

Item No. 9.	Classification: Open	Date: 22 November 2011	Meeting Name: Cabinet
Report title:		Quarterly Revenue Monitoring Report Quarter 2, 2011/12, including Treasury Management	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Cabinet Member for 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 budget as at 30 September 2011, and asks Cabinet to approve the budget adjustments set out in Appendix A.

The report covers the general fund, housing revenue account, the council's use of reserves (including the planned use of £3.4m this year), the improving performance of the collection fund and a summary of the council's treasury management activity, together with the analysis of risks for our investments in the current climate.

In considering the report, Cabinet members need to be aware of the pressures being reported, indicating an adverse variance of £2.6m against spending budgets. Whilst we would hope to control and reduce these pressures as in previous years, it is clear that some will be difficult to turn around fully: the customer services contract savings in particular are challenging. The report also identifies the new pressure on budgets arising from the European Union agency workers directive. It is therefore likely that we will need to utilise our contingency fund to address these pressures.

RECOMMENDATIONS

1. That the cabinet notes:
 - the general fund outturn forecast for 2011/12 and the forecast net movement in reserves;
 - the housing revenue account's (HRA) forecast outturn for 2011/12 and resulting forecast movement in reserves;
 - the treasury management activity for the first quarter of 2011/12.
2. That the cabinet notes the forecast performance for the Council Tax and Business Rates collection fund, and that a report will be brought to cabinet and put on the forward plan on the performance of the service since moving it in-house.
3. The cabinet approves the general fund budget movements as shown in Appendix A.

BACKGROUND INFORMATION

General fund

4. The purpose of this report is to provide a forecast for the end of the financial year 2011/12, using predictions based on the experience to date and knowledge as at the end of quarter 2. Work continues throughout the council to ensure that a balanced position is achieved by the end of the year.
5. The council agreed a balanced budget of £321m on 22 February 2011 based on a nil council tax increase. This budget was set in the context of significant overall cuts in government funding. It required the identification of some 25% of 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. The budget plan recognised a number of key commitments and cost pressures.
6. When setting the council budget there were a number of budget proposals that would impact across the entire council and are of cross-organisational significance. These included the cost of pension provision, changes in employer national insurance costs (specifically as a result of the government's emergency budget), and contingency provision to mitigate against future, as yet unknown, budget pressures. In 2011/12 the council proposed to set aside some £9.4m to cover such costs. The indicative allocations for 2012/13 and 2013/14 are £4.7m and £4.8m respectively.
7. The council approved budget decisions including agreed budget reductions of some £33.8m within general fund and a further £22.4m within the housing revenue account for 2011/12. Performance on achieving these savings is closely monitored and details are provided in paragraphs 48 to 55 below.

Housing revenue account

8. Cabinet agreed a balanced budget on 15 February 2011, having previously set tenants' rents and service charges on 25 January 2011 in accordance with the government's guideline rent. Like the general fund, the budget was set in the context of a 25% savings target over three years. This involved consulting with residents and listening to their concerns about the services they wish to protect, the potential for better value for money and more efficient ways of working.
9. Delivering savings of this scale required a radical approach to structures and working practices, but importantly provided an opportunity for transformational change to improve customer access, contract management and harnessing new technology to deliver better services and increase efficiency. The restructure of the housing services department was implemented on 1 September 2011 and is on track to deliver savings of the order of £9m during 2011/12.
10. Southwark Building Services is undergoing transition as the structure of the workforce is being reconfigured to better meet the needs of the contract and improve productivity and has resulted in a number of redundancies. Operational and strategic management of the service has been brought back in-house from September and the management structure will be subject to review during quarter 3. These changes are designed to deliver measurable improvement in efficiency, quality and cost savings, leading to a turnaround in the negative trading position. Full year savings equate to £0.6m in 2012/13 and a further

£0.8m in 2013/14.

KEY ISSUES FOR CONSIDERATION

General fund budget month 6 monitor

11. Table 1 below shows the current forecast outturn position for quarter 2 by department. These estimates are based on six months experience and do not at this stage fully reflect the impact of stringent management action being implemented by all strategic directors to ensure that they deliver their services within budget as agreed through the policy and resources strategy in February by council assembly. Progress for each department is shown in paragraphs 19 to 45 below.

