Item No. 10.	Classification: Open	Date: 12 February 2013	Meeting Name: Cabinet
Report title:		Revenue Monitoring Report for Quarter 3, 2012/13, including Treasury Management	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report sets out the Council's financial position against its budgets for 2012/13 as at the end of December 2012, and asks Cabinet to agree the budget movements set out in Appendix A.

On the general fund, overall departments are making the savings required for the year. There have been particular pressures on the Housing and Community Services department, Children's Services and the Chief Executive's Department but these have been balanced by significant further savings achieved by Adult Social Care and the Environment and Leisure Department.

As in previous quarters, the planned savings from the Customer Services Centre have yet to be realised and appear unlikely to be until the service moves in-house next year. The Council's contingency budget will afford us the scope to deal with this issue and it is currently projected that £2.8m from this fund will be required.

For the Housing Revenue Account, there is a favourable variance, mainly as a result of systematic improvements in contract management and cost control which continues to deliver greater value overall. This is in stark contrast to the deficit run on the HRA a few years ago. The report also sets out future pressures on this budget that are likely to arise through government's welfare reform and the Council's re-housing programme.

The report also identifies movements in the Council's reserves.

The Collection Fund is projected to deliver a surplus this year, and improvement on the break-even position predicted in quarter 2. This appears to be at least partly as a result of the work carried out to target single person discount fraud for council tax in the autumn. This is welcome news given the particular challenges facing council tax collection in 2013/14 arising from government's abolition of Council Tax Benefit.

On the Council's Treasury Management activity, the most significant transaction has been the purchase of 160 Tooley Street. The impact of this purchase is set out in the report and it is noted that savings are already being reported as a result of the acquisition.

RECOMMENDATIONS

1. That the cabinet notes:

    - the general fund outturn forecast for 2012/13 and the resultant forecast net movement in reserves;
    - the housing revenue account's (HRA) forecast outturn for 2012/13 and resulting forecast movement in reserves;
    - the treasury management activity for the third quarter of 2012/13;

2. That the cabinet notes the initial revenue savings arising from the Council's purchase of 160 Tooley Street.

3. That the cabinet notes the forecast Council Tax and Business Rates collection fund balance as at 31 March 2013.

4. That the cabinet approves the general fund budget movements during quarter three that exceed £250k, as shown in Appendix A.

BACKGROUND INFORMATION

General fund

5. The purpose of this report is to provide a forecast for the end of the financial year 2012/13. This is based on predictions made by service managers based on financial activity to date and anticipated commitments and income for their service. Work continues throughout the Council to ensure that a balanced position is achieved by the end of the year.

6. The Council agreed a balanced general fund budget of £308.2m on 29 February 2012 based on a nil council tax increase. This budget was set in the context of further significant overall cuts in government funding and the identification of some 25% savings proposals over the three years from 2011/12 to 2013/14, to mitigate against the reduction in resources and to continue to fund the Council's commitments in terms of services provided.

7. In setting the budget the Council continues to strive for a Fairer Future for All in Southwark despite the challenges of the national financial climate. Key elements of the 2012/13 budget included:

    - A further year's freeze in Council Tax
    - The introduction of clear plans to ensure that the London Living Wage benefits not only directly employed staff but also those who work for the Council through employment agencies or through contractors
    - The establishment of a new Cleaner Greener Safer Revenue Fund for Community Councils to determine, devolving more decisions to a more local level
    - The establishment of a Community Restoration Fund to respond to the challenge of the August 2011 disorder events
    - The use of £4.4m from the Council's reserves to help with the pressures on the budget
    - Further rollout of the Free Healthy School Meals programme for primary schools to include years 2, 3 and 4 from September 2012, in addition to the

coverage of Reception and Year 1 classes

- Further reduction in Meals on Wheels prices
- Continuing the Voluntary Sector Transition Fund scheme established in 2011.

8. The Council also approved budget decisions including agreed budget reductions of some £28m and approved commitments of £10.2m within general fund for 2012/13. Performance on achieving these savings is closely monitored and details are provided in paragraphs 48 to 52 below.

9. The Council Plan placed local needs and accountability as the drivers of performance improvement, and in an environment of significantly reduced funding, the Council has to change in fundamental ways. There are a number of transformation projects underway, and work continues to identify further ways of transforming the delivery of services. These transformation or invest to save projects may be funded from on-going positive variances or previously created earmarked reserves which were established to pump prime initiatives.

Housing revenue account

10. Cabinet set tenants' rents and service charges on 24 January 2012 in line with the formula used in previous years. The budget included a £6.4m savings target for 2012/13. The starting point of this process was to listen to residents' concerns about the services they wish to protect, and identify the potential for better value for money and more efficient ways of working.

