000 on lower general collected household waste all of which offset the position.

The Waste Disposal Contract has increased rates from January 2014, which are anticipated to increase overall costs by £43,000 in this financial year and this will be met through a draw on the Risk Fund.

E&T 6 – E&T Contracts Management (forecast favourable variance £92,900)

Savings on the street lighting PFI contract.

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

A level of savings on the PFI Street Lighting contract sum were anticipated and these were planned for and factored in corporately as part of the budget setting process but there are forecast to be savings over and above the originally planned profile. These are not certain but are at present forecast to be £48,000. In addition, energy costs are forecast to be £71,000 favourable, based on the current prices.

The final third party income share with the Council's highways partner in respect of 2012/13 was £25,900 higher than estimated. However, this is partially offset as there are unbudgeted residual costs of £25,000 for CCTV that fall outside of the contract sum and a forecast of £14,000 for additional work monitoring CCTV at the Itchen Bridge.

E&T 7 – Development Control (forecast favourable variance £111,600)

Additional planning application fee income and reduced salary costs.

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

Development Control is forecast to over achieve against the target for planning application income by £84,000. The income collected in the early part of the year was higher than usual, due to the introduction of the Community Infrastructure Levy (CIL) in August, which will mean an increased charge for some applicants. CIL administration income is forecast to be £57,000 adverse but this has been partly offset by Section 106 monitoring fees being £34,000 favourable. Pre-application income is forecast to be £33,400 adverse but there is a favourable variance on employees of £77,400, mainly due to a saving from the recent restructure within the Planning department.

Summary of Risk Fund Items

Service Activity	**£000's**
Waste Disposal Contract	43.0
Waste Collection Fuel	4.0
Risk Fund Items	**47.0**

APPENDIX 6

HEALTH & ADULT SOCIAL CARE PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£222,600** at year-end, which represents a percentage over spend against budget of **0.3%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	807.6 A	1.2
Risk Fund Items	585.0 F	
Portfolio Forecast	**222.6 A**	**0.3**
Potential Carry Forward Requests	0.0	

The CORPORATE issues for the Portfolio are:

H&ASC 1 – Learning Disability (forecast adverse variance £764,400)

There has been an increase in new clients / changes in client costs.

Forecast Range £1.0M adverse to £0.7M adverse.

A budget pressure arising from the impact of an aging population and new transitional clients was identified as part of setting the 2013/14 budgets. A sum of £1.0M was allowed for within the Risk Fund of which ££0.6M has been added to the Portfolio in Month 8 after which a pressure of £1,075,800 remains. However this is offset by a decrease in the forecast spend for Supported Living/Day Care clients of £311,400. It has been assumed that there will be a draw on the Risk Fund for the remaining £0.4M.

It should be noted that this forecast position is based on an assumption that a further local savings target currently set at £120,000, from a combination of Operational and Commissioning savings, will be fully achieved.

H&ASC 2 – Adult Disability Care Services (forecast adverse variance £865,400)

There has been an increase in new clients/changes in client costs.

Forecast Range £1.2M adverse to £0.8 M adverse.

There are projected over spends of £701,500, £104,800 and £57,900 on Domiciliary, Direct Payments and Residential respectively.

The forecast over spend is due to greater volumes of clients than were assumed when the budget was set for 2013/14. This position was highlighted as a possible occurrence when setting the budget in February 2013 and so a provision was made within the Risk Fund of £630,000 of which £455,000 has been allocated to the Portfolio in Month 8. However it is still expected that there will be a draw on the remaining allowance within the Risk Fund of £185,000 for this service activity.

Due to a voluntary suspension by a block contract provider we have been unable to place clients since August 2012 and whilst we have paid the full value of the contract we have also incurred the cost of alternative provision. For the period April to August 2013, there was an average of ten vacant beds which would equate to £144,000. There are plans to seek recompense for vacant beds and work is being undertaken for the period September 2013 to date to establish the full extent of the claim.

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	59.9	59.59 pd	1,005	59.5	998	(7)	(0.4)
Direct Payments	2,817.7	11.62 ph	242,487	2,922.5	251,506	9,019	104.8
Domiciliary	5,510.6	13.96 ph	394,742	6,212.1	444,993	50,251	701.5
Nursing	2,315.4	67.44 pd	34,333	2,317.0	34,356	23	1.6
Residential	5,285.9	51.13 pd	103,382	5,343.8	104,514	1,132	57.9
Total	**15,989.5**			**16,854.9**			**865.4**

(pd – per day ph – per hour)

H&ASC 3 – Complex Care (forecast adverse variance £275,500)

Additional cost of covering permanent posts with agency staff and non achievement of vacancy factor.