Table 1: General fund forecast outturn position for 2011/12 as at Q2

General fund	2011/12 Original budget £'000	Budget movements £'000	2011/12 revised budget £'000	2011/12 forecast outturn £'000	Variance - over / (under) £'000	Variance at Q1 2011/12 - over / (under) £'000
Children's services	90,438	45	90,483	91,183	700	1,400
Health and community services	112,913	(4,454)	108,459	108,459	0	385
Environment and leisure	68,660	1,595	70,255	70,485	230	134
Housing	42,414	1,486	43,900	43,915	15	1,573
Regeneration and neighbourhoods	9,803	1,551	11,354	11,503	149	75
Deputy chief executive	9,277	4	9,281	9,206	(75)	0
Communities, law and governance	11,510	1	11,511	11,511	0	0
Finance and resources & strategic financing	28,703	4,750	33,453	33,568	115	50
Customer Services contract savings	0	(1,500)	(1,500)	0	1,500	0
SCR income	(55,029)	0	(55,029)	(55,029)	0	0
Total general fund before appropriations	318,689	3,478	322,167	323,301	2,634	3,617
Contingency	5,500	0	5,500		(5,500)	(5,500)
Direct revenue funding of capital		0		0	0	
Appropriations to/(from) reserves	2,195	(3,478)	(1,283)	(1,283)	0	0
Appropriations from reserves – planned use of reserves to underwrite base budget	(3,363)	0	(3,363)	(3,363)	0	0
General fund total	323,021	0	323,021	318,655	(2,866)	(1,883)

Note1: Explanations of the quarter 2 budget movements between departments are provided in Appendix A. The budget movements above reflect those for Q1 and Q2.

12. General fund services have an unfavourable variance of £2.6m which is an improvement on the quarter 1 position reported to Cabinet in September. This is also an improvement on the position reported at quarter 2 in 2010/11 which was an unfavourable variance of £2.8m.

13. The general fund forecast continues to exclude 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.

14. The forecasts do not at present reflect the release of funding from the £100k Emergency Small Business Recovery Fund established to provide immediate, short-term support to small businesses in Southwark physically affected by the public disorder. This fund will be covered from Financial Risk Reserves which is set aside against future financial risks that may arise and so is appropriate for use in this instance. This allocation will be reviewed to ensure the adequacy of this fund.
15. The impact of the European Union agency workers directive, which took effect from 1 October 2011, means that an agency worker will be entitled to the same terms and conditions as a permanent employee after 12 weeks of work. In particular, agency staff will be entitled to the pay and annual leave that they would enjoy if directly employed by Southwark.
16. The financial implications of this directive will have to be confirmed across all departments and reflected in their future budget plans. The cost pressure arising from the directive for remainder of 2011/12 is also being assessed and will be incorporated into forecasts presented at quarter 3.
17. Work is continuing to mitigate the projected unfavourable variance of £2.6m. A contingency exists within the budget, and will be used to manage this variance should it crystallise at the end of the year. Small variances are reported in respect of the housing revenue account and the collection fund.
18. The budget movements during quarter 2 are detailed in Appendix A.

Children's services

19. For 2011/12, a total adverse variance of £700k is predicted: £200k due to cost pressures arising from pre-existing budget pressures and £500k related to the budget savings that it is expected cannot be contained within the children's services budget.
20. The key areas of unfavourable variance are set out below, largely arising from uncontrollable demand pressures on the service:
 - £200k predicted on families with "No Recourse to Public Funds". A robust panel considers each case rigorously; however, expenditure remains a budget pressure.
 - £200k predicted on Unaccompanied Asylum Seeking Children (UASC) reflecting the shortfall between the financial support through the Home Office Grant for eligible UASC and the number of cases and level of financial support provided.
21. However these variances are being fully offset by the reduction in agency spend and posts being held vacant in anticipation of budget reductions in 2012/13.
22. There are also pressures that cannot be offset elsewhere within the children's services budget which are as follows:
 - £200k adverse variance on transport of pupils with special educational needs to school by bus and taxi. This budget has experienced cost pressures for a number of years. A new policy document to reduce

expenditure through a revised travel assistance plan has been approved. Work is also underway for the re-tendering of the bus and taxi contracts due to take place in 2012.