KEY ISSUES FOR CONSIDERATION

Current forecast position: General fund budget monitor for quarter three

11. Table 1 below shows the current forecast outturn position for quarter three by department. These estimates are based on nine months' experience and reflect the impact of stringent management action implemented by all strategic directors to ensure that they deliver their services within budget and to meet other targets as agreed through the policy and resources strategy in February 2012 by council assembly. Progress for each department is shown in paragraphs 16 to 36 below.

12. At the start of this quarter, following top level management restructuring, children's services and adult social care have been merged under one strategic director. However for consistency with earlier monitoring reports, the two services continue to be shown separately in the table below. This position will be amended for 2013/14.

Table 1: General fund forecast outturn position for 2012/13 as at 31 December 2012

General fund	2012/13 Original budget £'000	Budget movements £'000	2012/13 revised budget £'000	2012/13 forecast outturn £'000	Variance - over / (under) £'000		*Variance at Q2 2012/13 - over / (under) £'000*
Children's services	85,766	80	85,846	86,146	300		0
Adult social care	107,718	(990)	106,728	105,942	(786)		(775)
Environment and leisure	70,412	2,049	72,461	72,156	(305)		(74)
Housing and community services	44,065	(1,938)	42,127	42,612	485		704
Chief executive's department	19,007	2,034	21,041	21,152	111		(68)
Finance and corporate services	41,483	(1,318)	40,165	40,170	5		4
Customer services centre	(3,000)	0	(3,000)	0	3,000		3,000
Support cost recharges	(59,308)	1,069	(58,239)	(58,239)	0		0
Total general fund services	**306,143**	**986**	**307,129**	**309,939**	**2,810**		**2,791**
Contingency	**5,500**	**0**	**5,500**	**0**	**(5,500)**		**(5,500)**
Appropriations to/(from) reserves (see Table 4)	**(3,446)**	**(986)**	**(4,432)**	**(4,432)**	**0**		**0**
General fund total	**308,197**	**0**	**308,197**	**305,507**	**(2,690)**		**(2,709)**

Note: Explanations of budget movements for quarter 3 which exceed £250k are provided in Appendix A.

13. As previously reported at quarters one and two, the general fund forecast includes estimates of one off re-organisation and redundancy costs that the Council expects to incur as it continues to put into action plans necessary to deliver the ongoing savings identified within the budget. At the close of 2011/12 the Council was able to contribute £5.4m from contingency to reserves. This will be used as the first call for supporting the 2012/13 revenue budget which includes a planned £4.4m contribution from reserves. The balance will be used to replenish reserves, some of which are held to support the ongoing redesign of services and invest to save projects to make the Council fit for the future and to sustain regeneration and development projects where costs may be of a one off nature and less easy to predict.

14. As shown in Table 1, within services there is a forecast adverse variance of £2.8m based on the information available by the end of December. However with the planned contribution from reserves and availability of the contingency budget of £5.5m, there is an overall favourable variance of £2.7m projected for the general fund by the end of 2012/13.

15. Table 1 includes net budget movements by department. Detail for quarters one an two were provided in the July and November 2012 monitoring reports to cabinet. The quarter three movements are detailed in Appendix A.

Children's services

16. Children's services budgets are predicting a £300k adverse variance on a total budget of £85.8m, (compared with a zero variance at quarter two).

17. Transformation and restructuring are still ongoing from the previous year. There are underlying cost pressures in specialist services being mitigated by favourable variances as described below:

- Cost pressures within specialist services have risen to £1.4m in total, attributable to increasing numbers of children placed in independent fostering agencies (IFA) and financial aid to an increasing number of families that have “no recourse to public funds”. Management action being taken to address the IFA increase includes: recruiting more foster carers in Southwark to reduce dependence on IFAs and establishing a placements approval panel to ensure that all other possible alternatives are considered first. In addition, work is underway to establish a single service across children's and adults services and housing to efficiently manage "no recourse" families and ensure the families with a legitimate claim for support receive the support they need as quickly as possible. Further, officers are working with the UK Borders Agency to identify high cost "no resource" families to ensure they process their applications as quickly as possible.

- This variance is mainly offset by favourable variances within Education, attributable to vacant posts and management action taken to accelerate the 2013/14 savings and to hold budgets to support the specialist services pressures.

18. The 2012/13 savings targets of £6.174m are on track to be met.

Schools budget

19. The dedicated schools grant (DSG) - local authority budget is predicting a favourable variance of £300k compared to a favourable variance of £500k at quarter two. Cost pressures are rising with an increased number of students with complex special educational needs being placed in out of borough special schools; this budget pressure has been offset by staffing vacancies, and under utilisation of school contingencies within the totality of the DSG budget.