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

A review of the current complex care service is being undertaken. Whilst this review is underway all permanent posts are being recruited to on a fixed term basis only. However the service is experiencing difficulties in filling the posts on this basis and therefore, to meet service requirements, managers have used agency staff at an additional premium.

H&ASC 4 – Adult Disability Commissioning (forecast favourable variance £280,200)

Savings on contracts required for 2014/15 have been achieved ahead of schedule.

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

Savings of £190,000 have been secured through contract renegotiations within the Supporting People programme. This saving was required to meet the budget forecast from 2014/15 onwards. The early achievement of this saving with various other minor contract savings, £90,200, will be used to offset over spends elsewhere within the Portfolio in 2013/14.

The OTHER KEY issues for the Portfolio are:

<u>H&ASC 5 – Mental Health Commissioning (forecast favourable variance £174,300)</u>

Savings on contracts and transition funding within Mental Health.

Forecast Range £170,000 favourable to £250,000 favourable.

This under spend has occurred due to savings on the Independent Mental Health Advocacy, (IMHA) and the Improving Access to Psychological Therapies, (IAPT) contracts of £70,000. In addition the delay in the arrangement of a Peer Support contract, it will not commence until 2014/15, has generated a £100,000 saving.

<u>H&ASC 6 – Administration and Business Support (forecast favourable variance £122,500)</u>

Salary savings resulting from vacant posts.

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

There are currently approx 8.5 FTE vacant posts within business support and whilst this has been offset in part due to the use of temporary staff, the overall saving is in excess of £120,000.

<u>H&ASC 7 – Directors Office (forecast favourable variance £181,000)</u>

Various under spends.

Forecast Range £180,000 favourable to £200,000 favourable.

Various minor under spends identified for 2014/15 savings proposals have been achieved, in part, within 2013/14 and are no longer required for any other specific purpose.

<u>H&ASC 8 – Public Health</u>

Potential under spend of Public Health grant

This is the first year that the Public Health grant has been allocated to local authorities and there is a risk that the grant will not be fully spent against the predetermined plans. Further work is underway to decide the most effective way of using this funding.

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

Service Activity	**£000's**
Adult Disability Care Services	185.0
Learning Disability	400.0
Risk Fund Items	**585.0**

HOUSING & SUSTAINABILITY PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to over spend by **£50,700** at year end, which represents a percentage variance against budget of **2.9%.** This forecast is constructed from the bottom up through discussions with individual budget holders and is then adjusted to take into account the wider Portfolio view and corporate items as shown below:

	£000's	%
Baseline Portfolio Forecast	160.9 A	9.1
Risk Fund Items	110.2 F	
Portfolio Forecast	**50.7 A**	**2.9**
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:

H&S 1 – Sustainability (forecast adverse variance £129,600)

Cost of purchasing Carbon Reduction Certificates.

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

It is estimated that the cost of purchasing CRCs for the authority in 2013/14 will be £110,200 and it is anticipated that this will be covered by a draw on the Risk Fund. In addition, there are minor adverse variances across Sustainability totalling £19,400.

Summary of Risk Fund Items

Service Activity	£000's
Sustainability – CRC purchases	110.2
Risk Fund Items	**110.2**

APPENDIX 8

LEADER'S PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£252,500** at year-end, which represents a percentage variance against budget of **7.1%.** 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	252.5 F	7.1
Risk Fund Items	0.0	
Portfolio Forecast	**252.5 F**	**7.1**
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:

LEAD 1 – Legal & Democratic (forecast favourable variance £210,500)

Salaries and supplies and services savings offset by licensing pressure.

Forecast Range not applicable

The favourable forecast variance is due to a combination of factors including salary under spends from vacant posts, general under spends on supplies and services, an anticipated increase in Land Charges income and reduced spend on Elections. Vacancies have been reviewed and where possible form part of future savings proposals. However, this favourable position has been partly offset by increased costs within Licensing for the ongoing subsidy for cab cameras agreed by Licensing Committee on 19 September 2013. This pressure, which will be ongoing, has been reflected in the draft budget position for 2014/15 onwards.

LEAD 2 – Corporate Communications (forecast favourable variance £42,000)

Salary savings

Forecast Range not applicable

The favourable forecast variance has arisen from salary under spends resulting from the recent restructure of the Division.

APPENDIX 9

RESOURCES PORTFOLIO

KEY ISSUES – MONTH 9

The Portfolio is currently forecast to under spend by **£1,925,000** at year-end, which represents a percentage variance against budget of **4.5%.** 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	1,925.0 F	4.5
Risk Fund Items	0.0	
Portfolio Forecast	**1,925.0 F**	**4.5**
Carry Forward Requests	200.0	

The CORPORATE issues for the Portfolio are:

RES 1 – Contract Management (forecast favourable variance £300,600)

Capita contract savings achieved

Forecast Range not applicable

The favourable variance reflects the benefit of ongoing changes made to the Capita contract through agreed contract amendments and savings achieved over and above the risk adjusted amount approved by Council in February. This forms part of a new budget savings proposal for 2014/15 and future years and, as there are transition costs associated with the savings approved in February, will deliver a higher gross saving for future years.