- £500k adverse variance on savings not able to be realised in year mainly attributable to delays in the implementation of the youth service redesign of £400k and £100k of unrealisable savings on pupil transport.

23. This current forecast is an improvement on the previously reported adverse variance of £1.4m. It is anticipated as the year progresses, the reported variance of £700k will reduce further, bringing the budget back to balance, as savings are realised as a result of the impact of a more robust approach to commissioning placements, bringing forward of 2012/13 savings and reduced levels of agency expenditure in specialist services.

Schools

24. The final dedicated schools grant (DSG) for 2011/12 is £195.5m (subject to further academy conversions) of which £167m is allocated directly to schools. The forecast for DSG continues to be a balanced position at year end. The Department for Education (DfE) recently announced an increase in the pupil premium rate of £430 per eligible pupil to £488; this funding is allocated directly to schools for 2011/12. A consultation on the future of school funding has been issued by the DfE, proposing significant changes in future years in school formula funding and funding for early years and special educational needs.

Health and community services

25. Health and community services are reporting a balanced position at year end. This is an improvement on the adverse variance reported at quarter 1 and is largely due to the department being able to successfully deliver more savings than previously forecast.

26. The department has a 3 year saving plan of £27m with a year 1 target of £7.7m, consisting of a number of savings and efficiencies. Some of these targets are extremely challenging and latest projections indicate that a small percentage may not be achieved within the planned timescales. The main 'pressure areas' are shown below. More detail is provided in paragraphs 50 and 51 below.

- Delays in the re-design of mental health day services, resulting in a £200k pressure. Work has begun to analyse current day care provision but this is unlikely to result in significant savings in 2011/12.
- A variance of £155k on the closure of Holmhurst Day Centre for Older People. The timetable for consultation did not result in a full year saving.

27. The slippage in the savings programme is being mitigated by compensating savings, and these are outlined in paragraph 51.

Environment and leisure

28. The department successfully implemented the vast majority of the savings proposed for this financial year, before start of the year. It is anticipated that compensatory one off savings can be identified for most of the budget pressures

identified in the divisions. The cautious forecast for the year is an adverse variance of £230k. This is slightly less favourable than the position reported at quarter 1. Pressures continue as a result of the loss of film income through the non availability of key sites including housing estates and Burgess Park. Additional costs were also incurred as a result of having to reschedule the Elephant & the Nun festival event as a result of public disorder that took place in London in August.

29. Other pressures exist within public realm as a result of a reduced income from parking control notices as a result of improved compliance.
30. However, it has been possible to offset some of these pressures with a favourable variance of £192k within sustainable services arising from a reduction in the waste tonnage expected to be collected during the year. This trend is being kept under review.
31. The forecast assumes that any redundancy and reorganisation costs, currently estimated at £1.3m, incurred this year as a result of the restructuring to achieve savings will be funded from the modernisation reserve.

Housing general fund (HGF)

32. Following the creation of the housing services department, a number of activities have been drawn together under the housing general fund (HGF) for 2011/12. Responsibility for client services comprising the customer service centre, concessionary travel/ blue badges and complaints has transferred from the deputy chief executive (DCE) to housing services.
33. The Vangent contract comprises both fixed and variable payment elements and costs are largely driven by volumes/activity. With improved contract management it should be possible to realise savings through operational efficiencies and a reduction in volumes without adversely impacting on service delivery in the interim. Work to achieve this is underway.
34. Restructuring of the client unit gives rise to a positive variance against the employee budget (around £400k) as there are a number of vacancies still to be filled. Redundancy costs are currently assumed to be funded corporately and the budget has been revised to take account of this.
35. Other services within the HGF are currently forecasting relatively minor variances against budget with the exception of temporary accommodation. Temporary accommodation placements have risen by 51 over the first half and the trend is expected to continue with around 80 placements expected by year-end with consequent upward pressure on the budget.
36. The provision of travellers' sites is a general fund activity managed within area management. Changes in legislation have impacted on lettings which are expected to recommence later in the year. As a result rent income will be lower than budget as there is no scope to recover the position over the remainder of the year. Expenditure budgets are relatively minor but site running costs have been subject to some volatility in the past and there are on-going utility billing issues to be resolved. Expectation is that additional costs will fall into 2011/12 that cannot be contained within budget.