Adult social care

20. Adult social care is forecasting a favourable variance of £786k at the end of quarter three, little changed from quarter two. This includes a prudent provision to meet costs associated with the transformation of adult care accommodation which will be funded through a combination of corporate resources and revenue. In addition an unbudgeted receipt from the NHS for winter pressure will be placed in reserves to ensure the resources are used effectively.

21. As previously reported, the division is in the second year of a three year savings plan of £27m with the 2011/12 target of £7.7m having been largely delivered. The 2012/13 target is £10.3m with the latest projections indicating pressures of £0.5m in Mental Health detailed later in this report. To mitigate against these pressures, management are implementing compensating savings in a number of areas including continuing the momentum of re-ablement benefits and improving the procurement process.

22. As well as managing savings pressures, demand in high cost and high needs care arrangements within the physical disability services is evident, for example in spot placements and also difficult to budget for costs in no recourse to public funds which are all being addressed by management.

Environment and leisure

23. The department is forecasting a favourable variance of £305k for the year compared to a £74k favourable variance position reported at end of the second quarter.

24. The variance now reported is after returning £500k budget allocated to fund pressures in the parking income, identified in 2012/13, subject to six months review and setting up £900k as capital reserve for parking related infrastructure investments. At the review it was clear that changes to legal regime and the contractors performance, combined with a mild winter has led to a rebound in parking income.

25. The latest estimates shows that £144k funding allocated for additional costs during Olympics period was not required. This variance is included in the projection. Although there are a number of pressures in the department, these are being closely monitored and the department is expecting to contain them within the existing budgets.

26. It is assumed that one off early retirement and redundancy costs of £774k (previous estimate was £400k at end of quarter two) incurred this year will be funded from the modernisation reserve. At the moment this funding means that the department is able to forecast a favourable variance at year end. However in the event that this variance remains unchanged, it is likely that the call on reserves will be reduced by £305k and the department report a neutral/ breakeven final outturn position.

Housing and community services (H&CS)

27. The position at quarter three remains slightly over budget, albeit this shows improvement over previous reports. Projected spending within the customer experience division has reduced as cost profiles/ trends and commitments become clearer. The forecast currently assumes a release of earmarked reserves of £232k comprising £174k redundancy and £58k community engagement (referred to below).

28. As previously reported, following the breakup of the communities, law & governance department (CLG), community engagement transferred to housing mid-year and merged with resident involvement to form a separate division within the newly named housing & community services department. The application of savings targets following the reconfiguration of community councils during 2011/12 has created some residual budget pressure that cannot be contained within budget but will be covered by corporate reserves specifically earmarked for this purpose. In addition, registrars and coroners have also recently transferred into the H&CS department under the customer experience division. Despite some initial budget pressure, this activity is forecast to be neutral by year-end.

29. The move to bring the customer service centre in-house from June 2013 represents a very challenging target given the scale of the operation, but provides the opportunity to reconfigure and improve customer access and service delivery and drive out substantial savings over the medium term by moving towards more cost effective transaction routes and operational efficiencies. In the short-term however, costs are forecast to exceed budget in

2012/13 as we transition to the new arrangements, albeit the forecast is lower than at quarter two. The forecast includes all scheduled contract payments to Vangent agreed as part of the termination agreement, subject to them hitting a series of performance milestones. Transition costs relating to the development and implementation of the new customer relationship management (CRM) system and infrastructure upgrades will be held separately from the routine contract operating account and met from corporate resources earmarked for this purpose.

30. Following further restructuring, the community housing services division has been disbanded and the functions formerly undertaken have been subsumed within the specialist housing services and customer experience divisions (with the exception of functions that currently remain within the housing general fund pending transfer to corporate strategy during quarter four). Budgets have been realigned and consolidated and are reflected for the first time in the quarter three monitor, which renders direct comparison with previous monitors at a divisional level difficult. By far the greatest financial risk for the Council is the cost of temporary accommodation provision, particularly bed & breakfast. Whilst Southwark ranks highly in terms of homeless prevention, the demand-led nature places a disproportionate financial burden on the budget, requiring stringent monitoring and control and diversion into more financially neutral forms of accommodation, i.e. estate voids and hostels in the HRA.

31. The forecast shows some budget pressure across the activity as a whole at quarter three, including around £60k of redundancies, which will be a call on corporate reserves. Looking forward, the impending welfare reforms and housing benefit changes will have a detrimental impact on the Council's ability to prevent homelessness as use of the private rented sector becomes less affordable and the cost of private sector leasing (PSL) provision will no longer be cost neutral. The extent of this is difficult to predict at this stage, but will be built into base budgets for 2013/14 as required.

Chief executive's department

32. The Chief Executive's department is forecasting an overall adverse variance of £111k after the release of earmarked reserves for regeneration projects. The revenue monitor also takes into account the 2012/13 base budget savings of £1.3m which are being projected as fully achievable. Management action will continue with a view to delivering the budget on target by the end of the financial year.