RES 2 – Portfolio General (forecast favourable variance £630,000)

Salaries and supplies and services spend reduced

Forecast Range not applicable

A detailed review of all budgets has been undertaken across the Portfolio resulting in the identification of salary under spends from vacant posts, together with anticipated savings within supplies and services as a result of the in-year moratorium on spend. Where possible these form part of future savings proposals.

RES 3 – Property Portfolio Management (forecast favourable variance £551,000)

Additional Investment Property income and reduced professional fees

Forecast Range not applicable

A favourable variance has arisen within the Investment Portfolio account of £297,000 due to higher than estimated income achieved through new lettings, together with a delayed disposal.

In addition, the rationalisation of the property portfolio has led to lower overall management costs and a reduction in the management fees payable to Capita of £254,000. This ongoing reduction is the subject of a new savings proposal for 2014/15 and future years.

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

<u>RES 4 – Central Repairs & Maintenance (forecast favourable variance £200,000)</u>

Additional Investment Property income / Reduction in professional fees

Forecast Range not applicable

A small number of planned schemes to the value of £200,000 will need to be deferred due to the seasonal nature of the works and this will form part of a carry forward request to enable these works to be carried out during the summer months to avoid disruption and increased costs. However, in light of the recent weather conditions and the impact on council properties, the forecast position on the reactive repairs budget will be kept under close review and may impact on the carry forward request at year-end. If insufficient funds are available at that time, this would have a knock-on effect to the planned programme for 2014/15.

<u>RES 5 – Property Services (forecast favourable variance £118,000)</u>

Savings on rates and utilities

Forecast Range not applicable

There is a favourable forecast variance due to an anticipated one-off under spend on rates as a result of the planned vacation of the Civic Centre to enable essential building works to be undertaken as part of the Accommodation Strategy.

<u>RES 6 – IT Services (forecast favourable variance £150,000)</u>

Rationalisation of PCs

Forecast Range not applicable

The favourable forecast variance has arisen from the managed rationalisation of PCs and laptops across the authority.

<u>RES 7 – Grants to Voluntary Organisations (forecast adverse variance £24,600)</u>

Payment of Transitional Relief

Forecast Range not applicable

The adverse forecast variance reflects the payment of transitional relief to organisations affected by the impact of the grants programme approved by Cabinet in February. As detailed in the Cabinet report, the Council was liable in some cases to provide this relief where the Council has either ceased or reduced funding to organisations that the Council has had a prior funding relationship with. The transitional relief scheme is now closed and the intention is to manage the cost within the overall Portfolio budgets.

APPENDIX 10

SUMMARY OF EFFICIENCIES, ADDITIONAL INCOME AND SERVICE REDUCTIONS

Portfolio	2013/14 Efficiencies £000's	Income £000's	Service Reductions £000's	Total £000's	RISK TO DELIVERY: Implemented and Saving Achieved %	Not Yet Fully Implemented and Achieved But Broadly on Track %	Saving Not on Track to be Achieved %
Change & Communities	(33)	0	(556)	(589)	100.0%	0.0%	0.0%
Children's Services	(2,265)	(97)	(3,012)	(5,374)	70.7%	25.9%	3.4%
Economic Development & Leisure	0	(50)	(617)	(667)	100.0%	0.0%	0.0%
Environment & Transport	(604)	(875)	(2,588)	(4,067)	81.0%	11.6%	7.4%
Health & Adult Social Care	(3,295)	(185)	(567)	(4,047)	95.3%	1.4%	3.3%
Housing & Sustainability	(231)	0	0	(231)	100.0%	0.0%	0.0%
Leader's Portfolio	(481)	0	(25)	(506)	94.9%	0.0%	5.1%
Resources	(29)	0	(908)	(937)	100.0%	0.0%	0.0%
Total	**(6,938)**	**(1,207)**	**(8,273)**	**(16,418)**	**84.4%**	**11.7%**	**3.9%**