Regeneration and neighbourhoods

37. The department is showing a £149k unfavourable variance at quarter 2. This forecast excludes planned expenditure that it is to be funded from earmarked reserves set aside in previous years, such as spend in relation to Southwark schools for the future, housing planning and delivery and regeneration of Canada Water and Bermondsey Spa.
38. The additional revenue pressures that have developed since quarter 1 are being addressed as part of the budget management process, with mitigating action being taken where necessary. For example within the planning and transport service, work is progressing to develop solutions to planning appeal pressures. Management action continues to ensure that all emerging budget pressures are controlled, and alternative or enhanced options are considered.
39. The revenue monitor also takes into account the 2011/12 base budget departmental savings of £1.6m which is being projected as fully achievable.

Communities, law and governance

40. The overall departmental forecast is on budget, however there is a financial risk within the registrars service that could lead to an adverse forecast variance in future monitoring reports.

Deputy chief executive

41. The deputy chief executive's department is forecasting an overall favourable variance of £75k.
42. The communications team budget is the main contributory factor towards this position based on savings achievable across the range of campaigns commissioned by departments being less than budgeted levels. It is expected that the savings on campaigns currently held in the communications team will be fully allocated to service departments by the year end.

Finance & resources / Strategic financing

43. The unfavourable variance for finance and resources of £115k represents an unfavourable increase of £65k over the forecast in quarter 1. A favourable variance of £37k on office costs and subscriptions across the department partially offsets a pressure of £152k on project costs for the Potters Field project. However these project costs are not expected to increase further this year. The forecast continues to exclude expenditure in relation to the corporate programming unit, funding for which is set aside within the modernisation reserve.
44. As previously reported, the department is undergoing a fundamental restructure including the re-tender of the information services contract and re-organisation of the finance division, which are expected to yield savings as set out in the budget report in February 2011. However, in the event that the savings cannot be fully met, substitution options will be found to ensure the overall target will be achieved.

Customer services

45. Given the complexity of the delivery of planned savings arising from a fundamental contract realignment within the customer services centre, the target saving is now being managed corporately, and this has been reflected in the outturn forecast at quarter 2.

Contingency

46. The 2011/12 budget included £5.5m for contingency. This budget continues to be held to meet unforeseen costs that may arise during the year within departments that strategic directors are unable to contain. As services are currently projecting an adverse variance of £2.6m it appears that the contingency budget may have to be used to address the cost pressures identified.

Housing revenue account

47. The budget forecast at quarter 2 is broadly neutral as shown in table 2 below, albeit underlying spending pressure remains, particularly in relation to the council's landlord responsibilities for the maintenance and improvement of the housing stock. There are a number of potential and known risks which will be monitored and addressed throughout the year with a view to delivering a balanced budget and restoring reserves to a more prudent level.

Table 2: HRA forecast outturn position for 2011/12 as at Q2

Divisions	Net Expenditure			
	Full Year Budget £'000	Forecast Outturn £'000	Forecast Variance £'000	Forecast Variance reported at Q1 £'000
<u>Housing Services</u>				
Housing Management	(106,065)	(105,681)	384	0
Home Ownership & TMI	(34,257)	(34,127)	130	(358)
Other Housing Services	605	624	19	0
Community Housing Services	4,536	4,431	(105)	(84)
Sub total	(135,181)	(134,753)	428	(442)
<u>Strategic Services</u>				
Financing, Subsidy & Corporate Support	114,054	113,869	(185)	0
Major Projects	7,400	7,400	0	0
Heating Account	12,198	12,198	0	0
Sub total	133,652	133,467	(185)	0
<u>Regeneration & Neighbourhoods</u>	1,529	1,547	18	0
HRA Carry Forward	0	(303)	(303)	(303)
HRA total	0	(42)	(42)	(745)
<u>Movement in HRA Reserves</u>		42	42	745
Housing Total	0	0	0	0

Implementation of the 2011/12 budget decisions including agreed budget reductions, savings and efficiencies

48. The council had identified £56.2m agreed budget reductions, including savings and efficiencies for the general fund and housing revenue accounts as part of the 2011/12 budgets. At quarter 2, there is a projected savings shortfall of £2.5m, as shown in Table 3.