Finance and corporate services

33. Finance and corporate services continues to forecast a small adverse variance this quarter as it did at quarter two although management action continues to ensure that the services are delivered within budget.

34. The department is undergoing a fundamental restructure including, further reviews of the provision of IT services, further re-organisations of staffing structures across the finance and legal services divisions, and a review of major corporate facilities management contracts.

35. Savings of £3m were allocated this year and are expected to be met. Where this is not possible, substitution options will be found to ensure the overall target will be achieved.

36. The purchase of the Council's head offices at 160 Tooley Street is expected to deliver additional savings this financial year of £750k. These initial savings will be set aside to fund future invest to save opportunities or other initiatives approved by Cabinet. The 2013/14 budget report will include full year budget savings moving forward subject to necessary accounting treatment and regulation.

Customer services centre savings

37. As stated in paragraph 29 and previously reported, the contract with the external provider of customer services will cease in June 2013. This means that the profile for the achievement of savings will not be delivered as planned. However, as was the case in 2011/12 and previously reported, this year's savings target will be managed corporately.

Contingency

38. The 2012/13 budget includes £5.5m for contingency. This budget is held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. It also provides a buffer in the event of any of the significant savings targets not being achieved (e.g. CSC savings that cannot be delivered before June 2013). As at quarter one and two, the overall projection assumes that the contingency budget of £5.5m will be used to address cost pressures identified. Where contingency is not required, it will be returned to balances to mitigate future budget risks or earmarked to support future corporate priorities.

Housing revenue account (HRA)

39. Spending on landlord responsibilities for the management, maintenance and improvement of the housing stock continues apace. There is constant spending pressure in the system, but systematic improvements in contract management and cost control over high volume, high value budgets such as repairs, engineering and heating continues to deliver greater value overall and has contributed significantly to the efficiency savings programme delivered over the last two years. There are also a number of potential and known variances against the base budget and planned reserve movements occurring during 2012/13, which are reported here for the first time as cost profiles/ trends and commitments become clearer.

Table 2: HRA forecast outturn position for 2012/13 as at quarter 3 (31 December 2012)

	Net Expenditure			
	Full Year Budget £'000	**Forecast Outturn** £'000	**Forecast Variance** £'000	**Revised t Variances reported at Q2 *** £'000
Operations	(167,577)	(167,532)	45	(300)
Maintenance & Compliance	44,039	45,359	1,320	700
Major Works	849	855	6	0
Specialist Housing Services	(32,972)	(33,163)	(191)	(900)
Strategic Services (SDoF&CS)	121,922	118,335	(3,587)	(170)
Customer Experience	1,924	1,864	(60)	100
Community Engagement	1,864	1,726	(138)	(100)
Regeneration Initiatives (CE)	1,551	1,366	(185)	(200)
Heating Account	12,198	10,698	(1,500)	0
Direct Revenue Funding of Capital	12,727	12,727	0	0
Total	**(3,475)**	**(7,765)**	**(4,290)**	**(870)**
Appropriations to /(from) Reserves	3,475	7,765	4,290	870
Total HRA	**0**	**0**	**0**	**0**

*** Note: Quarter two variances have been revised due to restructuring.**

40. With the introduction of self-financing from April 2012, the income stream has assumed paramount importance in terms of the HRA business plan. Income collection performance (for rent and tenant service charges) continues to show gradual improvement month on month, despite the generally weak economic conditions, but remains below the management target for mainstream tenanted stock, including former tenant arrears. Conversely, the rental stream (gross rent debit minus voids) has shown better than expected performance as stock/ void losses are lower than estimated, which mitigates the position to some extent. The HRA holds specific revenue provisions to meet any shortfall arising from non-collection and stock loss and this can be contained within budget in 2012/13. As we move into 2013/14, the risk for collection performance increases as the impact of welfare reforms (benefit caps and universal credit) come into play. The extent of this is difficult to predict at this stage as it depends on a number of factors, but has been recognised and forms an integral part of budget planning for next year.

41. The garage portfolio has for some time been neglected and under-utilised with a high volume of unlettable voids. However, it is a valuable income generating asset managed properly and since transferring to special housing services during 2011, investment in the garage stock has delivered nearly 400 units back into use and is expected to exceed 500 by year-end. This is an ‘invest to save’ opportunity as there remains significant scope to maximise the income potential even further through greater investment.