Portfolio	2013/14 Efficiencies £000's	Income £000's	Service Reductions £000's	Total £000's	FINANCIAL ACHIEVEMENT: Implemented and Saving Achieved £	Not Yet Fully Implemented and Achieved But Broadly on Track £	Saving Not on Track to be Achieved £	Total £
Change & Communities	(33)	0	(556)	(589)	(589)	0	0	(589)
Children's Services	(2,265)	(97)	(3,012)	(5,374)	(3,798)	(1,334)	(42)	(5,174)
Economic Development & Leisure	0	(50)	(617)	(667)	(667)	0	0	(667)
Environment & Transport	(604)	(875)	(2,588)	(4,067)	(3,295)	(427)	(70)	(3,792)
Health & Adult Social Care	(3,295)	(185)	(567)	(4,047)	(3,857)	(55)	0	(3,912)
Housing & Sustainability	(231)	0	0	(231)	(231)	0	0	(231)
Leader's Portfolio	(481)	0	(25)	(506)	(480)	0	(26)	(506)
Resources	(29)	0	(908)	(937)	(937)	0	0	(937)
Total	**(6,938)**	**(1,207)**	**(8,273)**	**(16,418)**	**(13,854)**	**(1,816)**	**(138)**	**(15,808)**
							Shortfall	**610**
								4%

FINANCIAL HEALTH INDICATORS – MONTH 9

Prudential Indicators Relating to Borrowing

	Maximum	Forecast	Status
Maximum Level of External Debt £M	£898M	£361M	Green
As % of Authorised Limit	100%	40.2%	Green
	Target	**Actual YTD**	**Status**
Average % Rate New Borrowing	5.00%	0.0%	Green
Average % Rate Existing Long Term Borrowing	5.00%	3.34%	Green
Average Short Term Fixed Investment Rate	0.43%	0.80%	Green

Minimum Level of General Fund Balances

		Status
Minimum General Fund Balance	£5.5M	
Forecast Year End General Fund balance	£25.7M	Green
Medium Term Forecast General Fund balance	£6.5M	Green

Income Collection

Outstanding Debt:	2012/13	Actual YTD	Status
More Than 12 Months Old	32%	24%	Green
Less Than 12 Months But More Than 6 Months Old	10%	6%	Green
Less Than 6 Months But More Than 60 Days Old	12%	10%	Green
Less Than 60 Days Old	46%	60%	Green

Creditor Payments

		Status
Target Payment Days	30	
Actual Current Average Payment Days	21	Green
Target % of undisputed invoices paid within 30 days	95.0%	
Actual % of undisputed invoices paid within 30 days	89.3%	Amber

Tax Collection rate

	Target Collection Rate	Month 9 Collection Rate		Status
		Last Year	This Year	
Council Tax	94.90%	82.90%	81.00%	Amber
National Non Domestic Rates	98.70%	88.80%	88.30%	Amber

APPENDIX 12

QUARTERLY TREASURY MANAGEMENT REPORT – MONTH 9

1. Background

Treasury Management (TM) is a complex subject but in summary the core elements of the strategy for 2013/14 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 2013/14 to date are summarised below:

- Investment returns during 2013/14 will continue to remain low as a result of low interest rates, with interest received estimated to be £0.6M. However, the average rate achieved to date for fixed term deals (0.80%) exceeds the performance indicator of the average 7 day LIBID rate (0.42%) mainly due to the rolling programme of yearly investments.
- 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 3.34% 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 for a steady increase and so new long term borrowing is likely to be taken out above this rate, leading to an anticipated increase in the CLIA. A PWLB 25 year fixed rate maturity loan is currently around 4.4%.

2. Economic Background

- ***Growth:*** The flow of credit to households and businesses slowly improved but was still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.1% in November 2013 helped consumers. There was hope it might allow real wage increases (i.e. after inflation) to slowly turn positive, improve confidence and aid future consumer spending. Stronger UK growth data in 2013 (0.4% in Quarter 1, 0.7% in Quarter 2 and 0.8% in Quarter3) alongside a pick-up in property prices, mainly stoked by government initiatives to boost mortgage lending, led markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. Unemployment was 7.4% in the three months to October 2013. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, economic growth was likely to only be gradual.

- ***Monetary Policy:*** There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375 billion respectively. On the probability of unemployment reaching the 7% threshold under the Monetary Policy Committee's (MPC) Forward Guidance, the November Inflation Report attached only a two-in-five chance to the rate having reached the 7% level by the end of 2014. The corresponding figures for the end of 2015 and 2016 were around three-in-five and two-in-three respectively. These forecasts brought forward market expectations of a bank rate rise, although the MPC repeatedly emphasised that the 7% threshold was not an automatic trigger for a rate rise. A fragile economic recovery, subdued inflation and depressed bank lending resulted in the European Central Bank (ECB) cutting the repo rate from 0.50% to 0.25%. The ECB President strengthened the Bank's pledge to keep interest rates low for as long as necessary and warned that it was too soon to say the euro region is out of danger. In the US, following the clear momentum witnessed in its economy – despite the political impasse which resulted in a partial government shutdown during the quarter - the 'tapering' of asset purchases was announced by the Federal Reserve in December. Tapering will commence in January 2014 and with the Fed reducing its monthly purchases from $85 billion to $75 billion a month. Financial markets reacted in a predicatively ebullient manner with risk assets such as equities rallying toward higher levels whilst government bond prices reversed, leading to higher yields.