Table 3: Forecast projection of savings agreed for 2011/12 as at Quarter 2

	Agreed by Council £'000	Total Forecast Savings £'000	Variance at month 6 £'000	Compensating savings identified £'000
Children's Services	(5,763)	(5,246)	517	0
Health and Community Services	(7,745)	(7,618)	127	(127)
Environment and leisure	(7,328)	(7,106)	222	0
Regeneration & Neighbourhoods	(1,644)	(1,644)	0	0
Housing general fund	(554)	(554)	0	0
Finance and Resources	(5,904)	(4,532)	1,372	(1,372)
Deputy Chief Executive	(2,289)	(2,289)	0	0
Communities, Law and Governance	(1,092)	(1,092)	0	0
Customer Services	(1,500)	0	1,500	0
Total General Fund	(33,819)	(30,081)	3,738	(1,499)
Housing Revenue Account	(22,399)	(22,399)	0	0
Total Savings 2011/12	(56,218)	(52,480)	3,738	(1,499)

Children's services

49. Children's services is currently forecasting a savings shortfall of £517k, this is unchanged from that reported at quarter 1 and comprises the following;

- A variance of £417k is reported against savings expected from the restructure of youth services. This is due to delays in the implementation of the restructure.
- The budgeted savings of £100k through joining up transport procurement costs are now forecast to be offset by ongoing budget pressure. Efficiencies created will reduce spend and not generate a budget saving.

Health and community services

50. Health and community services are currently forecasting a savings shortfall of £127k, this is an improvement over the position reported at quarter 1, and is due to greater savings being forecast within supporting people. The detail breakdown is as follows:

- A reduction in costs is planned around a service redesign of pooled arrangements with South London & Maudsley Trust (SLAM). The savings forecast is now a prudent estimate of £537k, rather than the £650k budgeted (variance £113k), as SLAM are yet to finalise the savings plan.
- A £12k variance is reported against the target of reducing the supporting people budgets by approximately 30% including efficiencies. This is a

significant improvement from the variance of £230k reported at quarter 1. There remains the possibility of delays in contract call off because of front loading of savings.

- A variance of £155k on the rationalisation and redesign of council run day centres. This is due to delays in sign off by members due to extension of consultation.
- Savings around the reshaping of mental health day services have been delayed as a detailed implementation plan is being prepared (variance £130k). Implementation is now expected late in the financial year.
- Reducing unit costs of home and residential care through better spot purchasing and procurement arrangements which will be administered through a central brokerage team is proceeding better than planned, and an extra saving of £283k is projected to be achieved.

51. There is a senior management team driven action plan to mitigate the risks and pressures identified above. This is expected to achieve £127k of savings and includes:

- Close review of new payments made to minimize the use of expensive residential care.
- Better procurement of all purchased care to ensure lowest possible price.
- Holding staff vacancies and limiting use of agency staff.
- Re-assessing existing care packages, both in and out of Borough.
- Maximising all potential income streams.

Environment and leisure

52. Environment and leisure are currently forecasting a £222k adverse variance, which remains as reported at quarter 1 and is directly resulting from the following:

- Reduced costs through procurement of the new parking enforcement contract will not be realised (variance £160k). A contract extension was awarded to bring in line the possible sharing of resources. Although negotiations on shared services with respect to parking are progressing well, savings for 2011/12 and 2012/13 will not be realised until 2013/14 as the current contract does not expire until February 2013.
- £40k savings from the merger of drugs and alcohol strategy team and commissioning teams into one unit are unlikely to be realised within 2011/12. This is as a result of the complexity of negotiations with the Southwark Business Support Unit (formerly PCT). Actions are being taken to contain this variance within the division, and so far alternative one-off savings of £8k have been identified.
- £50k savings resulting from rationalisation of school crossing patrol service will not be achieved. This is due to cabinet decision to defer this saving for one year, whilst alternative arrangements are made. This will be funded from reserves and therefore there is no impact on the forecast outturn.
- There is a £100k variance on savings from the re-targeting of the

environment grants programme. This is due to the requirement to taper the grant given to the organisations. £70k of this variance can be contained within the division.