42. Estimated billing for revenue service charges is £15.5m to date against the £15.8m budget, including freeholders and 2011/12 account actualisations processed during the third quarter. Key work streams of the Leasehold Action Plan have been finalised which will provide greater transparency and contribute

to full cost recovery over time. Combined collection performance for capital and revenue service charges at quarter three is above target at £12.2m (including Major Works loans), against the full-year cash target of £24m. Capital service charge billing to leaseholders is inextricably linked to the housing investment programme (HIP) and delivery of the works programme each year. Any departure from the anticipated spend profile impacts on the revenue income assumptions built into the base budget and consequently the revenue contribution to the HIP. Expectations at this point are that this will exceed the budgeted target of £6.5m, based on the programmed works on, or starting on site during 2012/13.

43. The strategic services activity comprises all departmental overheads and non-operational functions within the HRA, specifically debt financing, revenue contributions to the HIP and corporate and shared service functions provided to the HRA. There are a number of known and expected variances across major budget heads comprising debt refinancing/ major project costs and general non-earmarked provisions, reserves and carry forward resources. Spend on the latter is estimated at £3.7m comprising specific projects and revenue cost pressures of a one-off or time limited nature during 2012/13, of which £2.3m is for a programme of electrical safety works, emergency lighting and ventilation & ductwork. Large-scale housing regeneration commitments continue to place an increasing financial and operational requirement on the HRA. Base budget provision is maintained to meet such expenditure, albeit the scale of activity and cost vary year on year. Commitments arising in the current year in this area are below expectations with the under-spending contributing to the overall HRA outturn position and positive movement in reserves.

44. Following further restructuring, the community housing services division has been disbanded and the functions formerly undertaken have been subsumed within the specialist housing services and customer experience divisions. Budgets have been realigned and consolidated and are reflected for the first time in the quarter three monitor, which renders direct comparison with previous monitors at a divisional level difficult. The primary area of risk for the Council remains in relation to temporary accommodation; whilst the statutory requirement falls to the general fund (bed & breakfast and private sector leasing), and HRA provision through the use of estate voids and hostels, which is designed to be cost neutral and is used to mitigate some of the cost pressure on the homelessness budget in the general fund. The availability of estate void properties (primarily on the Aylesbury) is key to achieving this in line with the planned regeneration programme.

45. Notwithstanding the huge investment needs of the housing stock and the Council's ambitious investment plans for regeneration over the coming years, there are a number of other external factors affecting the HRA and the Council's wider general fund, such as welfare reforms and universal credit. The introduction of housing benefit under-occupation criteria (commonly referred to as the bedroom tax) and direct payment of benefits contribute to a position of great uncertainty over the Council's resources moving into 2013/14. Whilst the effects of these have been assessed, in so far as that is possible given the vagaries of central government direction, it is essential that the Council takes appropriate measures to mitigate the heightened risk through the base budget and prudent application of reserves.

46. The Council's medium term resource strategy (MTRS) stipulates the requirement to maintain reserves and balances at a level sufficient to manage potential risks and opportunities. Previous reports have indicated the level of HRA reserves were considered to be below the optimum level commensurate with the size of Southwark's combined HRA and HIP, and required corrective action. As part of 2011/12 budget setting, a base budget contribution to reserves was established in addition to any one-off operating surplus generated in year. It is currently anticipated that reserves will increase by £7.8m in total, £4.3m higher than budgeted for the reasons set out. This arises on the ring-fenced district heating account, major projects and other central budget contingencies held against financial risks.

47. At 31 March 2012 reserves stood at £27.5m, of which £10.7m (around 39%) is deemed to be uncommitted. Whilst this represents good progress towards restoring balances to a more prudent and sustainable level, from a base budget perspective there is still a way to go and it is one of the strategic aims underpinning the HRA Business Plan and remains within the HRA budget plan going forward into 2013/14.

Implementation of the 2012/13 budget decisions including agreed budget reductions, savings and efficiencies

48. The Council identified £35m of budget reductions, including savings and efficiencies for the general fund and housing revenue accounts as part of the 2012/13 budgets. At quarter three, there is a projected savings shortfall of £750k overall after taking into account compensating and windfall savings as shown in Table 3.

Table 3: Forecast projection of savings agreed for 2012/13 as at Quarter 3

	Budgeted 2012/13 savings £'000	**Forecast full year 2012/13 savings at Q1** £'000	**Compensating / other savings forecast full year 2012/13 at Q3** £'000	**Variance** £'000
Children's Services	(6,174)	(6,174)	0	0
Adult social care	(10,295)	(9,743)	(552)	0
Environment and Leisure	(4,990)	(4,990)	0	0
Housing and Community Services	(594)	(594)	0	0
Finance and corporate services	(3,077)	(3,077)	(750)	(750)
Chief executive	(1,277)	(1,277)	0	0
Corporate	(2,000)	(500)	0	1,500
Total General Fund	**(28,407)**	**(26,355)**	**(1,302)**	**750**
HRA	(6,397)	(6,397)	0	0
Total Savings	**(34,804)**	**(32,752)**	**(1,302)**	**750**

Note: details of the Council's savings plans can be found in the budget papers agreed by Council on 29 February 2012

49. As shown in the table above, the majority of the savings agreed by the Council in setting the 2012/13 budget are forecast to be achieved.