3. Outlook for Quarter 4

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, as at January 2014 is detailed below:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
Arlingclose 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													

The outlook for UK economic growth is optimistic. Mortgage lending appears to have improved, but the picture is somewhat mixed for lending to the corporate sector. The Bank of England's recent changes to the Funding for Lending Scheme (FLS) are aimed at strengthening corporate credit growth whilst moderating household credit growth. Activity in the high street particularly over the all-important Christmas period has been mixed with some retailers including Tesco and Marks & Spencer experiencing weaker trading conditions.

Whilst some increase in inflation is expected during 2014 it will be modest as significant spare capacity in the economy exists.

Although the MPC left its policy stance unchanged at its January meeting, there is an increasing view that its forward guidance regime may need adjusting given the reasonably rapid improvements in the labour market. Whilst the MPC has consistently emphasised that 7% threshold is not an automatic trigger for rate increases, the Committee could choose to do something to distance the debate from it once and for all and could use the opportunity of the Bank's Quarterly Inflation Report in February to do so.

4. Debt Management

The tables below summarises activity during the year to date and provides an analysis by type:

	Balance on 01/04/2013 £M	Debt Maturing or Repaid £M	New Borrowing £M	Balance as at 31/12/2013 £M	Increase/ (Decrease) in Borrowing £M
Short Term Borrowing	34	(29)	10	15	(19)
Long Term Borrowing	276	(9)	0	267	(9)
Total Borrowing	**310**	**(38)**	**10**	**282**	**(28)**

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term

	31-Mar-13 Actual £M	31-Mar-14 Approved £M	Current Portfolio £M	31-Mar-14 Current Estimate £M	31-Mar-15 Current Estimate £M	31-Mar-16 Current Estimate £M
External Borrowing:						
Fixed Rate – PWLB Maturity	139	156	139	148	184	208
Fixed Rate – PWLB EIP	93	90	84	81	69	58
Variable Rate – PWLB	35	60	35	35	35	35
Variable Rate – Market	9	9	9	9	9	9
Long Term Borrowing	**276**	**315**	**267**	**273**	**297**	**310**
Short Term Borrowing						
Fixed Rate – Market	34	50	15	10	20	30
Other Long Term Liabilities						
PFI / Finance leases	57	62	57	61	66	63
Deferred Debt Charges	17	17	17	17	16	16
Total Gross External Debt	384	444	356	361	399	419
Investments:						
Deposits and monies on call and Money Market Funds	(66)	(50)	(49)	(40)	(50)	(50)
Supranational bonds	(3)	(3)	(3)	(3)	(3)	(3)
Total Investments	(69)	(53)	(52)	(43)	(53)	(53)
Net Borrowing Position	**315**	**391**	**304**	**318**	**346**	**366**

Public Works Loan Board (PWLB) Certainty Rate: The Council successfully qualified for borrowing at the 'Certainty Rate', following the submission of the Certainty Rate form to Central Government, which included details of the capital expenditure and borrowing plans for the Council over the next three years. PWLB borrowing from 1 November 2012 has been available at a 20bps reduction from the standard. In April the Council submitted it's application to the Department for Communities and Local Government's (CLG) along with the 2013/14 Capital Estimates Return to access this reduced rate for a further 12 month period from 1 November 2013.

PWLB Borrowing: The PWLB remained an attractive source of borrowing for the Authority as it offers flexibility and control. Market expectations of an early commencement to the Federal Reserve's 'tapering' of asset purchases resulted in higher gilt yields and resulted in a corresponding rise in PWLB rates. Again, the most pronounced increase was for 5-20 year loans with increases for these periods between around 0.3% and 0.5%.

As at the 31 March 2013 the Council used £52M 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. Following the latest Capital Programme update, which is being submitted to Council on 12 February 2014, the Council is expected to borrow an additional £70M between 2013/14 and 2015/16. Of this £41M relates to new capital spend (£38M Housing Revenue Account (HRA) and £3M General Fund repayment) and the remainder to the refinancing of existing debt and 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 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 long term borrowing has been taken to date and none is expected to be taken until next year at which point the position will be assessed in conjunction with the Council's treasury advisor.

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 Comprehensive Spending Review) and are maintained on their initial terms and are not subject to the additional increased margin, they 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, 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 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 increase in PWLB repayment rates during the quarter lowered the premium that would apply on premature redemption of loans, but the premiums remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity. As a consequence no rescheduling activity was been undertaken in the year to date.