Finance and resources

53. As was reported in the Q1 revenue monitoring report, the council is no longer seeking to increase court costs this year. Alternative savings will be achieved through a combination of an improvement in housing benefit subsidy over original estimates and greater efficiencies within the service since its transfer in-house on 1 April. The collection rate of council tax is being closely monitored and current indications are that this is increasing. Further information will be provided in the Q3 revenue monitoring report.

Customer services

54. A significant element of the customer services savings is dependent on realigning the Vangent contract, and are now not expected to be achieved until the latter part of the current 3 year planning horizon. The monitor is currently showing a £1.5m adverse variance directly resulting from a variance of £500k against the savings requirement already built into the existing Vangent Contract and a variance of £1m against further Vangent contract savings through realignment. The shortfall in savings this year has been addressed corporately.

Housing revenue account

55. Table 3 above shows total HRA budget movements of £22.4m for 2011/12. This comprises additional income generated through tenant rent and service charge increases (£12.1m), leasehold service charge income (£1.1m) and base budget savings of £9.2m. In terms of the savings element, these remain on track as reported at quarter 1, with only minor variations to be reported. Conversely, garage income will fall short of the budget target due to the higher take-up of the concessionary charge rate introduced from April 2011 than originally anticipated. The variance (£600k) is incorporated in this quarter 2 monitor but can be contained from a contingency budget within the HRA in 2011/12 and will be addressed as part of rent/ budget setting for 2012/13.

Reserves

56. 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.
57. Where a department identifies a need for additional funding, there is a robust process for seeking support from reserves, where 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.
58. 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.

59. The budget approved by Council for 2011/12 included a planned release of reserve of £3.363m. 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 2 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.
60. The 2011/12 budget includes a planned contribution to reserves of some £1.3m. This included £300k set aside for the future costs that will arise through changes in the council's management structure as the modernisation agenda is taken forward, and £1m contribution to reserves to support the ongoing regeneration and development agenda within the borough.
61. The tables in Appendix B summarise the projected movements in reserves.

Collection fund / Council tax and business rates collection

62. As a billing authority the council is required to maintain a collection fund account, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and demonstrate the way in which these have been distributed to preceptors and the general fund.
63. With effect from 1 April 2011, the Council brought in-house its revenue and benefits service, previously provided an external contractor. This will have an impact on performance, the effect of which cannot be quantified with any degree of certainty until later in the year. However as at quarter 2, the collection fund is forecast to achieve a small surplus of £65k. However, there are a number of potential risks, such as the level of discounts and exemptions awarded, both of which affect income due from council tax payers and, therefore, the eventual outturn position.

Treasury management

64. The council's treasury management activity relates to both cash and debt balances. The cash earns interest until it is needed in spending and the debt funds current and past capital spend met through borrowing. Three investment firms manage the council's investments and an in-house team focuses on meeting day to day cash volatility using money market funds, call accounts and short term deposits. The managers provide exposure to liquid money market deposits and UK Treasury and supranational bonds. The balance currently on deposit with major banks and building societies and in bonds is set out in table 4 below.