50. The key difference from earlier monitoring reports is the additional saving of

£750k forecast to be achieved this year as a result of the Council being able to purchase its main head office at 160 Tooley Street.

51. There is a £552k variance in adult social care. This relates to pressures around unachieved Mental Health re-design savings brought forward from the prior year. Work is ongoing to re design mental health services in association with South London & Maudsley Trust (SLaM) to mitigate against these pressures.

52. The £1.5m corporate savings relates to the customer services savings built into the Vangent contract, that will not now be achieved as planned following the mutual agreement to terminate the contract in June 2013.

General fund reserves

53. The Council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to finance calls for expenditure for items that are difficult to predict and that are not included in revenue budgets or within the capital programme. They relate especially to invest to save opportunities that form part of the modernisation agenda and expected to deliver future ongoing revenue savings. They are also held for investment in regeneration and development where spend may be subject to unpredictable market and other influences.

54. Where a department identifies a need for additional funding, there is a robust process for seeking support from reserves. The department must demonstrate that they are unable to contain the identified additional pressure within their existing budget. Cabinet will be asked to approve this funding support where the amount is £250k or above.

55. As the year progresses, departments will naturally be in a better position to more accurately forecast their outturn position. This will allow for any unfavourable variances to be offset by favourable ones at departmental level, before the need to call on reserves.

56. The budget approved by council for 2012/13 included a planned release of reserve of £4.4m. This call on reserve provided some flexibility in terms of budget setting and the profile of savings that the Council identified in the Policy and Resources Strategy 2011-14. It is assumed in this quarter three report that this call on reserves will have to be made in full. However in the event that the contingency budget is not fully utilised, any unused contingency will be used first to bridge any remaining funding gap.

57. The 2012/13 budget also includes a planned contribution to reserves of £1m to support the ongoing regeneration and development agenda within the borough.

58. The tables in Appendix B summarise the projected movements in reserves. This shows that at quarter three, the forecast is for a net call on general fund reserves of £4.6m, the detail of which is contained in Table 4 below.

Table 4: Detail of reserve movements

Detail of reserves movements forecast	£'000	£'000
General fund services outturn variance	2,810	
Contingency	(5,500)	
General Fund Total (as per Table 1)		**(2,690)**
Forecast appropriation (to)/ from reserves		
Related to services	1,217	
Planned contribution to reserves to support the Aylesbury project	(1,000)	
Planned use of reserves to underwrite base budget	4,446	
Dedicated schools grant	(300)	
Technical accounting purposes	69	
Total forecast appropriation (to)/ from reserves (as per Table 1)		**4,432**
Expected appropriation (to)/ from reserves for capital purposes		**2,888**
Total forecast movement in reserves		**4,630**

59. The technical movement in reserves relate to a significant contribution to reserves for 160 Tooley Street of £2.3m previously reported, plus a further £709k following the purchase of the building in December 2012. Both these movements are for accounting reasons related to the original re-profiling of the rental charge to an average rent over five years taking into account an initial rent free period. For similar accounting reasons there is also a release from reserves for Queens Road of £337k.

60. There is also a significant contribution from reserves of £2.8m in respect of the smoothing of the waste PFI unitary charge. This contribution from reserves relates to the longer term (25 year) life cycle cost of the project.

Housing revenue account (HRA) reserves

61. The ring-fenced nature of the HRA requires that deficits/surpluses are carried forward between years, thereby giving rise to fluctuations in the level of reserves. Previous reports have indicated that the level of reserves were considered to be below the optimum level commensurate with the size of Southwark's combined revenue and capital programmes and represented a financial risk. As part of the HRA medium term resource strategy, there is a commitment to make planned contributions from revenue, in addition to any one-off operating surplus generated in year. At 31 March 2012 reserves increased by £6.9m to £27.5m (from £20.6m), of which around 61% are committed. This represents good progress towards restoring balances to a more prudent and sustainable level.

Collection fund / Council tax and business rates collection

62. Based on Month 9 data, the collection fund balance at 31 March 2013 is forecast to be a surplus of £1.203m (£900k Southwark, £303k GLA). At quarter two, the collection fund was forecast to break-even at year-end. However it was noted that unusually, in September there was a reduction in the value of both exemptions and discounts awarded. It was not known at that stage whether this was going to be a one-off event, or part of an ongoing trend, and because of this, it was not reflected in the forecast at that time.