A year after their commencement, the £73.8M of loans borrowed on 28 March 2012 for the HRA self-financing settlement became eligible for rescheduling. These loans were borrowed at one-off preferential rates made available specifically for the settlement. If the increases in gilt yields and PWLB redemption rates seen at the end of this quarter prevail in subsequent months, they may present early loan repayment opportunities at close to par. Early repayment or rescheduling will first be assessed against the requirements of the HRA business plan and any future borrowing requirements. Where rescheduling is appropriate, the Authority will consider alternative refinancing to achieve cost savings and a reduction in risk. (Conventional PWLB to PWLB debt restructuring is limited by the new borrowing and repayment spread).

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 01/04/2013 £M	Investments Repaid £M	New Investments £M	Balance as at 31/12/2013 £M	Increase/ (Decrease) in Investment for Year £M
Short Term Investments	26	(25)	23	24	(2)
Money Market Funds & Call Accounts	40	(324)	309	25	(15)
EIB Bonds	3	0	0	3	0
Long Term Investments	0	0	0	0	0
Total Investments	**69**	**(349)**	**332**	**52**	**(17)**

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 2013/14. New investments can be made with the following institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Call Accounts, Certificate of Deposits (CDs) and term deposits with select UK and non-UK Banks and Building Societies. The non-UK banks comprised those domiciled in Australia, Canada, USA, Europe and Singapore.
- Treasury Bills and Debt Management Office.

Counterparty credit quality is assessed and monitored with reference to: Credit Ratings. The Council's minimum long-term counterparty rating is A- (or equivalent across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution; share price.

A break down of investments as at 31 December 2013 by credit rating 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
A	A	8,803	7,000	6,000	6,000	3,000		30,803
A+	A-	100						100
A+	A	50						50
A+	A+		0					0
A+	AA-	50						50
AA-	A+	50						50
AA-	AA-	18,049						18,049
AA-	AA	50						50
AA	AA-	50						50
AA+	AA+							0
AAA	AAA						3,036	3,036
		27,202	7,000	6,000	6,000	3,000	3,036	52,238

Counterparty Update

In July Moody's had placed the A3 long-term ratings of RBS and Natwest on review for possible downgrade. These ratings were affirmed in November following the announcement by the government that RBS will not be split into a good bank / bad bank. Instead, non-performing assets will be ring-fenced in an internal bad bank to be created in 2014, with non-core assets being run down on a tighter timescale than previously planned. Despite the ratings being affirmed by Moody's, the RBS Group share price showed little signs of recovery on concerns over implementation risks. The markets were less convinced by the internal ring-fence and viewed the shares as still too expensive. Arlingclose continues to monitor these creditworthiness indicators. Until such time there is an improvement, the Council will keep new investments with the banks to overnight or call investments, existing deposits will be allowed to run to maturity.

In November Standard & Poor's downgraded France's sovereign rating to AA. As this rating has fallen below the Authority's minimum sovereign rating threshold of AA+ in the strategy for 2013/14, the Council will not place new investments with French banks.

December was a busy month for the bank reform agenda:

- Co-operative Bank successfully completed a voluntary bail-in of junior bondholders, which goes part way to fill its capital shortfall;
- RBS exited the Contingent Capital Facility, under which it was previously eligible for a further £8 billion government bail-out if the need had arisen;
- The Financial Services (Banking Reform) Act 2013 gained Royal Assent, legislating for the separation of retail and investment banks, and for the introduction of mandatory bail-in in the UK;
- EU finance ministers agreed further steps towards banking union, including the introduction of bail-in from January 2016.

Authority Banking Arrangements - Co-op Bank: Co-operative Bank has announced the successful completion of its Liability Management Exercise as the cornerstone of their £1.5 billion Recapitalisation Plan. The exercise to raise £1 billion of Tier 1 Capital was completed on 20 December 2013 following court approval for the bail-in of bondholders on 18 December. The bank is confident that the full £1.5 billion capital requirement will be met in 2014 as planned. The Co-op nevertheless faces on-going challenges in returning to sustainable profitability and potential damage to the Co-op Bank's customer funding franchise remains a risk.

In addition, the Co-op announced in November that it is withdrawing from the local authority banking market. The Authority's contract with the Co-operative Bank ends in September 2014 and a project was already in place prior to the rescue package being agreed. This project is a joint tender with four other Local Authorities who are also with the Co-operative Bank and it is planned to move banks in October 2014 as the contract comes to a natural end.