Table 4: Investment counterparty exposure

EXPOSURE - SEP 2011 COUNTERPARTY AND RATINGS						
COUNTERPARTY	Exposure £m		Fitch Ratings			Sovereign Rating
	£m	Long	Short	Support	Sovereign	
ABN AMRO BK	4.9	A+	F1+	1	NETHERLANDS	AAA
BARCLAYS BK	28.6	AA-	F1+	1	UK	AAA
BBVA	4.6	AA-	F1+	1	SPAIN	AA-
BANQUE NAT DE PARIS	5.2	AA-	F1+	1	FRANCE	AAA
CREDIT AGRIC CIB	10.9	AA-	F1+	1	FRANCE	AAA
CREDIT INDUST ET COMRCL	5.6	AA-	F1+	1	FRANCE	AAA
EUROPEAN INV BK	12.1	AAA	F1+		SUPRANATIONAL	AAA
GLOBAL TREAS FUNDS-MMF	15.6		AAA		GLOBAL	
HSBC	- 2.2	AA	F1+	1	UK	AAA
ING BK	27.1	A+	F1+	1	NETHERLANDS	AAA
INT BK RECONST DEVT	4.3	AAA	F1+		SUPRANATIONAL	AAA
LLOYDS TSB/BK SCOTLAND	25.2	AA-	F1+	1	UK	AAA
NATIONAL AUSTRALIA	15.0	AA	F1+	1	AUSTRALIA	AA+
NATIONWIDE BSOC	15.5	AA-	F1+	1	UK	AAA
NORDEA BK FINLAND	7.0	AA-	F1+	1	FINLAND	AAA
RABOBANK	0.5	AA+	F1+	1	NETHERLANDS	AAA
RBS/NATWEST	26.0	AA-	F1+	1	UK	AAA
SANTANDER UK	21.6	AA-	F1+	1	UK	AAA
SOCGEN	22.0	A+	F1+	1	FRANCE	AAA
SVENSKA	4.0	AA-	F1+	1	SWEDEN	AAA
UBS	3.1	A+	F1+	1	SWITZERLAND	AAA
UK TREASURY	42.0	AAA	F1+		UK	AAA
Grand Total	298.7					

(The table shows investments at the date they were placed and the balance against HSBC includes £2.4m due on 3 October in respect of a UK Treasury investment purchased on 30 September)

65. The council continues to take a cautious approach in its lending and places security as a high priority. Exposure to banks and building societies is confined to major entities with a high likelihood of state support in the event it were needed and fund manager exposure to UK, EIB, and the International Bank for Reconstruction & Development (the World Bank) strengthens security further.
66. In October, Moody's the US rating agency, reassessed their views on support for twelve UK financial institutions. A one-notch downgrade was applied to Lloyds, Santander UK, and Co-operative and a two-notch downgrade was made to RBS and Nationwide Building Society. Further downgrades were applied to seven smaller building societies, although the council does not lend to these. The changes make some Moody's ratings slightly lower than those issued by the other two major rating firms, Fitch and Standard & Poor.
67. Moody's, still regards the UK institutions the council uses (RBS, Lloyds, Santander UK and Nationwide Building Society) as systemically important with a high likelihood of support in the event it were needed. The institutions have a large market share of loans and deposits and play a significant role in the financial system. In addition RBS and Lloyds have a significant advantage over other institutions due to the UK Government's dominant stake in the two banks.

68. A sovereign rating downgrade was also applied by Fitch to Italy, however the council has no deposits with banks there. There is no exposure to Dexia either which collapsed and is being rescued by Belgian and French authorities.
69. No borrowing has been taken out so far in 2011/12 and the long term debt has remained at £762m throughout the last two quarters. Government proposals to move to self funding for housing would see Southwark's housing debt reduce by some £274m towards the end of March 2012, reducing HRA debt interest and in return requiring the HRA to meet all future interest and running costs from its own resources rather than relying on HRA subsidy as now.
70. There was some interest amongst local authorities for sourcing funding through a public bond issue or a private-placement, following the raising of the margin that the Government charges over its own borrowing when lending to councils through the Public Works Loans Board. Interest in such funding has however fallen since the Government decided that it will lower the premium it now charges councils (unlike Southwark) that will have their debt increased as part of HRA reform. Demand has also been softened by investors seeking a higher premium for holding debt in the face of continued turmoil in credit market.

Community impact statement

71. This report monitors expenditure on council services, compared to the planned budget agreed in February 2011. 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	160 Tooley Street, SE1 2QH	Vernon Smith 020 7525 57355
2011/12 treasury activity	160 Tooley Street, SE1 2QH	Karsan Varsani 020 7525 54301

APPENDICES

No.	Title
Appendix A	General fund budget movements to be approved, £250k and above and movements to be noted
Appendix B	Summary of projected movements in reserves in 2011/12

AUDIT TRAIL

Cabinet member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead officer	Duncan Whitfield, Finance director	
Report author	Jennifer Seeley, Deputy finance director	
Version	Final	
Dated	10 November 2011	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Strategic Director of Communities, Law & Governance	No	No
Finance Director	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		10 November 2011