63. There continue to be a number of factors that make it extremely difficult to provide an accurate forecast, but the sensitivity analysis applied suggests that a

surplus is now most likely.

64. The main areas of uncertainty are as follows:

- a large increase of £1.7m in the billing amount during 2012/13. It is not known whether the rate of increase will continue through to the year end. For the purposes of this monitor, no further increase in the billing amount has been assumed. Any actual increase that may arise will, therefore, lead to an increase in the surplus on the collection fund.

- a reduction in exemptions awarded, particularly to students as a result of detailed case reviews. Student exemptions are the most volatile and so it is difficult to assess what impact this might have on the usual increase in exemptions that occurs during the final months of the financial year. In recent years, exemptions have typically been approximately 5.6% of the council tax income due, but will almost certainly be lower this year and our best estimate is 5.45%.

- the impact of a reduction of £1.2m in single person discounts on the collection rate. The reduction in single person discounts will mean more money needs to be collected, but it is not certain how much the additional £1.2m will actually be collected and how much will need to be provided for as bad debt and ultimately written off. In preparing this estimate, it has been assumed that 50% will be collected.

65. The other area of uncertainty is the bad debt provision, and this is largely because the arrears at year-end are difficult to forecast. Based on Month 9 data and trend analysis, and assuming no further write-off of debt, the arrears at year end are expected to be in the region of £27.2m. Ordinarily, this would give rise to a bad debt provision of around £21.6m, or 79% of arrears. However, the reduction in single person discounts is expected to have an adverse impact on the collection of arrears and for the purposes of this monitor it has been assumed that only 50% of this income will be collected. This will increase the bad debt provision to £22.2m, which is 81% of expected arrears.

Treasury management

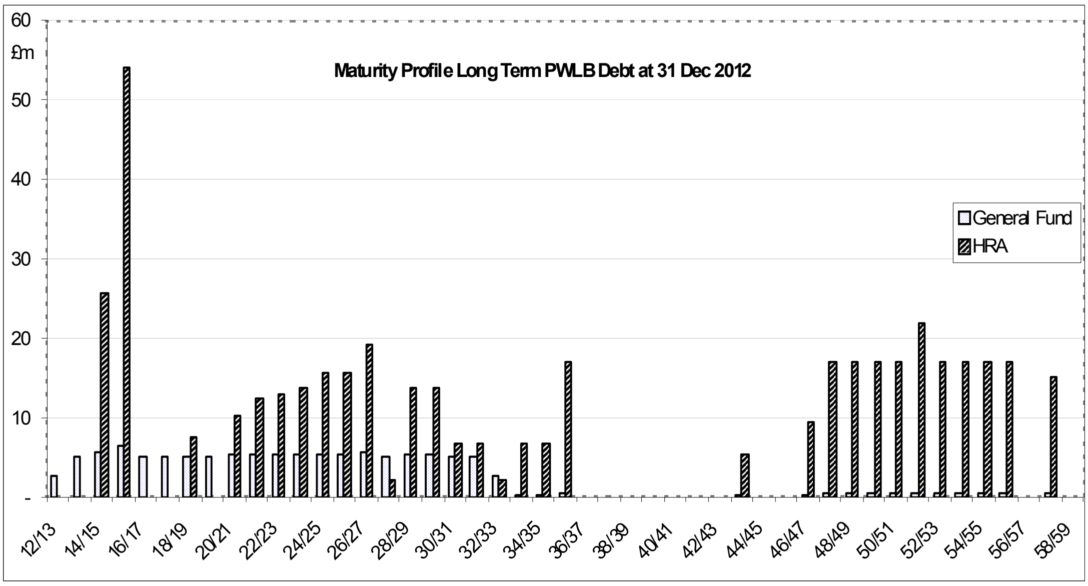
66. Treasury management relates to cash and debt management activities. The cash invested at 31 December 2012 stands at £188.6m and is managed by and an in-house operation and two investment firms Aberdeen Asset Managers and AllianceBernstein. In the interest of capital preservation and prudence the cash is held in short term deposits or certificates of deposits with major high rated banks or building societies, large money market funds, treasury bills and bonds issued by the UK Treasury or supranational bodies (e.g. the European Investment Bank (EIB), and the International Bank for Reconstruction & Development (the World Bank)).