Budgeted Income and Outturn: The Council does not expect any losses from non-performance by any of its counterparties in relation to its investments. The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016/17; consequently, short-term money market rates have remained at very low levels. Investment income for the year is currently estimated to be £0.6M, with fixed term deposits to date having achieved an average return of 0.80%, which exceeds the performance indicator of the average 7 day LIBID rate (0.42%), mainly due to the rolling programme of yearly investments which ran from November 2012 to October 2013. This programme ceased due to falling balances plus the decision to unwind the rolling programme of yearly investments, following the implementation of the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive that include bail-in provisions which could result in a lower likelihood that the UK and other governments will support failing banks.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its approved Prudential Indicators up to the period ending 31 December.

6.1. Capital Financing Requirement and Gross Debt

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 2013 and the estimated position for the current and next two years based on the capital programme submitted to Council:

Capital Financing Requirement	2012/13 Actual £M	2013/14 Approved £M	2013/14 Forecast £M	2014/15 Revised Estimate £M	2015/16 Revised Estimate £M
Balance B/F	**445**	**437**	**433**	**430**	**446**
Capital expenditure financed from borrowing (inc PFI)					
General Fund (GF)	11	14	12	11	4
HRA	0	7	9	23	6
GF Temporary Funding (Repayment)	(3)	(6)	(6)	(3)	0
HRA Voluntary Repayment of Debt	(10)	(6)	(6)	(5)	(5)
GF Revenue provision for debt Redemption.	(8)	(7)	(9)	(7)	(7)
Movement in Other Long Term Liabilities	(2)	(2)	(3)	(3)	(3)
Cumulative Maximum External Borrowing Requirement	**433**	**437**	**430**	**446**	**440**

The Council reports that it has not borrowed in advance of need and that at the 31 March 2013 it had used internal resources in lieu of borrowing as this has been the most cost effective means of funding past capital expenditure to date.

In the Prudential Code (November 2011), it states 'Where there is a significant difference between the net and gross borrowing position the risks and benefits associated with this strategy should be clearly stated in the annual strategy'. The Council has had no difficulty in meeting this requirement so far in 2013/14, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

	31/03/2013 Actual £M	31/03/2014 Approved £M	31/03/2014 Estimate £M	31/03/2015 Estimate £M	31/03/2016 Estimate £M
General Fund CFR	269	261	263	261	255
Housing CFR	164	176	167	185	185
CFR	**433**	**437**	**430**	**446**	**440**
Gross Long term Debt	350	394	351	379	389
Difference	**83**	**43**	**79**	**67**	**51**
Short Term Debt	34	50	10	20	30
Difference	**49**	**(7)**	**69**	**47**	**21**
Borrowing in excess of CFR? (Y/N)	N	Y	N	N	N
Investments	**(69)**	**(53)**	**(43)**	**(53)**	**(53)**

**Please note that borrowing is only in excess of the CFR as it includes assumptions for short term borrowing for cash flow purposes*

6.2. Balances and Usable Reserves

Estimates of the Council's level of overall Balances and Usable Reserves for 2013/14 to 2015/16 are as follows:

	2012/13 Actual £M	2013/14 Estimate £M	2014/15 Estimate £M	2015/16 Estimate £M
Balances and Reserves	76	42	36	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 ***Affordable/Authorised Borrowing Limit*** was set at £898M for 2013/14 (£817M for borrowing and £81M for other long term liabilities).

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 2013/14 was set at £857M (£779M for borrowing and £78M for other long term liabilities).

The Chief Financial Officer (CFO) confirms that there were no breaches to the Authorised Limit and the Operational Boundary and that borrowing at its peak was £310M.

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 in paragraph 4.

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 2013/14
Upper Limit for Fixed Rate Exposure	100%
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	50%
Compliance with Limits:	Yes

The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 50%, although in practice it would be unusual for the exposure to exceed 25% based on past performance, the highest to date is 15.7%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market and to take advantage of the low rates available through the PWLB for variable debt. There has been no adverse cash flow to date but it is proposed that the limit remain at 50%, to allow for flexibility in case of any slippage in expected capital receipts.

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 2013/14 was set at £50M. With the maximum maturity period for a number of banks being extended to 12 months, we reintroduced the rolling programme of yearly investments from November 2012 (although this has now ceased) and currently have £16M invested at an average rate of 0.87%.

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 31/12/2013 £M	Average Fixed Rate as at 31/12/2013 %	% of Fixed Rate as at 31/12/2013	Compliance with set Limits?
Under 12 months	0	45	15	0.95	6.45	Yes
12 months and within 24 months	0	45	0	0.00	0.00	Yes
24 months and within 5 years	0	50	0	0.00	0.00	Yes
5 years and within 10 years	0	75	84	3.23	35.25	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	4.20	Yes
30 years and within 35 years	0	75	5	4.60	2.10	Yes
35 years and within 40 years	0	75	42	3.99	17.63	Yes
40 years and within 45 years	0	75	51	3.62	21.24	Yes
45 years and within 50 years	0	75	31	3.56	13.12	Yes
50 years and above	0	100	0	0.00	0.00	Yes
			238	**3.32**	**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 ratio is based on costs net of investment income. The increase in the HRA financing costs is due to the reform of HRA of council housing finance which took effect from 28 March 2012.