67. The counterparties across which the cash is held is set out in the table below.

EXPOSURE - Dec 2012 COUNTERPARTY AND RATINGS									
Exposure £m	**FUND**				**Fitch Ratings**				
COUNTERPARTY	Aberdeen	Alliance Bernstein	In-House	**£m**	Long	Short	Support	Sovereign	Sovereign Rating
Credit Industriel et Commercial	3.5	-	-	3.5	A+	F1+	1	FRANCE	AAA
Société Générale	-	1.0	-	1.0	A+	F1+	1	FRANCE	AAA
BNP (Banque Nationale de Paris) PARIBAS	3.5	1.0	-	4.5	A+	F1+	1	FRANCE	AAA
DEUTSCHE BK	3.5	1.0	-	4.5	A+	F1+	1	GERMANY	AAA
LANDESBK BADEN WERTMBG	-	1.0	-	1.0	A+	F1+	1	GERMANY	AAA
DZ BANK	3.5	-	-	3.5	A+	F1+	1	GERMANY	AAA
GLOBAL TREASURY FUNDS-MMF	-	-	2.1	2.1		AAA		GLOBAL	Money Fund
ABN AMRO BANK	3.5	1.0	-	4.5	A+	F1+	1	NETHERLANDS	AAA
ING BK	3.4	1.0	-	4.4	A+	F1+	1	NETHERLANDS	AAA
RABOBANK	-	0.5	-	0.5	AA	F1+	1	NETHERLANDS	AAA
EUROPEAN INVESTMENT BANK	10.4	7.1	-	17.5	AAA	F1+		SUPRANATIONAL	AAA
International Bank for Reconstruction and Development (IBRD)	3.5	6.9	-	10.4	AAA	F1+		SUPRANATIONAL	AAA
UBS	3.5	-	-	3.5	A	F1	1	SWITZERLAND	AAA
BARCLAYS BANK	5.0	1.0	15.0	21.0	A	F1	1	UK	AAA
LLOYDS TSB / BANK of SCOTLAND	3.5	-	15.1	18.6	A	F1	1	UK	AAA
NATIONWIDE BUILDING SOCIETY	3.0	1.0	15.0	19.0	A+	F1	1	UK	AAA
RBS/NATWEST	-	-	41.0	41.0	A	F1	1	UK	AAA
SANTANDER UK	-	-	-	-	A	F1	1	UK	AAA
UK TREASURY	**-**	**27.6**	**-**	**27.6**	**AAA**	**F1+**		**UK**	**AAA**
Bank of New York Mellon - CASH	0.4	0.1	-	0.5	AA-	F1+	1	US	AAA
Total £m	**50.2**	**50.2**	**88.2**	**188.6**					

68. In December 2012 the Council replaced its leasehold interest in its headquarters at 160 Tooley Street with freehold. The acquisition was paid for by reducing sums held in investments (including sums managed externally) and it was more efficient to do that than borrow at current rates. (Investments yield around 0.80%, reflecting monetary easing by major central banks, whilst long term 40 year funding ranges between 3.80% and 4.20%). The cash remaining after the purchase is paid for is sufficient to meet working capital and spending plans and should further sums be needed in the future it may be accessed through wholesale markets at rates which are close to prevailing investment rates.

69. Council debt outstanding to fund past capital expenditure is all from the Public Works Loans Board (PWLB). No new loans were taken over the quarter and the sum outstanding at the end of December 2012 was £562.5m. From April 2012 the loans are disaggregated between the HRA and the General Fund. £451m of the debt is attributable to the HRA, reflecting past investment in housing, and the remainder falls as General Fund debt. The years in which the loans fall for repayment is set out below and on maturity may be refinanced with new loans from the PWLB or the market.



Community impact statement

70. This report monitors expenditure on council services, compared to the planned budget agreed in February 2012. Although this report has been judged to have no or a very small impact on local people and communities, the projected expenditure it is reporting reflects plans designed to have an impact on local people and communities, which will have been considered at the time the services and programmes were agreed. It is important that resources are efficiently and effectively utilised to support the Council's policies and objectives.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
2011/12 Revenue monitoring outturn report. The document is available on this web page: http://moderngov.southwark.gov.uk/documents/s30289/Report%20Revenue%20Outturn%20Report%20201112%20including%20Treasury%20Management.pdf	Council Offices, 160 Tooley Street, London SE1 2QH	Vernon Smith 020 7525 7355
2012/13 Revenue monitoring quarter two report. The document is available on this web page: http://moderngov.southwark.gov.uk/documents/s33181/Report%20Revenue%20Monitoring%20Report%20for%20Quarter%202%20201213%20including%20Treasury%20Management.pdf	Council Offices, 160 Tooley Street London SE1 2QH	Vernon Smith 020 7525 7355

APPENDICES

No.	Title
Appendix A	Budget movements to be approved, £250k and above and movements to be noted
Appendix B	Summary of projected movements in reserves in 2012/13

AUDIT TRAIL

Cabinet member	Councillor Richard Livingstone. Finance, Resources and Community Safety	
Lead officer	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
Report author	Jennifer Seeley, Deputy Finance Director	
Version	Final	
Dated	31 January 2013	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments included**
Director of Legal Services	No	No
Strategic Director of Finance and Corporate Services	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		31 January 2013