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 proposed capital programme. Please note that although there is no statutory requirement for the HRA to pay down their debt, they have chosen to make a voluntary payment which has resulted in the apparently high ratio of financing costs.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Actual %	2013/14 Approved %	2013/14 Forecast %	2014/15 Estimate %	2015/16 Estimate %
General Fund	6.14	6.78	6.98	6.96	8.31
HRA	24.95	17.51	16.36	16.33	16.46
Total	**12.06**	**10.43**	**10.32**	**10.39**	**11.81**

6.8. Credit Risk

The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2013/14 Strategy.

6.9. HRA Limit on Indebtedness

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government. The following tables show this plus the actual level of debt and expected movement in year.

HRA Summary of Borrowing	**2012/13 Actual £m**	**2013/14 Approved £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**
Brought Forward	174.2	168.8	163.8	167.15	185.1
Maturing Debt	(10.4)	(5.6)	(5.6)	(5.1)	(5.1)
New borrowing	0	12.5	8.90	23.06	5.86
Carried forward	**163.8**	**175.7**	**167.1**	**185.1**	**185.9**
HRA Debt Cap (as prescribed by CLG)	199.6	199.6	199.6	199.6	199.6
Headroom	**35.8**	**23.9**	**32.5**	**14.5**	**13.7**

7. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the TM activity up to the 31 December 2013. 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. We have also taken a number of precautionary steps in relation to the Authorities bankers following their downgrading.

For further information including a glossary of Treasury terms please see the following links:

Treasury Management Strategy Statement for 2013 on 13 February 2013, Item 100.
http://www.southampton.gov.uk/modernGov/ieListDocuments.aspx?CId=122&MId=2322&Ver=4

The 2014 Treasury Management Strategy will be presented to Council on the 12 February 2014.

APPENDIX 13

HOUSING REVENUE ACCOUNT

KEY ISSUES – MONTH 9

The Housing Revenue Account (HRA) is currently forecast to over spend by **£246,800** on income and expenditure items at year-end, which represents a percentage variance against budget of **0.3%.**

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

The OTHER KEY issues for the HRA are:

HRA 1 – Responsive Repairs (forecast adverse variance £300,000)

There have been higher labour charges from Housing Operations.

Forecast Range £600,000 adverse to £200,000 adverse

Responsive Repairs will cost £300,000 more than originally estimated. The budget has been corrected to reflect the actual cost of the work carried out by the Council's in-house team.

HRA 2 - Housing Investment (forecast adverse variance £108,800)

Urgent repairs were required to the lifts at Wyndham Court.

Forecast range £150,000 adverse to £100,000 adverse

After the 2013/14 estimates had been finalised, it was found that the four lifts at Wyndham Court were in need of urgent repair, at a cost of £80,000 each. Two were repaired in 2012/13 and two this year, resulting in an anticipated over spend of £160,000 on the 2013/14 lifts budget. In addition, the provision of Energy Performance Certificates has been re-assessed, and is forecast to be £22,700 lower than budgeted and other sundry variances, adverse and favourable, aggregate to a further £28,500 favourable variance.

HRA 3 - Tenant Service Charges (forecast adverse variance £232,500)

The warden review implementation has been delayed.

Forecast range £250,000 adverse to £200,000 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 this year with the assumption that everything is in place for the start of April 2014.

HRA 4 – Commercial Rents (forecast adverse variance £103,200)

Shop rent and parking space income was lower than expected.

Forecast range £150,000 adverse to £100,000 adverse

Fourth quarter periodical invoicing for shops is expected to be lower than budgeted. In addition, there is a loss of income from the Holyrood parking site as part of a move to General Fund management.

HRA 5 – Interest Payments (forecast favourable variance £246,400)

There was a delay in the need to borrow money to fund the Capital Programme.

Forecast range £200,000 favourable to £300,000 favourable

Due to slippage on the programme, the borrowing of £5.1M, which was built into the 2012/13 estimates, was not required. This has resulted in savings on interest payments of £153,000. The 2013/14 estimates assumed that the borrowing to fund the capital programme would take place on the 1 October 2013 but due to the profile of capital spend the requirement to borrow money has been delayed. If this borrowing now takes place on the 1 January 2014, there will be a further saving on interest payments of £93,400 and any additional delay will serve to increase the saving.

HRA 6 – Housing Services Development (forecast favourable variance £110,600)

There are development budget savings.

Forecast range £100,000 favourable to £150,000 favourable

Savings have been identified in the development budget for Housing Services to help accommodate over spends in other areas.